

# 2016

## ANNUAL REPORT

LBP Leasing & Finance Corporation

REPORT OF THE BOARD OF DIRECTORS



# CORPORATE PROFILE



## VISION

The pioneering government finance company providing financing solutions to capital asset requirements of programs and projects in support of National Government Agenda, operating in all regions of the country by 2018.

## MISSION

To provide innovative financial services that will facilitate access to capital assets that will enhance service efficiency of government offices and increase productivity and expand capacity of private enterprises.

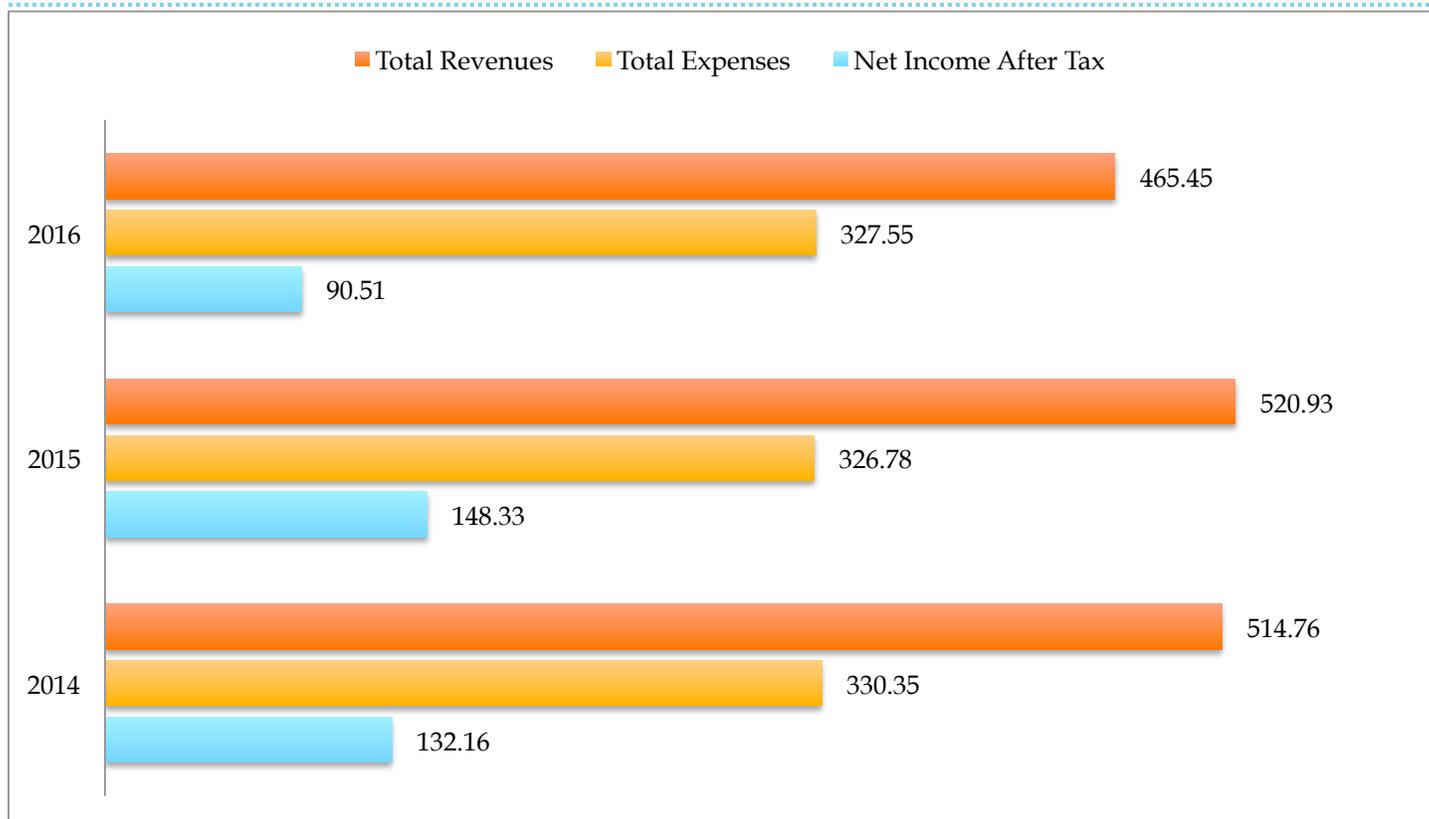
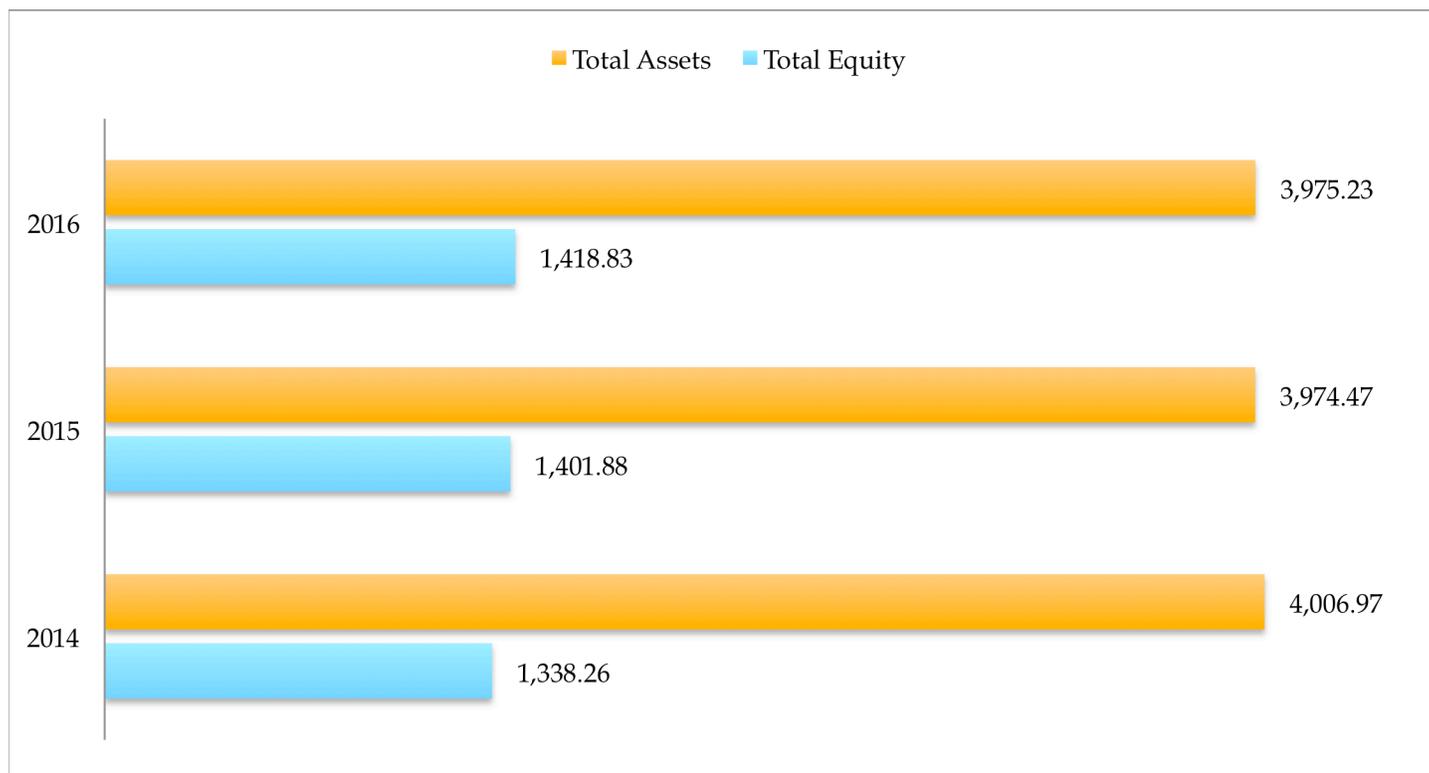
## TABLE OF CONTENTS

Corporate Profile	2
Operational Highlights	3
Corporate Governance	4
Corporate Social Responsibility	11
Board of Directors	15
Statement of Management's Responsibility	22
Audited Financial Statements	23
Products and Services	98

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

## OPERATIONAL HIGHLIGHTS

(amount in millions)





# CORPORATE GOVERNANCE

*LBP Leasing and Finance Corporation is committed to maintain a strong corporate governance culture across the organization by adhering to good governance practices. The Board of Directors, Management, employees and shareholders believe that corporate governance is a necessary component to its enhance its long-term value to its stakeholders and improve financial performance of the Corporation.*

## GOVERNANCE STRUCTURE

### BOARD OF DIRECTORS

#### Composition

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

#### Independence of Directors

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

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

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**(Continued)**

decision-making by the Board. The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness and adherence to good governance while the President/CEO is responsible for the supervision and direction of the day-to-day business affairs of the Corporation.

**Appointment of Directors**

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

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

**Responsibilities**

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

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

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

## Continued

### Meetings and Attendance

The BOD holds regular monthly meeting. In 2016, there were **twelve (12) BOD meetings** conducted to evaluate and approve various matters related to LLFC's operations.

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

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

Summary of Board of Directors Attendance for the Year 2016:

<i>Name of Director</i>	<i>Position</i>	<i>No. of Meetings Attended</i>
<i>Gilda E. Pico (resigned 6.30.16)</i>	<i>Chairman</i>	<i>6</i>
<i>Silvestre M.C. Punsalan</i>	<i>Vice-Chairman</i>	<i>12</i>
<i>Domingo I. Diaz (resigned 6.30.16)</i>	<i>Director</i>	<i>6</i>
<i>Manuel H. Lopez</i>	<i>Director</i>	<i>12</i>
<i>Cecilia C. Borromeo</i>	<i>Director</i>	<i>10</i>
<i>Andres C. Sarmiento (resigned 8.1.16)</i>	<i>Director</i>	<i>6</i>
<i>Julio D. Climaco Jr.</i>	<i>Director</i>	<i>11</i>
<i>Edward John T. Reyes</i>	<i>Director</i>	<i>12</i>
<i>Alvin G. Dans (resigned 2.15.16)</i>	<i>Independent Director</i>	<i>1</i>
<i>Rodrigo B. Supeña (replaced 12.2016)</i>	<i>Independent Director</i>	<i>11</i>
<i>Carel D. Halog</i>	<i>New Director</i>	<i>7</i>
<i>Francisco J. Leonor Jr.</i>	<i>Independent Director</i>	<i>1</i>
<i>Joel R. Caminade</i>	<i>New Independent Director</i>	<i>1</i>

### Self-Assessment

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

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

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

The Board performance criteria are as follows:

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

Likewise, by virtue of GCG MC No. 21014-03 the Board also performs the Performance Evaluation for Directors wherein they perform Self-Appraisal and Peer Appraisal as well as appraisal of the Chairman. GCG generates the rating forms submitted and provides the Board Chairperson with the rating for each Director.

### Access to Information

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

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

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

### Remuneration of the Board

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

**Continued****BOARD COMMITTEES**

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

**Executive Committee****Composition**

Chairperson	:	Silvestre Manuel C. Punsalan Jr.
Members	:	Manuel H. Lopez Cecilia C. Borromeo Rodrigo B. Supeña Alvin G. Dans* Edward John T. Reyes

*\*resigned effective February 2015*

*\*\*becomes member of ExCom November 2016*

**Committee Role**

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

**Meetings and Attendance for the Year**

The Committee met fourteen (13) times during the year 2016. Dir. Supena attended 12 meetings, Dir.

Reyes was newly appointed as ExCom member in October 2016 and attended 2 meetings while Dir. Dans attended only 1 meeting because of his resignation. All the other ExCom members are present in all the meetings during the year.

**Audit Committee****Composition**

Chairperson	:	Rodrigo B. Supeña
Members	:	Andres C. Sarmiento* Silvestre Manuel C. Punsalan

*\*resigned effective 8.1.2016*

**Committee Role**

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

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

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

For the year 2016, the Audit Committee has reviewed and assessed the adequacy of the Corporation's internal controls, risk management systems and regulatory compliance that were found to be adequate and acceptable.

## Continued

### Meetings and Attendance for the Year

The Committee held six (6) in 2016, all of its members present except for Dir. Sarmiento who only attended 3 meetings due to his resignation.

### Corporate Governance Committee

#### Composition

Chairperson	: Alvin G. Dans*
	Gilda E. Pico**
Members	: Manuel H. Lopez
	Julio D. Climaco, Jr.
	Cecilia C. Borromeo
	Domingo I. Diaz***

\*resigned February 2016

\*\*resigned July 2016

\*\*\*resigned June 30, 2016

### Committee Role

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

The Committee shall also establish a formal and transparent procedure for developing a policy on remuneration of officers to ensure that their compensation is consistent with the Corporation's culture, strategy and business environment in which it operates, provided that the Corporation shall be covered by the Compensation and Position Classification System (CPCS) for GOCCs under R.A. 10149 as approved by the President of the Philippines.

During the year 2016, the Committee discussed the Reorganization Plan, reviewed and endorsed to the Strategic Performance Management System; Amended Rules and Regulations on Retirement Benefit Plan, Creation of Agency Transition Committee, Engagement of consultants for the reorganization, the Whistleblowing Policy, Amendment on Tardiness and Timekeeping Policies and release of cash gift.

### Meetings and Attendance for the Year

The Committee met four (4) times during the year 2016, Dir. Climaco and Dir. Lopez are present in all the meetings while Dir. Borromeo is present in 3 of the meetings. Dir. Pico and Dir. Diaz was present in 2 meetings of the Committee while Dir. Dans was only able to attend 1 meeting before his resignation.

### Risk Management Committee

#### Composition

Chairperson	: Julio D. Climaco, Jr
Members	: Edward John T. Reyes
	Carel D. Halog*

\*assumed office as director April 2016

### Committee Role

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

For the year 2016, there were four Risk Management Committee meetings held. During the said meetings the RiskCom were able to discussed and reviewed the 2015 Risk Management Committee Accomplishment Report; 2016 Risk Management Plans and Programs; Results of Impairment Testing; Updates on Gaps and Actions Taken for BSP Circular 855 series of 2014; RCSA Matrix for the Year 2016; Information Risk Asset Register for the Year 2015; Re-pricing gap for market risk and funding gap for liquidity risk; Concentration of Risks; Assessment of Marine Vessels held as Collaterals; Revised Internal Credit Risk Rating System performance; Report on Restructured Loans and Large Exposures; Updates on Legal Risk Exposures; Updates on Action Plans on Directives based on BSP Examination; Periodic Review of the Risk Management Manual; Proposed Information Technology Manual and Updates on Accounts Endorsed to Remedial Accounts Management Unit

**Continued****Meetings and Attendance for the Year**

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

**Related Party Transaction Committee****Composition**

Chairperson : Rodrigo B. Supeña  
 Members : Silvestre Manuel C. Punsalan Jr.  
 Carel D. Halog

**Committee Role**

The Related Party Transaction Committee shall be primarily responsible for assisting the Board in reviewing material related party transactions and ensure that these are conducted at arm's length, fair market terms or shall not be less favorable to the Corporation than those offered by others.

For the year 2016, there were two RPT Committee meetings held. During the said meetings the RPT Committee were able to discussed and reviewed the LLFC-LBP Memorandum of Agreement for Conduct of Procurement Activities for LBP's Manpower Services, the Renewal of Contracts with LBP Service Corporation for Administrative Services and the 2016 Donation to Land Bank Countryside Development Foundation.

**Meetings and Attendance for the Year**

The Committee met two (2) times in 2016. Dir. Supena and Dir. Punsalan are present in all meetings while Dir. Halog attended only 1 meeting.

**Internal Audit**

The Internal Audit Unit under the direct supervision of the Audit Committee is tasked to provide independent assessment and reasonable assurance of the adequacy and effectiveness of the Corporation's system of internal controls, risk management and governance processes. It has implemented a risk-based approach in auditing

major areas of operations. The Internal audit considers the risks identified and assessed from the risk management system in its annual audit plan.

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

**External Audit**

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

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

**Risk Management System**

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

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

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

The Risk Officer reports directly to the Risk Management Committee.

**Continued****Compliance and Anti-Money Laundering**

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

The Compliance Officer reports directly to the Audit Committee.

**Whistleblowing Policy**

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

**Code of Ethics and Conduct**

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

In addition, the Corporation also adopts a Code of Conduct and Employees Discipline to ensure the

maintenance of administrative discipline among its officers and employees based on the principle that discipline is fundamental to its success as an organization and as a business concern.

**Stakeholders' Interest**

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

**Customers**

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

**Employees**

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

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



# CORPORATE SOCIAL RESPONSIBILITY



## **Community and Environment**

Recognizing the need to continue to contribute to community and the environment, the Corporation actively supports the projects of Land Bank Countryside Development Foundation, Inc., a 100% owned subsidiary of Land Bank engaged in programs complementary to the bank's commitment to advance countryside development especially among farmers and fisher folk, agrarian reform beneficiaries, Countryside Financial Institutions, small and medium enterprises and Overseas Filipino Workers.

LLFC provided financial assistance of P2.0 million in 2014 for their Sustainable Integrated Organic and Natural Mini Farm Program also known as the Bangon Mini-Farm Program, a special program implemented in areas devastated by Typhoon Yolanda particularly areas in Samar and Leyte. The Program uses a systems approach consisting of a series of Training - Technology Transfer - Execution workshops in farming using natural, organic and microbial technology.

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

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## THE BOARD OF DIRECTORS

**GILDA E. PICO***Chairman*

**Mrs. Gilda E. Pico**, 69 years old, has been a member of the Board of the Corporation since October 1996. She was elected and has been serving as Board Chairperson since August 2005.

Mrs. Pico is the first woman President and CEO of LANDBANK and the first Landbanker in career position to be appointed as head of the Bank. She is regarded as one of the pillars of LANDBANK, having contributed significantly in making it the country's premier financial institution in the countryside today.

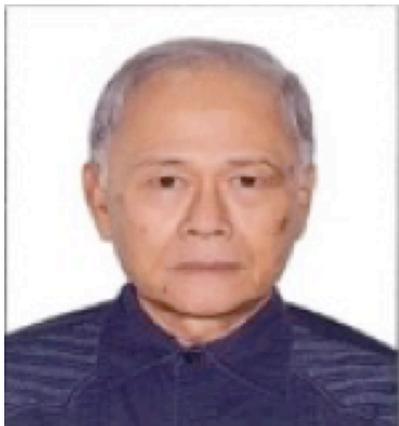
She joined LANDBANK in 1981 as assistant vice president and gradually moved up to key positions until her appointment as full-fledged President and CEO in 2006. Since she assumed office, LANDBANK has remained among the country's top 5 universal banks with its unique role of promoting countryside development. She is focused on expanding the Bank's credit outreach to its priority sectors, primarily farmers and fisher folks, microenterprises and SMEs, rural banks and agriculture. Mrs. Pico also introduced major systems innovations and strategic partnerships that led to the Bank's support to the Government's centerpiece development programs and platforms for inclusive growth

In 2014, Mrs. Pico was named one of the country's Outstanding Entrepreneurs at the Asia Pacific Entrepreneurship Awards, a coveted award that honors outstanding business leaders in the region. She was also conferred with the 2015 "Outstanding CEO" Award by the Association of Development Financing Institutions in Asia and the Pacific, an award that recognizes Chief Executive Officers for their leadership, vision and achievement particularly in development banking.

Concurrently, Mrs. Pico is also the Chairperson of LBP Resources and Development Corporation, People's Credit and Finance Corporation, National Livelihood Development Corporation and a Director of Philippine Crop Insurance Corporation.

Ms. Pico, a Certified Public Accountant, graduated Magna cum laude with a degree in Bachelor of Science in Commerce from the College of Holy Spirit. She finished her Masters in Business Administration at the University of the East.

## THE BOARD OF DIRECTORS



**SILVESTRE MANUEL C. PUNSALAN JR.**  
*Vice Chairman*

**Mr. Silvestre Manuel C. Punsalan Jr.**, 76 years old, has been a member of the Board since August 2001. He was elected as Vice Chairman of the Board of the Corporation in May 2003. He is also the Chairman of the Executive Committee.

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

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



**MANUEL H. LOPEZ**  
*President and CEO*

**Mr. Manuel H. Lopez**, 60 years of age, joined the Corporation in 1996 as General Manager. He was appointed as President and CEO in May 2003 simultaneous with his appointment as a Director in the Board.

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

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

## THE BOARD OF DIRECTORS



**DOMINGO I. DIAZ**  
*Director*

**Mr. Domingo I. Diaz**, 67 years old, has been a Member of the Board of Land Bank of the Philippines since October 2010. He concurrently sits as a Member of the Board of LBP Leasing and Finance Corporation where he was appointed in October 2010.

Prior to joining the public sector, Mr. Diaz worked in various capacities in companies in the Philippines and abroad. He was Principal and President of Diaz and Company and was President of American Consumer Laboratories Corp., both based in the U.S.A. He was Vice President of Ayala Corp. (Phil.) before he assumed the post of Managing Director of Ayala International PTE Ltd. In Singapore, Mr. Diaz was the Founding Director of Island Development Bank in Brunei and was also Managing Director of Sealion Hotels Ltd. Mr. Diaz was also a Director of various Ayala International Subsidiaries. He worked with Mobil Oil Phils. before joining Ayala International.

Mr. Diaz graduated from the Ateneo de Manila University with a degree in AB Economics. He earned his Master in Business Administration degree from the Amos Tuck School Dartmouth College in the U.S.A.



**RODRIGO B. SUPEÑA**  
*Director*

**Mr. Rodrigo B. Supeña**, 76 years old, was first appointed to the Board of the Corporation in 1998 and served as Director until 2011. In September 2014, Mr. Supeña was again appointed as a Member of the Board of LBP Leasing and Finance Corporation.

Mr. Supeña was a Senior Vice President of the LANDBANK from 1997-2005. From 2008 up to the present, he is also serving as Independent Director of Country Builders Bank in Taguig City. He is also an Independent Director, since 2009, of Mabuhay Holdings and IRC Properties. Prior to joining LANDBANK, Mr. Supeña held various positions from 1963 to 1997 at the Bank of Philippine Islands where he was also designated as President of BPI Agribank (1986-1994) and Vice President at BPI Head Office (1994-1997).

Mr. Supeña graduated Cum Laude from the Laguna College in 1960 with a BS Commerce degree. He also obtained his Master in Business Administration degree from the Ateneo Graduate School of Business in 1981.

## THE BOARD OF DIRECTORS



**CECILIA C. BORRROMEO**  
*Director*

**Mrs. Cecilia C. Borrromeo** has been a Member of the Board of the Corporation since October 1996. She is concurrently the Executive Vice President heading the Agricultural and Development Lending Sector of Land Bank of the Philippines.

Before joining LANDBANK in 1989, Mrs. Borrromeo held various responsible positions in the public sector such as the Department of Trade and Industry; the Human Settlements Development Corporation; the KKK National Secretariat; and the Ministry of Human Settlements.

Currently, Mrs. Borrromeo is also a Director of LANDBANK Countryside Development Foundation, Inc.

Mrs. Borrromeo graduated from the University of the Philippines with a BS Agribusiness degree. She earned her Master in Business Administration Degree from the De La Salle Business School and completed her Advanced Bank Management course from the Asian Institute of Management.



**JULIO D. CLIMACO, JR.**  
*Director*

**Mr. Julio D Climaco, Jr.**, 58 years old, has been a Member of the Board since October 1996. He is an Executive Vice President of the Land Bank of the Philippines heading the Corporate Services Sector. Mr. Climaco joined LANDBANK in 1993.

He is also currently a Board Director of the Producers Savings Bank Corp. and an Alternate Director to the Board of the National Food Authority.

Prior to joining LANDBANK, Mr. Climaco worked at the Center for Research and Communication and at The Hongkong and Shanghai Banking Corp. He was also a Managing Consultant at Joaquin Cunanan & Co./Price Waterhouse.

Mr. Climaco holds a degree in Management of Financial Institutions from the De La Salle University. He also earned units in Master in Applied Business Economics from the University of Asia and the Pacific, formerly Center for Research and Communication (Manila).

## THE BOARD OF DIRECTORS



**EDWARD JOHN T. REYES**  
*Director*

**Mr. Edward John T. Reyes**, 58 years old, was appointed to the Board in May 2011. He is a Senior Vice President and the Head of Corporate Banking Group of Land Bank of the Philippines. He joined LANDBANK in 1994 and has held various executive positions in the Bank.

He is also concurrently the LBP representative for GM Bank of Luzon, Inc.

Before joining LBP, Mr. Reyes worked at the Development Bank of the Philippines (DBP) from 1988 to 1994 where he held various executive positions. Mr. Reyes graduated from the University of the Philippines in Diliman with a degree in BS Civil Engineering. He also earned units in MS Civil Engineering from UP.



**ANDRES C. SARMIENTO**  
*Director*

**Mr. Andres C, Sarmiento**, 64 years of age, was appointed to the Board in May 2011. He is also an Executive Vice President of the Land Bank of the Philippines (LBP) heading the Operations Sector.

Mr. Sarmiento is also concurrently a Board Director of the Land Bank Countryside Development Foundation, Inc. and the Small Business Corporation. He also sits as a Member of the Board of the Food Terminal, Inc.

Mr. Sarmiento started working at LBP in 1975 and has held various executive positions in the Bank. Prior to joining LBP, he was Staff Auditor at Sycip, Gorres and Velayo and Co. from 1972 to 1973.

Mr. Sarmiento earned his degree in BSBA major in Accounting from the Philippine School of Business Administration. He is a Certified Public Accountant.

## THE BOARD OF DIRECTORS



**CAREL D. HALOG**  
*Director*

**Mr. Carel D. Halog**, 52 years old, was first appointed as a Member of the LBP Leasing and Finance Corporation Board of Directors on 11 February 2016. In February 2017, he was nominated and elected by LBP Leasing and Finance Corporation Board of Directors to fill up the remaining seat on the Board.

Mr. Halog is concurrently Head of Landbank of the Philippines' Treasury and Investment Banking Sector. He exercises overall responsibility in the management of Treasury's Dealing Desks covering various asset classes. He also manages the Bank's asset & Liability Management Group as well as the Investment Banking Group. He formulates trading & investment strategies and monitors the financial markets to take advantage of opportunities. He is a licensed Treasury Professional for both Fixed Income and FX.

He possesses a strong background in Finance, Accounting, Investment Banking, Credit Analysis and Appraisal. With more than 28 years of banking experience, his career highlights include 10 years in treasury, 7 years in investment banking and 6 years in corporate lending.



**FRANCISCO J. LEONOR JR.**  
*Director*

**Francisco J. Leonor, Jr.** 48 years of age, has been appointed as a Member of the Board Directors of LBP Leasing and Finance Corporation on November 28, 2016.

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

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

## THE BOARD OF DIRECTORS



**JOEL R. CAMINADE**  
*Director*

**Joel R. Caminade**, 52 years old, was appointed as a Member of the Board of Directors of LBP Leasing and Finance Corporation on 16 December 2016.

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





**LBP LEASING AND FINANCE CORPORATION**  
(A LANDBANK SUBSIDIARY)

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The management of **LBP LEASING AND FINANCE CORPORATION** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2015 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

The Commission on Audit, the independent auditors, has audited the financial statements of the company in accordance with Philippine Public Sector Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature: \_\_\_\_\_  
**ALEX V. BUENAVENTURA**  
Chairman of the Board

Signature: \_\_\_\_\_  
**MANUEL H. LOPEZ**  
President/CEO

Signature: \_\_\_\_\_  
**MA. LOURDES G. GONZAGA**  
VP/Chief Financial Officer

Signed this 9<sup>th</sup> day of MAY 2017



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

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of **LBP Leasing and Finance Corporation** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **LBP Leasing and Finance Corporation** as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

**COMMISSION ON AUDIT**

  
**CORA D. MARQUEZ**  
Supervising Auditor

9 May 2017

**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, 2016 and 2015**  
 (In Philippine Peso)

	Note	2016	2015 As restated
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	42,510,620	42,977,083
Loans and receivables-net	8,14	1,335,550,884	1,288,308,625
Other current assets-net	13	10,501,014	7,472,284
		<b>1,388,562,518</b>	<b>1,338,757,992</b>
<b>Non-current assets</b>			
Loans and receivables-net	8,14	2,068,265,672	2,086,877,928
Investment property-net	9,14	20,106,679	6,397,440
Equipment and other property for lease	10	409,975,702	436,601,435
Property and equipment	11	28,243,765	30,285,046
Non-current assets held for sale-net	12,14	3,012,091	3,299,865
Other non-current assets	13	1,290,559	1,367,806
Deferred tax asset	23	55,772,204	61,417,734
		<b>2,586,666,672</b>	<b>2,626,247,254</b>
<b>TOTAL ASSETS</b>		<b>3,975,229,190</b>	<b>3,965,005,246</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bills payable	15	1,180,120,000	996,800,000
Deposit on lease contracts	20	121,878,183	134,552,487
Trade and other payables	16	106,761,764	111,995,971
Income tax payable	23	19,692,766	12,309,187
		<b>1,428,452,713</b>	<b>1,255,657,645</b>
<b>Non-current liabilities</b>			
Bills payable	15	998,434,167	1,200,959,295
Deposit on lease contracts	20	121,313,597	99,157,443
Retirement liability	21(b),29	8,199,926	7,032,962
		<b>1,127,947,690</b>	<b>1,307,149,700</b>
		<b>2,556,400,403</b>	<b>2,562,807,345</b>
<b>Equity</b>			
Capital stock	17(a)		
Issued capital		485,552,550	485,552,550
Additional paid-in capital		113,970,900	113,970,900
Treasury stock		-30	-10
		599,523,420	599,523,440
Retained earnings	17(b)		
Appropriated		600,000,000	600,000,000
Unappropriated		219,416,891	209,409,067
		819,416,891	809,409,067
Accumulated other comprehensive income (loss)			
Unrealized loss on available for sale securities	7	0	-5,825,000
Remeasurement of retirement benefit obligation	21(b)	-111,524	-909,606
		-111,524	-6,734,606
		<b>1,418,828,787</b>	<b>1,402,197,901</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,975,229,190</b>	<b>3,965,005,246</b>

*The Notes on pages 8 to 73 form part of these financial statements.*

**LBP LEASING AND FINANCE CORPORATION**  
 (Formerly LBP Leasing Corporation)  
 (A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF COMPREHENSIVE INCOME**  
 For the years ended December 31, 2016 and 2015  
 (In Philippine Peso)

	Note	2016	2015 As restated
<b>INTEREST INCOME</b>			
Leases	8, 20	273,905,140	319,526,503
Loans	8	120,728,188	140,476,646
Deposits in banks	6	118,460	149,873
Others	6, 8	245,175	49,092
		394,996,963	460,202,114
<b>INTEREST EXPENSE</b>			
Borrowed funds	15	61,468,508	65,882,808
<b>NET INTEREST INCOME</b>		<b>333,528,455</b>	<b>394,319,306</b>
<b>OTHER INCOME</b>			
Operating leases	20	46,140,175	45,236,905
Other income	18	24,306,298	7,777,710
		70,446,473	53,014,615
<b>DIRECT EXPENSES</b>			
Security, messengerial, janitorial and contractual services	20	136,155,682	131,687,061
Provision for credit and impairment losses	14	21,620,000	18,000,000
Compensation and fringe benefits - Marketing operations	21(a)	11,874,293	11,753,160
Insurance		9,297,113	9,162,451
Depreciation-equipment and other property for lease	10	7,630,917	7,630,917
Repairs and maintenance		6,505,927	4,530,335
Documentary stamp used		5,393,381	4,383,067
Transfer mortgage and registration fees		1,382,738	1,200,442
		199,860,051	188,347,433
<b>GROSS INCOME</b>		<b>204,114,877</b>	<b>258,986,488</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Taxes and licenses		21,803,737	22,830,631
Compensation and fringe benefits	21(a)	19,233,820	18,366,172
Litigation/assets acquired expenses		3,524,528	5,661,575
Depreciation/amortization	11	2,926,942	4,121,249
Insurance		423,009	548,050
Other expenses	19	18,304,172	17,448,485
		66,216,208	68,976,162
<b>NET INCOME BEFORE INCOME TAX</b>		<b>137,898,669</b>	<b>190,010,326</b>
Income tax expense	23	47,390,845	44,441,718
<b>NET INCOME</b>		<b>90,507,824</b>	<b>145,568,608</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
<i>Item that will not be reclassified to profit or loss</i>			
Remeasurement gain/(loss) on retirement benefit obligation	21(b)	798,082	-909,606
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>91,305,906</b>	<b>144,659,002</b>
<b>EARNINGS PER SHARE</b>	26	<b>P1.86</b>	<b>P3.00</b>

*The Notes on pages 8 to 73 form part of these financial statements.*

**LBP LEASING AND FINANCE CORPORATION**  
 (Formerly LBP Leasing Corporation)  
 (A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF CHANGES IN EQUITY**  
 For the years ended December 31, 2016 and 2015  
 (In Philippine Peso)

	Issued Capital	Additional Paid- in Capital Note 17(a)	Treasury Stock	Retained Earnings		Accumulated Other Comprehensive Gains/(Losses)	Total
				Unappropriated Note 17(b)	Appropriated		
Balance, 31 December 2014, as previously stated	485,552,550	113,970,900	0	731,351,192	0	-4,428,358	1,326,446,284
Prior period adjustments						-1,747,500	-1,747,500
Transitional adjustments- Retirement liability				4,788,042		350,858	5,138,900
<b>Balance, 31 December 2014, as restated</b>	<b>485,552,550</b>	<b>113,970,900</b>	<b>0</b>	<b>736,139,234</b>	<b>0</b>	<b>-5,825,000</b>	<b>1,329,837,684</b>
Appropriation for business expansion				-600,000,000	600,000,000		0
Declaration of cash dividend to National Government				-72,298,775			-72,298,775
Reacquisition of common stock			-10				-10
Net income for the year, as restated				145,568,608			145,568,608
Remeasurement loss on retirement benefit obligation						-909,606	-909,606
<b>Balance, 31 December 2015, as restated</b>	<b>485,552,550</b>	<b>113,970,900</b>	<b>-10</b>	<b>209,409,067</b>	<b>600,000,000</b>	<b>-6,734,606</b>	<b>1,402,197,901</b>
Declaration of cash dividend to National Government				-80,500,000			-80,500,000
Reacquisition of common stock			-20				-20
Net income for the year				90,507,824			90,507,824
Unrealized loss on Available for sale securities						5,825,000	5,825,000
Remeasurement gain on retirement benefit obligation						798,082	798,082
<b>Balance, 31 December 2016</b>	<b>485,552,550</b>	<b>113,970,900</b>	<b>-30</b>	<b>219,416,891</b>	<b>600,000,000</b>	<b>-111,524</b>	<b>1,418,828,787</b>

*The Notes on pages 8 to 73 form part of these financial statements.*

**LBP LEASING AND FINANCE CORPORATION**  
 (Formerly LBP Leasing Corporation)  
 (A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF CASH FLOWS**  
**For the years ended December 31, 2016 and 2015**  
 (In Philippine Peso)

	Note	2016	2015 As restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipt of interest income		325,008,610	464,391,223
Receipt of other income		30,879,380	6,734,692
Net cash received from clients		103,282,133	38,621,684
Payment of expenses		-271,985,620	-211,311,710
Payment of interest		-60,401,630	-66,124,410
Payment of Income taxes		-27,698,079	-36,346,315
<b>Net cash generated from operating activities</b>		<b>99,084,794</b>	<b>195,965,164</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment		-95,210	-659,425
Disposal of property and equipment		249,101	0
<b>Net cash provided by/(used in) investing activities</b>		<b>153,891</b>	<b>-659,425</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings under line of credit agreement		2,024,220,000	1,563,300,000
Payment of long term debt		-2,043,425,128	-1,686,050,128
Reacquisition of shares	17a	-20	-10
Cash dividends paid	17b	-80,500,000	-72,298,775
<b>Net cash used in financing activities</b>		<b>-99,705,148</b>	<b>-195,048,913</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>-466,463</b>	<b>256,826</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	6	<b>42,977,083</b>	<b>42,720,257</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	6	<b>42,510,620</b>	<b>42,977,083</b>

*The Notes on pages 8 to 73 form part of these financial statements.*

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

## 1. GENERAL INFORMATION

### 1.1 Corporate Information

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

The Corporation’s name was changed from LBP Leasing Corporation (LLC) to LBP Leasing and Finance Corporation (LLFC) effective November 3, 2015. LLFC’s registered address is at the 15<sup>th</sup> 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. 17-049, approved and authorized for issuance the Corporation’s financial statements as of and for the years ended December 31, 2016 and 2015 on March 31, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

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

#### *Statement of compliance*

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

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

#### *Basis of measurement*

The financial statements have been prepared under the historical cost basis, except for available-for-sale investment which has been stated at fair value.

#### *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.

#### *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 and represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Corporation are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

#### *Use of judgments and estimates*

The preparation of financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the management to exercise judgment in the most appropriate application of the accounting policies. The areas where significant judgments and

estimates have been made in preparing the financial statements and its effects are disclosed in Note 3.

*Changes in accounting policies and disclosures*

a. New standards and amendments effective from January 1, 2016

The accounting policies adopted are consistent with those of the previous financial year except for the following new standards and amendments effective for the first time from January 1, 2016:

- Amendments to PAS 1 Presentation of Financial Statements: Disclosure Initiative
  - Materiality and aggregation (An entity shall not obscure useful information by aggregating or disaggregating information and materiality considerations apply to the primary statements, notes and any specific disclosure requirements in PFRS.
  - Statement of financial position and statement of profit or loss and other comprehensive income. The list of line items to be presented in these statements can be aggregated or disaggregated as relevant. Guidance on subtotals in these statements has also been included.
  - Presentation of items of other comprehensive income (“OCI”) arising from equity-accounted investments - An entity’s share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single items based on whether or not it will subsequently be reclassified to profit or loss.
  - Notes - Entities have flexibility when designing the structure of the notes and guidance is introduced on how to determine a systematic order of the notes.

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

- Amendments to PAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements

PAS 27 requires an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with PAS 39 (or PFRS 9 when effective). The amendments allow an additional option for an entity to account for these investees in its separate financial statements using the equity method as described in PAS 28. The accounting option must be applied by category of investments.

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

- Amendment to PAS 16, Property, Plant and Equipment PAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to PAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to PAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- (a) when the intangible asset is expressed as a measure of revenue; or
- (b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendment has no impact on the Corporation's financial statements since the Corporation measures its property, plant and equipment using the cost model.

- Amendments to PAS 16 Property, Plant and Equipment and PAS 41 Agriculture: Agriculture: Bearer Plants

The amendments to PAS 16 and PAS 41 define a bearer plant and require a biological asset that meets the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with PAS 16, instead of PAS 41. The produce growing on bearer plants continues to be accounted for in accordance with PAS 41.

The above amendments have no impact on the Corporation's financial statements since it does not have bearer plants.

- Amendments to PFRS 10 Consolidated Financial Statements, PAS 11 Disclosure of Interests in Other Entities, PAS 28 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception

The amendments clarify that:

- the exemption from preparing consolidated financial statements is available to a parent entity that is subsidiary of an investment entity, even though the investment entity measures its subsidiaries at fair value in accordance with PFRS 10;
- the requirement for an investment entity to consolidate a subsidiary applies only to a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services related to the investment entity parent's investment activities;
- in applying the equity method to an associate (or joint venture) that is an investment entity, a non-investment entity investor should retain the fair value measurements that the associate (or joint venture) used for its subsidiaries; and
- an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss shall present the disclosures relating to investment entities required by PFRS 12.

The above amendments have no impact on the Corporation's financial statements as it has no Investments in Associates and Joint Ventures.

- Amendments to PFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to PFRS 11 provide guidance on how to account for the acquisition of both the initial and additional interests in a joint operation that constitutes a business as defined in PFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in PFRS 3 and other standards should be applied, to the extent that they do not conflict with the requirements of PFRS 11. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by PFRS 3 and other standards for business combinations.

The amendments apply to the acquisition of an interest in an existing joint operation and also to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business.

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

b. New Accounting Standard Effective after the Reporting Period Ended December 31, 2016

The following is a summary of the new and revised PFRS that are not yet mandatorily effective for the year ending December 31, 2016 but early application is allowed.

- PFRS 9 Financial Instruments
- PFRS 15 Revenue from Contracts with Customers (with clarifications issued)
- PFRS 16 Leases
- Amendments to PAS 7 Statement of Cash Flows: *Disclosure Initiative*
- Amendments to PAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

Future adoption of the above mentioned standards will have no significant impact on the Corporation's financial statements.

- Amendments to PFRS 10 Consolidated Financial Statements and PAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Future adoption of this standard will have no impact on the Corporation's financial statements.

## Annual improvements to PFRS

Standards included in this cycle of improvements project comprised the following. Amendments apply for annual periods beginning on or after January 1, 2016, unless otherwise stated.

- PFRS 5 Non-current Assets Held for Sale and Discontinued Operation – Changes in methods of disposal

Provides additional guidance on when an entity reclassifies an asset (disposal group) from held-for-sale to held-for distribution to owners (or vice versa), or when held-for distribution accounting is discontinued:

- Reclassifications from held-for-sale to held-for distribution to owners (or vice versa) should not be considered changes to a plan of sale or a plan of distribution to owners, and the classification, presentation and measurement requirements applicable to the new method of disposal should be applied.
- Assets that no longer meet the criteria for held-for distribution to owners (and do not meet the criteria for held-for-sale) should be treated in the same way as assets that cease to be classified as held-for-sale.

The adoption of this amendment has no impact on the financial statements of the Corporation.

- PFRS 7 Financial Instruments: Disclosures

### *Servicing contracts*

Provides additional guidance to clarify whether a servicing contract results in continuing involvement in a transferred asset for the purpose of determining the disclosures required.

### *Applicability of the amendments to PFRS 7 to condensed interim financial statements*

Clarifies that the offsetting disclosures are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with PAS 34 Interim Financial Reporting.

The adoption of the above mentioned amendments have no significant impact on the Corporation's financial statements.

- PFRS 19 Employee Benefits

Discount rate: regional market issue

Clarifies that the depth of the market for high quality corporate bonds used in estimating the discount rate for post-employment benefits should be assessed at the currency level instead of at country level.

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

- PAS 34 Interim Financial Reporting

Disclosure of information 'elsewhere in the interim financial report

Clarifies that the meaning of 'elsewhere in the interim report encompasses other statements besides the interim financial statements (e.g. management commentary or risk reports) that is available to users on the same terms and at the same time as the interim financial statements. Cross references between the interim financial statements and those other statements are required where disclosures are made in the latter.

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

## 2.2 Financial instruments

### *Initial recognition*

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

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

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

### *Classification of financial instruments*

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

*Classification of financial instruments between debt and equity*

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

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

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

*Offsetting financial instruments*

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

*Determination of fair value*

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

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

*Day 1' difference*

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

*Financial assets**Financial assets at FVPL*

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if these are acquired for the purpose of selling in the near term. These are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive income. Derivatives are also classified as held for trading unless these are designated as effective hedging instruments. The Corporation has no assets under this category.

*Loans and receivables*

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

The Corporation's cash and cash equivalents, loans and receivables, and advances to officers and employees, as disclosed in Notes 6, 8, and 13, respectively, are included in this category.

Cash pertains to cash on hand and in banks.

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

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

*HTM investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Corporation's management has the positive intention and ability to hold to maturity. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statements of comprehensive income when the HTM investments are derecognized or impaired, as well as through the amortization process. The Corporation has no investments classified under this category.

*AFS investments*

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

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

The Corporation has written-off its investment in shares of stock of Export and Import Bank (EIB) as disclosed in Note 7.

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

*Financial liabilities*

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

*Financial liabilities at FVPL*

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

The Corporation has no designated financial liability at FVPL.

*Other financial liabilities*

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

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

The Corporation's bills payable, trade and other payables and clients' deposits on lease contracts as disclosed in Notes 15, 16 and 20, respectively, are included in this category.

*Derecognition of financial assets and liabilities**Financial assets*

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

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

*Financial liabilities*

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

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

*Impairment of financial assets**Assessment of impairment*

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

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

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

#### *Evidence of impairment*

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

#### *Impairment on assets carried at amortized cost*

##### Loans and receivables

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

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

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

#### *Restructured Loans*

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

#### *Impairment on Available-for-Sale (AFS) Investment*

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

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

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

*Impairment on asset carried at cost*

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

*Reversal of impairment loss*

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

**2.3 Investment property**

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

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

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

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

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

## 2.4 Property and equipment and equipment and other property for lease (EOPL)

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

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

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

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

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

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

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

An item of property and equipment and EOPL, including the related accumulated depreciation and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in statement of comprehensive income in the period the item is derecognized.

## 2.5 Non-current assets held for sale

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

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

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

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

## 2.6 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.

## 2.7 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 assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization expense on intangible assets is recognized in the separate statements of comprehensive income in the expense category consistent with the function of the intangible asset.

## 2.8 Impairment of non-financial assets

At each financial reporting date, the Corporation reviews the carrying amounts of non-financial assets to determine whether there is any indication of impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of the assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to its present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment loss is recognized in the statements of comprehensive income.

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

## 2.9 Trade and other payables

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

## 2.10 Provisions and contingencies

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

Contingent liabilities are not recognized in the financial statements. These are disclosed 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.

## 2.11 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.

## 2.12 Equity

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

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

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

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

The Corporation's retained earnings account is composed of:

### *Appropriated retained earnings*

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

### *Unappropriated retained earnings*

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

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

## 2.13 Revenue recognition

### (a) *Interest Income*

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

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

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

(b) *Income from operating leases*

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

(c) *Penalties and service fees*

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

(d) *Gain (Loss) on foreclosures*

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

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

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

(f) *Other income*

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

#### **2.14** 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.

**2.15** Employee benefits(a) *Retirement benefit obligations*

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

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

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

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

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

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

(b) *Compensated absences*

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

## 2.16 Leases

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

The Corporation is a lessor under finance leases.

Leases where the Corporation does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rentals are recognized as revenue in the year in which they are earned.

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

## 2.17 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.

## 2.18 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.

## 2.19 Income tax

### *Current income tax*

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

### *Deferred income tax*

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

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

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

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

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

## 2.20 Earnings per share

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

## 2.21 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. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

### 3.1 Estimates

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

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

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

As of December 31, 2015, 100 per cent allowance for impairment losses on AFS investment have been recognized against its carrying value of P5,825,000. Subsequently in 2016, the Corporation wrote-off its AFS investment and recognized a loss on derecognition in the statement of comprehensive income.

#### *Estimation of allowance for impairment loss on loans and receivables*

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

In 2016 and 2015, Management has assessed an amount of P185,907,342 and P204,725,776 as doubtful of collection. Accordingly, a provision for impairment was recognized in the statements of comprehensive income.

The carrying value of the Corporation's loans and receivables amounted to P3,403,816,556 and P3,375,186,553 as at December 31, 2016 and 2015, respectively, as disclosed in Note 8.

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

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

The estimated useful lives of investment properties, EOPL, property and equipment and are set out in Notes 2.3 and 2.4.

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

The Corporation assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Corporation considers important which could trigger an impairment review include the following:

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

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

Allowance for impairment losses on Investment Property amounted to P6,337,517 and P3,387,285 as of December 31, 2016 and 2015 (Note 9), respectively, while allowance for impairment losses on Non-Current Assets Held for Sale amounted to P4,415,033 and P5,415,033 in 2016 and 2015 (Note 12), respectively. There are no impairment losses on EOPL and Property and Equipment for the years 2016 and 2015.

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

	2016	2015 As restated
Investment Property (Note 9)	20,106,679	6,397,440
EOPL (Note 10)	409,975,702	436,601,435
Property and Equipment (Note 11)	28,243,765	30,285,046
Non-current Assets Held for Sale (Note 12)	3,012,091	3,299,865

#### *Estimation of liability for retirement benefits cost*

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

The retirement benefit cost charged to operations under "General and Administrative Expenses" account amounted P1,965,046 and P1,473,173 as at December 31, 2016 and 2015, respectively.

The related liability stands at P8,199,927 and P7,032,962 as at December 31, 2016 and 2015, respectively, as disclosed in Note 21(b).

#### *Realizability of deferred income tax assets*

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

Deferred tax assets recognized amounted to P55,772,204 and P61,417,734 as at December 31, 2016 and 2015, respectively, as disclosed in Note 23.

Management believes that the amount is fully recoverable.

### **3.2 Judgments**

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

*Determination of functional currency*

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

*Classification of financial instruments*

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

The Corporation's financial assets and liabilities are presented in Notes 4 and 5.

*Determination of fair value of financial assets*

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

*Classification of leases*

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

As a lessor, total rental earned from operating leases amounted to P46,140,175 in 2016 and P45,236,905 in 2015, as disclosed in Note 20.

Interest earned on finance lease arrangements amounted to P273,905,140 and P319,526,503 in 2016 and 2015, respectively, as disclosed in Note 20 to the financial statements.

As a lessee, total rental expenses incurred from the leases amounted to P1,561,880 in 2016 and P1,187,702 in 2015, as disclosed in Note 20.

#### 4. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES

##### *Principal financial instruments*

The Corporation's principal financial instruments comprised cash, loans and receivables, advances from officers and employees, AFS financial assets, 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:

##### **4.1 Credit Risk**

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

(a) *Credit Risk Management*

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

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

(b) *Collateral and other credit risk mitigation*

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

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

The Corporation monitors market value of collateral, and requests for additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowances for credit losses.

The following table shows the breakdown of receivables as to collateral:

	2016	2015
Secured		
Property under finance lease	1,501,734,093	1,441,750,678
Real estate mortgage	234,210,561	472,941,183
Chattel mortgage	1,448,433,562	1,155,803,851
	<b>3,184,378,216</b>	
	<b>,378,216</b>	3,070,495,712
Unsecured	405,345,682	509,416,617
	<b>3,589,723,898</b>	3,579,912,329

(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*

	2016		2015	
	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
Financial assets:				
Cash	42,440,120	42,440,120	42,917,083	42,917,083
Loans and receivables	3,589,723,898	3,589,723,898	3,579,912,329	3,579,912,329
Advances to officers and employees	731,010	731,010	904,988	904,988
AFS financial asset	0	0	5,825,000	5,825,000
	<b>3,632,895,028</b>	<b>3,632,895,028</b>	<b>3,629,559,400</b>	<b>3,629,559,400</b>

The preceding table represents the maximum credit risk exposure of the Corporation at December 31, 2016 and 2015, without taking into account any collateral held or other credit enhancements as it is impracticable to determine the fair values of these collaterals held by the Corporation as security against its loans and receivables. The exposures set out above are based on gross carrying amounts as reported in the statement of financial position.

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

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

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

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

As at December 31, 2016

	Cash	Loans and receivables	Advances to officers and employees	Available for sale financial asset
Agriculture, fishing and forestry	0	31,514,370	0	0
Wholesale and retail trade	0	343,253,335	0	0
Manufacturing	0	45,755,707	0	0
Public utilities	0	270,260,353	0	0
Services	0	966,724,042	0	0
Banks and other financial institutions	42,440,120	565,807,811	0	0
Real estate	0	22,585,224	0	0
Public sector	0	842,505,275	0	0
Others	0	501,317,781	731,010	0
Total	42,440,120	3,589,723,898	731,010	0
Less: Allowance for probable losses/fair value changes	0	(185,907,342)	0	0
	42,440,120	3,403,816,556	731,010	0

As at December 31, 2015

	Cash	Loans and receivables (As restated)	Advances to officers and employees	Available for sale financial asset
Agriculture, fishing and forestry	0	39,375,732	0	0
Wholesale and retail trade	0	193,068,504	0	0
Manufacturing	0	11,870,648	0	0
Public utilities	0	283,068,798	0	0
Services	0	1,035,179,978	0	0
Banks and other financial institutions	42,917,083	420,941,965	0	5,825,000
Real estate	0	49,931,346	0	0
Public sector	0	881,137,251	0	0
Others	0	665,338,107	904,988	0
Total	42,917,083	3,579,912,329	904,988	5,825,000
Less: Allowance for probable losses/fair value changes	0	(204,725,776)	0	(5,825,000)
	42,917,083	0	904,988	0

(f) *Credit Quality of Financial Assets*

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

As at December 31, 2016

	Neither past due nor impaired	Impaired	Total
Cash	42,440,120	0	42,440,120
Loans and receivables	3,224,629,458	365,094,440	3,589,723,898
Advances to officers and employees	731,010	0	731,010
AFS financial asset	0	0	0
	3,267,800,588	0	3,632,895,0288

As at December 31, 2015

	Neither past due nor impaired	Impaired	Total
Cash	42,917,083	0	42,917,083
Loans and receivables	3,375,186,553	204,725,776	3,579,912,329
Advances to officers and employees	904,988	0	904,988
AFS financial asset	0	5,825,000	5,825,000
	3,419,008,624	0	3,629,559,400

*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.

**4.2 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.

**4.3 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, 2016

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
Bills payable	1,180,120,000	10,575,000	987,859,167	2,178,554,167
Trade and other payables*	102,651,157	0	0	102,651,157
Deposits on lease contracts	121,878,183	82,232,223	39,081,374	243,191,780
	1,404,649,340	92,807,223	1,026,940,541	2,524,397,104

As at December 31, 2015

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
Bills payable	996,800,000	0	1,200,959,295	2,197,759,295
Trade and other payables*	108,428,716	0	0	108,428,716
Deposits on lease contracts	134,552,487	43,543,314	55,614,129	233,709,930
	1,239,781,203	43,543,314	1,256,573,424	2,539,897,941

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

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

## 5. FAIR VALUE MEASUREMENT

The Corporation's principal financial instruments comprised cash, loans and receivables, advances to officers and employees, AFS financial asset, bills payable, trade and 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, 2016 and 2015.

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash (Note 6)	42,510,620	42,510,620	42,977,083	42,977,083
Loans and receivables (Notes 8 and 14)	3,589,723,898	3,403,816,556	3,579,912,329	3,375,186,553
Advances to officers and employees (Note 13)	731,010	731,010	904,988	904,988
AFS financial asset (Note 7)	0	0	5,825,000	0
	3,632,965,528	3,447,058,186	0	0

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Financial liabilities:				
Bills payable (Note 15)	2,178,554,167	2,178,554,167	2,197,759,295	2,197,759,295
Trade and other payables* (Note 16)	102,651,157	102,651,157	108,428,716	108,428,716
Deposit on lease contracts (Note 20)	243,191,780	243,191,780	233,709,930	233,709,930
	<b>2,524,397,104</b>	<b>2,524,397,104</b>	2,539,897,941	2,539,897,941

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

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

- Cash
- Trade and other payables

(b) *Fair value hierarchy*

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

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

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

The only financial instrument of the Corporation measured at fair value is the available for sale financial asset which was classified under Level 1.

(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.

(i) *Available for sale financial asset*

For Level 1 available-for-sale investment, the group uses the closing market price as at reporting date per share multiplied by the number of shares held.

The fair value of available for sale securities is reduced to zero due to suspension of trading of stock.

*(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.

**6. CASH AND CASH EQUIVALENTS**

This account consists of:

	2016	2015
Cash in banks	42,440,120	42,917,083
Cash on hand	70,500	60,000
	<u>42,510,620</u>	<u>42,977,083</u>

Cash in banks earn interest at floating rates based on daily bank deposit rates. Annual interest earned on deposits in banks range from 1.125 per cent to 1.250 per cent in 2016 and 2015, respectively. Interest income earned from deposits in banks reported in the statements of comprehensive income totaled P118,460 and P149,873 for the years ended December 31, 2016 and 2015, respectively.

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

Cash on hand includes petty cash amounting of P45,000 and P55,000 as at December 31, 2016 and 2015, respectively.

**7. AVAILABLE FOR SALE FINANCIAL ASSET**

This account consists of:

	2016	2015
AFS financial asset, listed shares	0	5,825,000
Allowance for probable losses	0	(5,825,000)
	<u>0</u>	<u>0</u>

The account reflects holdings of 5,825,000 shares of common stock of Export and Industry Bank (EIB).

In 2001, LLFC bought deposit receivables of a particular client from Urban Bank at the discounted price of P43.350 million. In September 2004, the receivables (amounting to P58.245 million by then) were settled by the rehabilitated bank renamed as Export-Industry Bank (EIB), thru cash settlement of P52.425 million and 5.825 million shares of common stocks at a par value of P1.00 per share. With the settlement, the investment on the receivables was closed and the 5.825 million shares of Common Stock of EIB were booked as Available-for-sale securities with the fair value changes being accounted for in equity through other comprehensive income.

As of December 31, 2016, an objective evidence as to the prolonged decline in value of the investment in the shares of stocks of EIB was established based on the following circumstances and events:

- In May 2009, trading on the stock was suspended in view of the pending purchase of EIB by another bank. The acquisition has already been given an approval in principle by the Bangko Sentral ng Pilipinas (BSP). Prior to the suspension in May 2009, shares of EIB were trading at 14¢ per share.
- In April 2012, BSP placed EIB under the receivership of Philippine Deposit Insurance Corporation (PDIC) after its total liabilities exceeded its total assets. On October 18, 2012, PDIC scheduled the bidding for EIB but the bidding failed as no potential investors appeared due to the three-day temporary restraining order (TRO) issued by the Makati Regional Trial Court in October 17, 2012 as requested by some of the parties which has claims against the bank.
- A rebidding was scheduled on March 20, 2013 but this did not push through because no strategic third party investor submitted a letter of interest or a pre-bid documentary requirement.
- In April 2015, the court ruled that PDIC's petition for liquidation was "sufficient in form and substance and conformably with pertinent law." The Presiding Judge further enjoined all those with claims against EIB's assets to file formal complaints.

The Board of Directors thru their Resolution No. 17-020 dated February 17, 2017, subsequently authorized the write-off of investment in the shares of stocks of EIB.

The cumulative loss amounting to P5,825,000 that was previously recognized in equity was recognized in the statement of comprehensive income as of December 31, 2016 under the "Loss on derecognition of Available for Sale Financial Asset" account.

**8. LOANS AND RECEIVABLES**

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

	2016	2015
Finance lease receivables	248,461,322	249,793,207
Finance lease receivables - LBP	9,203,532	17,697,463
Loans and receivables - others	818,606,723	880,138,310
	<u>1,076,271,577</u>	<u>1,147,628,980</u>
Accounts receivable - clients	257,468,462	137,801,865
Allowance for probable losses	(1,561,050)	(1,542,087)
	<u>255,907,412</u>	<u>136,259,778</u>
Accrued interest receivable	3,371,895	4,419,867
Allowance for probable losses	0	0
	<u>3,371,895</u>	<u>4,419,867</u>
	<u>1,335,550,884</u>	<u>1,288,308,625</u>

The non-current portion consists of:

	2016	2015
Finance lease receivables	1,261,357,772	1,266,424,785
Allowance for probable losses	(28,546,015)	(40,986,648)
	<u>1,232,811,757</u>	<u>1,225,438,137</u>
Finance lease receivables - LBP	46,340,738	63,138,770
Allowance for probable losses	0	0
	<u>46,340,738</u>	<u>63,138,770</u>
Loans and receivables - others	944,913,454	960,498,062
Allowance for probable losses	(155,800,277)	(162,197,041)
	<u>789,113,177</u>	<u>798,301,021</u>
	<u>2,068,265,672</u>	<u>2,086,877,928</u>

As of December 31, 2016, 11 per cent of the Corporations' finance lease and loans receivable are subject to interest re-pricing (2015: 10 per cent). The remaining loans earn annual fixed interest rates ranging from three per cent to 20 per cent in 2016 and 2015, respectively.

The amounts of P253,378,565 and P136,202,064 of the receivables from clients as of December 31, 2016 and 2015, respectively, represent amounts due from Land Bank of the Philippines (“Parent Bank”) for the chauffeuring services rendered in relation to finance and operating lease facilities entered into with the Parent Bank. Total revenues generated from finance and operating lease facilities with the Parent Bank amounted to P119,627,659 and P46,140,175 in 2016 (2015 : P149,932,725 for finance leases and P45,236,905 for operating leases) as disclosed in Note 22 to the financial statements.

#### Finance lease receivables

An analysis of the LLFC’s finance lease receivables as at December 31, 2016 and 2015 is presented as follows:

	2016	2015
Finance lease receivables:		
Within 1 year	165,717,825	183,417,431
Beyond 1 year but not beyond 5 years	314,015,416	286,621,946
Beyond 5 years	1,373,135,708	1,545,719,800
	<u>1,852,868,949</u>	<u>2,015,759,177</u>
Residual value of leased assets:		
Within 1 year	98,339,104	74,545,783
Beyond 1 year but not beyond 5 years	114,186,834	84,968,911
Beyond 5 years	126,186,545	126,186,545
	<u>338,712,483</u>	<u>285,701,239</u>
Total minimum lease receivable	<u>2,191,581,432</u>	<u>2,301,460,416</u>
Less: Unearned Leasing Income		
Within 1 year	15,595,607	8,170,007
Beyond 1 year	715,163,555	842,785,742
	<u>730,759,162</u>	<u>850,955,749</u>
Net investment in finance lease receivables	<u>1,460,822,270</u>	<u>1,450,504,667</u>
Past due receivables	21,904,430	37,155,966
Restructured accounts	0	0
Past due - restructured accounts	4,942,887	5,599,903
Items in litigation	32,665,487	35,998,817
	<u>59,512,804</u>	<u>78,754,686</u>
Less: Unearned leasing income	10,515,980	13,041,361
	<u>48,996,824</u>	<u>65,713,325</u>
	<u>1,509,819,094</u>	<u>1,516,217,992</u>

	2016	2015
Finance lease receivables - LBP		
Within 1 year	13,129,253	35,712,551
Beyond 1 year but not beyond 5 years	113,254,999	124,766,449
	126,384,252	160,479,000
Residual value of leased assets:		
Within 1 year	2,027,000	5,653,600
Beyond 1 year but not beyond 5 years	0	0
Beyond 5 years	0	0
	2,027,000	5,653,600
Total minimum lease receivable	128,411,252	166,132,600
Less: Unearned leasing income		
Within 1 year	5,952,721	23,668,688
Beyond 1 year	66,914,261	61,627,679
	72,866,982	85,296,367
Net investment in finance lease receivables - LBP	55,544,270	80,836,233

#### Loans and receivables - others

The breakdown of loans and receivables - others as of December 31, 2016 and 2015 are as follows:

	2016	2015
Loans and receivables - others		
Within 1 year	818,606,723	880,138,310
Beyond 1 year	563,395,439	716,638,722
	1,382,002,162	1,596,777,032
Past due receivables	154,746,511	102,204,693
Restructured accounts	65,792,882	24,661,842
Past due - restructured accounts	63,546,681	14,546,681
Items in litigation	100,183,612	105,749,886
	384,269,686	247,163,102
Less: Unearned interest income	2,751,671	3,303,762
	381,518,015	243,859,340
	1,763,520,177	1,840,636,372

Summary of loans and receivables

## Loans and lease receivables

	2016	2015
Finance lease receivables	1,509,819,094	1,516,217,992
Finance lease receivables - LBP	55,544,270	80,836,233
Loans and receivables - others	1,763,520,177	1,840,636,372
	<u>3,328,883,541</u>	<u>3,437,690,597</u>

## Other receivables:

	2016	2015
Accounts receivable - clients	257,468,462	137,801,865
Accrued interest receivable	3,371,895	4,419,867
	<u>260,840,357</u>	<u>142,221,732</u>

Accounts receivable amounting to P253,378,565 and P136,202,064 represent the amounts due from the Parent Bank for finance and operating lease transactions for 2016 and 2015, respectively.

Interest income on receivables

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

	2016	2015
Lease contracts receivable	273,905,140	319,526,503
Loans receivable	120,728,188	140,476,646
Others	240,508	49,092
	<u>394,873,836</u>	<u>460,052,241</u>

Reconciliation of credit losses

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

As at December 31, 2016

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

As at December 31, 2015

	Finance lease receivables	Loans and receivables – others	Accounts receivable – clients	Accrued interest receivable	Total
At January 1, 2015	20,944,940	164,661,883	1,100,094	18,859	186,725,776
Provisions during the year	17,576,866	0	423,134	0	18,000,000
Foreclosures and adjustments	2,464,842	(2,464,842)	18,859	(18,859)	0
At December 31	40,986,648	162,197,041	1,542,087	0	204,725,776
Specific impairment provision	14,235,491	162,197,041	1,542,087	0	177,974,619
Collective impairment provision	26,751,157	0	0	0	26,751,157
Total impairment provision	40,986,648	162,197,041	1,542,087	0	204,725,776
Gross amount of loans specifically determined to be impaired before deducting individually- assessed credit losses	47,275,449	208,674,780	1,599,801	0	257,550,030

BSP Reporting

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

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

	2016	2015
Services	26.90	28.92
Public sector	23.50	24.61
Banks and other financial institutions	15.70	11.76
Wholesale and retail trade	9.60	5.40
Public utilities	7.50	7.91
Real estate	0.60	1.39
Manufacturing	1.30	0.33
Agriculture, fishing and forestry	0.90	1.10
Others	14.00	18.59
	100.00	100.00

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

## (b) As to collateral

	2016	2015 As restated
Secured		
Property under finance lease	1,501,734,093	1,441,750,678
Real estate mortgage	234,210,561	472,941,183
Chattel mortgage	1,448,433,562	1,155,803,851
	3,184,378,216	3,070,495,712
Unsecured	405,345,682	509,416,617
	3,589,723,898	3,579,912,329

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

As of December 31, 2016 and 2015, nonperforming loans (NPLs) not fully- covered by allowance for credit losses follow:

	2016	2015
Total NPLs	365,094,440	285,303,742
Less: NPLs fully-covered by allowance for credit losses	(134,542,771)	(120,809,254)
	230,551,669	164,494,488

As of December 31, 2016 and 2015, secured and unsecured NPLs follow:

	2016	2015
Secured	270,589,128	190,605,724
Unsecured	94,505,312	94,698,018
	365,094,440	285,303,742

## 9. INVESTMENT PROPERTY

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:

	2016	2015
Cost		
At January 1 and December 31	10,316,000	10,316,000
Additions	17,172,856	0
	27,488,856	10,316,000
Accumulated depreciation		
At January 1	531,275	303,586
Depreciation for the year	513,385	227,689
At December 31	1,044,660	531,275
Allowance for Impairment		
At January 1	3,387,285	3,387,285
Provision for the year	2,950,232	0
At December 31	6,337,517	3,387,285
Net book value		
December 31	20,106,679	6,397,440

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

The aggregate market value of investment properties as of December 31, 2016 and 2015 amounted to P38,368,000 and P10,669,800, respectively. The fair value has been determined based on valuations made by in-house appraisers or accredited independent appraisers. Valuations were based on the information about the prevailing market value of similar or comparable real properties in the same area as the investment properties, and taking into account the economic conditions prevailing at the time the valuation were made.

Costs incurred in maintaining investment properties totaled P34,355 in 2015 which were paid to LBP Resources Development Corporation (LBRDC), a related party.

#### 10. EQUIPMENT AND OTHER PROPERTY FOR LEASE

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

On September 24, 2014, the Board of Directors approved the acquisition of the 5,000 square meter property at Bonifacio Global City for the account of Security and Exchange Commission (SEC). The Corporation and Insurance Commission will be the co-buyers of the property in the amount of P600,000,000. As of December 31, 2014, the amount of P308,378,250 was initially booked as 'Equipment and Other Property for Lease - Finance Lease' as the Corporation's share in the acquisition of the property.

As of December 31, 2016 and 2015, a total of P12,397,584 and P15,432,286, respectively, representing borrowing costs on the acquired 5,000 square meter property, were capitalized as Equipment and Other Property for Lease - Finance Lease' (See Note 15).

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

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

	2016	2015 As restated
Finance lease	368,700,724	385,660,227
Operating lease	41,274,978	50,941,208
	<u>409,975,702</u>	<u>436,601,435</u>

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

	2016	2015
Cost		
At January 1	103,769,090	109,382,633
Disposals	(19,900,763)	(5,613,543)
At December 31	83,868,327	103,769,090
Accumulated depreciation		
At January 1	52,827,882	50,094,302
Depreciation for the year	7,630,917	7,630,917
Disposals	(17,865,450)	(4,897,337)
At December 31	42,593,349	52,827,882
Net book value		
December 31	41,274,978	50,941,208

Depreciation charges amounting P7,630,917 for 2016 and 2015 are lodged under the depreciation and amortization account under Direct Expenses in the statements of comprehensive income.

In 2016 and 2015, the Corporation sold vehicles previously covered by operating lease agreements with a total carrying value of P19,900,764 and P516,009, respectively, on which it realized a gain of P4,028,475 and P1,589,491, respectively, as disclosed in Note 18 to the financial statements.

During 2015, the Corporation donated vehicles with an aggregate net book value of P200,197 to LBP Resources Development Corporation (LBRDC), Land Bank of the Philippines-Facilities Management Department (LBP-FMD) and Masaganang Sakahan, Inc. (MSI).

## 11. PROPERTY AND EQUIPMENT

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

As at December 31, 2016

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

As at December 31, 2015

	Building and improvements	Furniture and Fixtures	Transportatio n Equipment	Other properties acquired	Total
<b>Cost</b>					
At January 1	42,566,207	12,076,221	1,567,273	2,491,000	58,700,701
Additions	0	659,425	0	0	659,425
Disposals	0	(1,170,149)	0	0	(1,170,149)
At December 31	42,566,207	11,565,497	1,567,273	2,491,000	58,189,977
<b>Accumulated depreciation</b>					
At January 1	14,431,015	8,783,748	1,493,907	1,681,425	26,390,095
Depreciation for the year	1,256,776	735,507	0	560,475	2,552,758
Disposals	0	(1,037,922)	0	0	(1,037,922)
At December 31	15,687,791	8,481,333	1,493,907	2,241,900	27,904,931
<b>Net book value</b>	<b>26,878,416</b>	<b>3,084,164</b>	<b>73,366</b>	<b>249,100</b>	<b>30,285,046</b>

As of December 31, 2016 and 2015, the total cost of fully-depreciated property and equipment still in use by the Corporation amounted to P11,254,504 and P5,259,057, respectively.

In October 2016, LLFC sold other properties acquired as scrap from which a loss of P169,100 was realized as disclosed in Note 18 to the financial statements.

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

Certain obsolete and unserviceable furniture, fixtures and office equipment with an aggregate cost of P1,170,149 have been retired in November 2015 on which the Corporation realized a total loss of P132,227.

The Corporation recognized depreciation/amortization charges in the amount of P10,557,859 in 2016 and P11,752,166 in 2015, as shown in the Direct and General and Administrative Expense sections in the statements of comprehensive income, with details as follows:

	2016	2015
<b>Direct expense</b>		
Equipment and other properties for lease (Note 10)	7,630,917	7,630,917
<b>General and administrative expense</b>		
Investment properties (Note 9)	513,385	227,689
Property and equipment (Note 11)	1,887,390	2,552,758
Intangibles (Note 13)	526,167	1,340,802
	2,926,942	4,121,249
	<b>10,557,859</b>	<b>11,752,166</b>

Management has reviewed the carrying values of the Corporation's property and equipment as of December 31, 2016 and 2015 for impairment. Based on the results of its evaluation, there were no indications that the property and equipment are impaired.

**12. NON-CURRENT ASSETS HELD FOR SALE**

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

As at December 31, 2016

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

As at December 31, 2015

	Land	Building	Equipment	Total
At January 1, net	3,012,404	143,612	143,849	3,299,865
Disposal	0	0	0	0
Impairment	0	0	0	0
Adjustment	113,849	0	(113,849)	0
At December 31	3,126,253	143,612	30,000	3,299,865

The changes in allowance for impairment are as follows:

	2016	2015
At January 1	5,415,033	5,415,033
Reversal of provision for impairment	(1,000,000)	0
At December 31	4,415,033	5,415,033

The provision for impairment amounting to P1,257,774 was reversed in May 2016 simultaneously with the sale of pieces of equipment of which the Corporation realized a loss of P261,774 as disclosed in Note 18.

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

Adjustment in the provision for impairment in 2015 represents a reallocation of excess allowance for land and buildings with an aggregate assessed value of P10,459,800 to pieces of equipment whose total fair market value was determined to be P30,000.

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

**13. OTHER ASSETS**

Current and non-current classification of other assets as at December 31, 2016 and 2015 are as follows:

As at December 31, 2016

	Due within 1 year	Due beyond 1 year	Total
Miscellaneous assets	6,136,153	1,126,629	7,262,782
Prepaid expense	3,291,008	0	3,291,008
Intangibles	205,273	147,624	352,897
Advances to officers and employees	731,010	0	731,010
Stationeries and supplies-unissued	137,570	0	137,570
Other investments	0	16,000	16,000
Other assets	0	306	306
	<u>10,501,014</u>	<u>1,290,559</u>	<u>11,791,573</u>

As at December 31, 2015

	Due within 1 year	Due beyond 1 year	Total
Miscellaneous assets	3,060,777	1,126,629	4,187,406
Prepaid expense	2,924,429	0	2,924,429
Intangibles	474,991	224,871	699,862
Advances to officers and employees	904,988	0	904,988
Stationeries and supplies - unissued	107,099	0	107,099
Other investments	0	16,000	16,000
Other assets	0	306	306
	<u>7,472,284</u>	<u>1,367,806</u>	<u>8,840,090</u>

Miscellaneous assets include creditable withholding taxes, security and utility deposits.

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

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

**14. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES**

Changes in the allowance for probable losses are as follows:

	2016	2015
At January 1		
Finance lease receivables	40,986,648	20,944,940
Loans and receivables - others	162,197,041	164,661,883
Accounts receivable - clients	1,542,087	1,100,094
Accrued interest receivable	0	18,859
Investment property	3,387,285	3,387,285
Non-current assets held for sale	5,415,033	5,415,033
	213,528,094	195,528,094
Provisions for the year	21,620,000	18,000,000
Accounts charged-off/other adjustments	(38,488,202)	0
At December 31	196,659,892	213,528,094

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

	2016	2015
Finance lease receivables	28,546,015	40,986,648
Loans and receivables - others	155,800,277	162,197,041
Accounts receivable - clients	1,561,050	1,542,087
Investment property	6,337,517	3,387,285
Non-current assets held for sale	4,415,033	5,415,033
	196,659,892	213,528,094

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

**15. BILLS PAYABLE**

This account represents peso borrowings from various banks in the form of promissory notes.

	2016	2015
Current	1,180,120,000	996,800,000
Non-current	998,434,167	1,200,959,295
	2,178,554,167	2,197,759,295

Interest rates on bills payable range from 2.750 per cent to 4.00 per cent and 2.80 per cent to 4.00 per cent in 2016 and 2015, respectively.

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2016 and 2015 are partially secured with terms of maturity ranging from 90 days to nine years. Interest expense on borrowings amounted to P61,468,508 and P65,882,808 for the years ending December 31, 2016 and 2015, respectively.

Total interest expense in 2016 and 2015 as presented in the statements of comprehensive income is net of P12,397,584 and P15,432,286 finance charges on a lease facility that was capitalized as EOPL in accordance with the provisions of PAS 23 on Borrowing Costs.

As at December 31, 2016, there are no defaults or breaches on these promissory notes.

## 16. TRADE AND OTHER PAYABLES

This account consists of:

	2016	2015 As restated
Accounts payable – trade	34,707,927	14,592,754
Government dues:		
Accrued taxes and licenses	2,330,872	2,443,514
Withholding taxes payable	1,738,679	1,066,613
Philhealth	13,213	13,575
Pag-ibig Fund	12,920	20,583
Social Security System	14,923	15,770
Fringe benefit taxes	0	7,200
Accounts payable – others	591,946	796,336
Accrued interest payable	6,057,388	4,990,510
Accrued expenses – others	31,841,960	65,464,231
Miscellaneous liabilities	29,451,936	22,584,885
	<u>106,761,764</u>	<u>111,995,971</u>

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

Accrued expenses – others in 2016 include unpaid cost of security, messengerial, and janitorial services payable to LBP Service Corporation (LBP-SC), a subsidiary of Land Bank of the Philippines, and monetary value of employees' leave credits.

Accrued expenses – others in 2015 includes provision for performance-based bonuses of employees amounting to P2.00 million.

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

As at December 31, 2016 and 2015, 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, 2016 and 2015 is presented hereunder:

	2016	2015
	No. of Shares	
Issued, paid and outstanding	48,555,255	48,555,255
Treasury stock	(3)	(1)
<b>Total outstanding shares</b>	<b>48,555,252</b>	<b>48,555,254</b>

On July 12, 2015, one share owned by a deceased member of the Board was reacquired thereby, reducing the amount of outstanding shares to 48,555,254.

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

**(b) Retained earnings**Dividend declaration

In compliance with Republic Act No. 7656 requiring the GOCCs to declare and remit dividends to the National Government 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 March 23, 2016 amounting to P80,500,000 or P1.658 per share to stockholders as of date of record December 31, 2015 and remitted/paid the same on April 8, 2016.

Appropriation of retained earnings

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

Reconciliation of Retained earnings

The financial statements of the Corporation as of and for the years ended December 31, 2015 and 2014, respectively, have been restated to reflect the impact of transitional adjustments in accordance with PAS 19, as revised, and correction of prior period errors (See Note 29). Presented in the table below is a reconciliation of the retained earnings account:

At December 31, 2014, as previously stated		P731,351,192
Add: Effect of prior period adjustment		
Transitional adjustment - PAS 19R		4,788,042
At December 31, 2014, as restated		736,139,234
Declaration of Cash dividend paid to the National Government	(72,298,775)	
Appropriation for business expansion	(600,000,000)	
Net income for the year ended December 31, 2015, as previously stated	148,329,309	
Add/(Deduct): Effect of prior period adjustments		
Reversal of accruals of interest income	(7,330,336)	
Reversal of excess provision for income tax	1,386,680	
Transitional adjustment - PAS 19R	3,182,955	(526,730,167)
At December 31, 2015, as restated		209,409,067
Cash dividend paid to the National Government		(80,500,000)
Net income for the year ended December 31, 2016		90,507,824
At December 31, 2016		P219,416,891

## 18. OTHER INCOME, NET

This account is composed of:

	2016	2015
Fleet management service fees (Note 22)	17,767,440	0
Gain on sale of equipment and other property for lease (Note 10)	4,028,475	1,589,491
Loss on derecognition of Available for Sale Financial Asset (Note 7)	(5,825,000)	0
Loss on disposal/sale of property and equipment (Note 11)	(169,100)	(132,227)
Loss on sale of non-financial assets (Note 12)	(261,774)	0
Gain on disposal/sale of property and equipment (Note 11)	1,800	0
Recovery from charged-off assets	50,000	0
Miscellaneous income	8,714,457	6,320,446
	24,306,298	7,777,710

The Fleet management service fees represent income recognized on the 302 fully-depreciated vehicles previously out on operating lease to LBP for the repairs and maintenance expenses and other executory costs.

Miscellaneous income pertains to penalties and surcharges.

**19. OTHER EXPENSES**

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

	2016	2015 As restated
Security, messengerial, janitorial and contractual services	2,691,422	2,398,944
Representation and entertainment	2,129,833	2,014,493
Donations and other charitable contributions	2,000,000	2,300,197
Power, light and water	1,200,000	1,485,000
Transportation and travelling	1,968,609	1,743,398
Rent (Note 20)	1,561,880	1,187,702
Repairs and maintenance	1,501,078	858,094
Postage, cables, telephone and telegram	862,749	1,122,685
Membership fees and dues	861,993	598,919
Stationeries and supplies used	792,200	588,567
Advertising and publicity	714,412	836,870
Management and other professional fees	709,741	815,345
Information technology	466,826	437,143
Fuels and lubricants	288,924	271,747
Data processing charges	116,367	90,315
Periodicals and magazines	18,444	18,576
Bank charges	7,052	5,782
Miscellaneous expenses	412,642	674,708
	<u>18,304,172</u>	<u>17,448,485</u>

**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 P273,905,140 and P319,526,503 in 2016 and 2015, 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, 2016 and 2015 amounted to P46,140,175 and P45,236,905, respectively.

The carrying amount of lease deposits payable to the respective lessees as of December 31, 2016 and 2015 are presented in the table below:

	2016	2015
Finance leases	234,047,462	224,565,612
Operating leases	9,144,318	9,144,318
	<u>243,191,780</u>	<u>233,709,930</u>

The breakdown of deposits on finance and operating leases by contractual settlement dates as at December 31, 2016 and 2015 is as follows:

	2016	2015
Due within 1 year	121,878,183	134,552,487
After 1 year up to maturity	121,313,597	99,157,443
	<u>243,191,780</u>	<u>233,709,930</u>

#### Operating lease commitments

Future minimum rental receivables under non-cancelable operating leases as of December 31, 2016 and 2015 are as follows:

	2016	2015 As restated
Due within 1 year	17,640,704	26,240,220
After 1 year up to maturity	4,978,412	12,955,608
	<u>22,619,116</u>	<u>39,195,828</u>

#### Corporation as lessee

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

On June 1, 2014, the Corporation entered into another operating lease agreement with Dasein Transport Corporation wherein 57 parking slots were designated for LLFC's use at a monthly rental rate of P2,300 inclusive of VAT. Monthly billings are based on the actual number of vehicles parked. Actual number of slots used in 2016 and 2015 totalled 41 and 46, respectively.

Rental fees paid to the lessors for the years ended December 2016 and 2015 totalled P1,561,880 and P1,187,702 (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. EMPLOYEE BENEFITS

### (a) Compensation and fringe benefits

Expenses recognized for salaries and employee benefits are presented below:

	2016	2015 As restated
Salaries and wages	18,062,364	15,924,764
Bonuses	4,979,483	4,501,560
Retirement benefit cost (Note 29)	1,965,046	1,473,173
Directors' remuneration	1,646,000	1,858,320
Social security cost	893,758	773,774
Other benefits	3,561,462	5,587,741
	<u>31,108,113</u>	<u>30,119,332</u>

Employee benefits include annual salaries, paid sick leave, profit sharing and bonuses, and other non-monetary benefits. Total accrued compensated absences as at December 31, 2016 and 2015 amounted to P5,338,229 and P4,903,615, respectively.

### (b) Retirement benefits

#### (i) Characteristics and funding

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

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

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

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

- The Trustor waives all its rights and interests to the money or properties which are and will be paid or transferred to the Fund, to the extent required to provide the benefits payable pursuant to the Plan.
- The Trustee shall administer the Fund to be held in trust for the purpose stated in and subject to all the terms and conditions of this Agreement as well as the Plan, which shall be deemed part of this Agreement. It shall invest and re-invest the Fund, together with all increments and proceeds in fixed-income government securities.
- The Trustee has the right and power to cause any asset acquired from the investment/re-investment of the fund to be held, registered and issued in its own name as Trustee or in the name of its nominee, provided, that the books and records of the Trustee shall at all times show that all such properties are part of the Fund. It shall open and maintain savings and/or checking account as may be determined necessary from time to time in the performance of the trust and the authority herein conferred to the Trustee as well as pay all costs, fees, charges and such other expenses connected with the investments, administration, preservation and maintenance of the Fund and to charge the same to the Fund.
- The Trustee shall exercise any right or privileges pertaining to the bonds, securities or other properties held in trust. It shall open a savings account with its own commercial banking sector, for and in the name of the Fund wherein all funds awaiting investments and those received as contribution or by way of income or earnings from the investment/re-investments of the fund may be deposited temporarily. The Trustee shall execute and deliver any and all documents and to perform any act which may be deemed necessary or proper to carry out the powers granted.
- In the management of the Fund, the Trustee shall pay to the members or the beneficiaries the benefits under the Plan upon written advice of the Trustor. It shall keep and maintain books of accounts and/or records of the management and operations of the fund, which the Trustor or its authorized representative may inspect from time to time during office hours. It shall, at the end of every calendar quarter, submit the financial reports, i.e. Balance sheet, Statement of Income and Expenses, Schedule of Investments, Investment Activity Report statements and such other reports as may be requested by the Trustor. Such reports shall be deemed conclusive should the Trustor fail to object thereto in writing within 30 days from receipt thereof. The Trustor shall administer the funds held in trust with such degree of skill and care as a prudent man would exercise in the conduct of an enterprise of like character and with similar aims. It shall secure the Tax Exemption Certificate from the Bureau of Internal Revenue so that the Plan may be entitled to tax exemption benefits as provided by law.
- For its services, the Trustee shall be entitled to a fee equivalent to 0.5 per cent per annum of the average total assets of the Fund, computed daily and collected after the end of each calendar quarter, subject to a minimum of P10,000.00 per year. The Trustee is hereby authorized to debit its fee from the Fund. The above fee is quoted with the understanding that the same may be reviewed at the request of either party and adjusted in a mutually satisfactory basis.
- Except for fraud, bad faith or gross negligence, the Trustee shall not be liable for any loss or depreciation in the value of the Fund resulting from the investments or re-investments thereof as authorized herein, or from the performance of any act in accordance with the provision of this Agreement.

- This Agreement does not guarantee a yield, return or income on the investments/re-investments of the fund as the same can fall as well as rise depending on prevailing market conditions and is not covered by the Philippine Deposit Insurance Corporation (PDIC). Losses, if any, shall be for the account of the Trustor.
- This Agreement shall remain in full force and effect until the termination of the Plan, unless sooner terminated by either party hereto by giving a 30 day advance written notice to the other.

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

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

(ii) Actuarial assumptions

Management has engaged the services of an independent appraiser to undertake an actuarial valuation of LLFC's plan assets and present value of its defined benefit obligation as at December 31, 2016 using the Accrued Benefit Actuarial Cost Method (Projected Unit Credit) and in accordance with the provision of PAS 19, as revised (PAS 19R).

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

The transitional provisions of PAS 19R have been adopted initially by the Corporation in the preparation of its financial statements for the year ended December 31, 2015 with January 1, 2015 being the earliest period of application. Reference was made to the assumptions used in the actuarial valuation report as of December 31, 2003, the most recent actuarial valuation report available then, in determining the present value of plan assets and defined benefit obligation, respectively.

Variances arising from differing assumptions used to determine liabilities and expenses relative to the initial application of PAS 19R have been treated as effects of changes in accounting estimates and were accordingly accounted for prospectively in accordance with the provisions of PAS 8 on Accounting Policies,

Changes in Accounting Estimates and Errors (Note 29).

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

	2016	2015
Discount rate	5.33%	4.37%
Expected rate of return on plan assets	5.33%	2.50%
Salary increase rate	7.00%	7.00%
Expected average remaining working lives of employees	40.6	26

As of December 31, 2016, the principal balance of the retirement fund stands at P8,199,927 as compared to P15,041,950 as of December 31, 2015.

The Corporation is not expected to make any contributions to the retirement plan in 2017.

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

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2016	2015	2016	2015	2016	2015
Balance, 1 January	16,154,145	13,801,777	(9,121,183)	(9,151,594)	7,032,962	4,650,183
Service cost – current	1,581,750	1,234,154	0	0	1,581,750	1,234,154
Interest cost (income)	880,401	709,411	(497,104)	(470,392)	383,297	239,019
Included in profit or loss	2,462,151	1,943,565	(497,104)	(470,392)	1,965,047	1,473,173
Re-measurement loss (gain)						
(a) Actuarial loss (gain) from:						
- Financial assumptions	187,563	(527,550)	0	0	187,563	(527,550)
- Experience adjustments	(1,210,998)	936,353	0	0	(1,210,998)	936,353
(b) Return on plan assets (excluding interest)	0	0	225,353	500,803	225,353	500,803
Included in other comprehensive income	(1,023,435)	408,803	225,353	500,803	(798,082)	909,606
Balance, December 31	17,592,861	16,154,145	(9,392,934)	(9,121,183)	8,199,927	7,032,962

\*Includes P128,329 effect of change in accounting estimate.

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	31.71%
Debt instruments – Government Bonds	69.09%
Others (Market gains/losses, Accrued receivables, etc.)	(0.80%)
	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
2017	4,080,728
2018	1,624,376
2019	1,962,742
2020	125,695
2021	142,238
2022 - 2026	3,027,200

## 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. No provisions are held against receivables from related parties in 2016 and 2015.

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

	2016	2015
Cash	34,279,649	35,565,518
Accounts receivable (Note 8)	253,378,565	136,202,064
Net investment in lease contracts receivable (Note 8)	55,544,270	80,836,233
Bills payable	1,962,554,167	1,797,759,295
Deposit on lease contracts	17,705,658	51,724,308
Accrued interest payable	5,549,187	4,567,463
Miscellaneous liabilities	2,970,426	1,584,532
	2,331,981,922	2,108,239,413

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

	2016	2015
Finance lease income (Note 8)	119,627,659	149,932,725
Operating lease income (Note 8)	46,140,175	45,236,905
Fleet management service fees (Note 18)	17,767,440	0
Interest income on deposits (Note 6)	118,460	149,873
Interest and finance charges	62,729,684	77,714,114
Interest income on 7-day high yield savings account (Note 6)	4,667	0
	<u>246,388,085</u>	<u>273,033,617</u>

(a) Bills payable and Interest and Financing Charges

Interest rates on borrowings from the parent company ranges from 2.75 per cent to 4.00 per cent. The loans are partially secured by assignment of receivables with terms of maturity ranging from 90 days to nine years.

(b) Finance Lease Income

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

(c) Operating Lease Income

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

(d) Other Related Party Transactions

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

The key management personnel compensations are as follows:

	2016	2015 As restated
Salaries and other short-term benefits	6,954,069	9,905,609
Post-employment benefits	326,948	340,666
Directors' remuneration	3,659,050	3,449,800
	<u>10,940,067</u>	<u>13,696,075</u>

Other transactions with LBP and its subsidiaries in 2015 include the payment of maintenance costs amounting to P34,355 in relation to the Corporation's investment properties and donation of vehicles with a total net book value of P200,197 and as disclosed in Notes 9 and 10 to the financial statements, respectively.

**23. INCOME TAXES**

The income tax expense consists of:

	2016	2015 As restated
Current	41,745,315	49,841,718
Deferred	5,645,530	(5,400,000)
	<u>47,390,845</u>	<u>44,441,718</u>

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

	2016	2015
Net income before income tax	137,898,669	190,010,326
Add/Less:		
General and administrative expenses	66,216,208	68,976,162
Gross income	204,114,877	258,986,488
Less: Optional Standard Deduction (40% of the total of gross income and net amount of non-deductible and non-taxable expenses amounting to P27,803,538 and P17,911,950 in 2016 and 2015, respectively)	92,767,366	110,759,375
Net income subject to income tax	<u>111,347,511</u>	<u>148,227,112</u>
Income tax computed at statutory tax rate of 30%	33,404,253	44,468,133
Tax effect of:		
Interest income subject to final tax	(36,938)	(44,962)
Interest in arbitrage	15,237	18,547
Non-deductible losses and expenses	14,008,293	0
Income tax expense	<u>47,390,845</u>	<u>44,441,718</u>

Income tax due, after deducting creditable withholding taxes and quarterly income tax payments, amounts to P19,692,766 and P12,309,187 as of December 31, 2016 and 2015, respectively.

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

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

Current tax regulations provide that the Regular Corporate Income Tax (RCIT) rate shall be 30 per cent and interest allowed as a deductible expense shall be reduced by an amount of 33 per cent of interest income subjected to final tax. It also provides for the change in GRT rate from five per cent to seven per cent on non-lending income.

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

MCIT computed at two per cent of gross profit amounted to P4,638,368 and P5,537,969 in 2016 and 2015, respectively.

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

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

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

	Balance December 31, 2015 As Restated	Charged to operations	Balance December 31, 2016
(In Philippine Peso)			
Deferred tax assets on:			
Allowance for bad debts	61,417,734	(5,645,530)	55,772,204

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

	2016			2015		
	Due within 1 year	Due beyond 1 year	Total	Due within 1 year	Due beyond 1 year	Total
Financial assets:						
Cash	42,510,620	0	42,510,620	42,977,083	0	42,977,083
Loans and receivables	1,337,111,934	2,252,611,964	3,589,723,898	1,289,850,712	2,290,061,617	3,579,912,329
Advances to Officers and Employees	731,010	0	731,010	904,988	0	904,988
AFS financial asset	0	0	0	5,825,000	0	5,825,000
	1,380,353,564	2,252,611,964	3,632,965,528	1,339,557,783	2,290,061,617	3,629,619,400
Non-financial assets:						
Investment properties	0	26,444,196	26,444,196	0	9,784,725	9,784,725
Equipment and other property for lease	0	409,975,702	409,975,702	0	436,601,435	436,601,435

Property and equipment	0	28,243,765	28,243,765	0	30,285,046	30,285,046
Non-current assets held for sale	0	7,427,124	7,427,124	0	8,714,898	8,714,898
Other assets	9,770,004	1,290,559	11,060,563	6,567,296	1,367,806	7,935,102
	9,770,004	473,381,346	483,151,350	6,567,296	486,753,910	493,321,206
<b>Total assets</b>	<b>1,390,123,568</b>	<b>2,725,993,310</b>	<b>4,116,116,878</b>	<b>1,346,125,079</b>	<b>2,776,815,527</b>	<b>4,122,940,606</b>
Financial liabilities:						
Bills payable	1,180,120,000	998,434,167	2,178,554,167	996,800,000	1,200,959,295	2,197,759,295
Trade and other payables*	102,651,157	0	102,651,157	108,428,716	0	108,428,716
Deposits on lease contracts	121,878,183	121,313,597	243,191,780	134,552,487	99,157,443	233,709,930
	1,404,649,340	1,119,747,764	2,524,397,104	1,239,781,203	1,300,116,738	2,539,897,941
Other liabilities:						
Income tax and other government dues	23,803,373	0	23,803,373	15,876,442	0	15,876,442
Retirement liability	0	8,199,927	8,199,927	0	15,041,950	15,041,950
	23,803,373	8,199,927	32,003,300	15,876,442	15,041,950	30,918,392
<b>Total Liabilities</b>	<b>1,428,452,713</b>	<b>1,127,947,691</b>	<b>2,556,400,404</b>	<b>1,255,657,645</b>	<b>1,315,158,688</b>	<b>2,570,816,333</b>

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

## 25. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Corporation has not set-off financial instruments in 2016 and 2015 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 P706,617,583 and P737,455,464 as of December 31, 2016 and 2015, respectively, can be offset by the amount of lease deposits amounting to P243,191,780 and P233,709,930 as of December 31, 2016 and 2015 (Note 20), respectively. The balance of lease contract receivables net of lease deposit amounted to P463,425,803 and P503,745,534 as of December 31, 2016 and 2015, respectively.

## 26. EARNINGS PER SHARE

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

	2016	2015 As restated
Net profit for the year	90,507,824	145,568,608
Weighted average number of outstanding shares	48,555,253	48,555,255
Basic earnings per share	1.86	3.00

Two outstanding shares were reacquired at various dates in 2016 following the resignations of members of the Board of Directors as disclosed in Note 17 to the financial statements (2015: 1 reacquired share in July).

There were no outstanding dilutive potential common shares as of December 31, 2016 and 2015.

## 27. FINANCIAL PERFORMANCE

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

	2016	2015
Return on average assets	2.28	3.67
Return on average equity	6.42	10.66
Return on investment	15.10	24.28
Debt to equity ratio	1.80:1	1.83:1
Solvency ratio	1.56:1	1.55:1

## 28. CONTINGENCIES

### Pending Case on the Transfer of Ownership of Property

The case stems from the LLFC's purchase of a property for the account of a lease-to-own client. After the purchase, but prior to the transfer, the owner of the adjoining lot claimed that the building constructed on the purchased property had encroached on their property. The owner sued the former owner, LLFC and the DOLE as the occupant of the purchased property, claiming damages among others. The plaintiff likewise applied and was granted an Injunctive Order. Hence, LLFC was unable to transfer the title of the property to its name during the pendency of the action.

After negotiations and survey done on the properties, the plaintiffs decided to file a Motion to Withdraw Complaint, which motion was granted by the court on February 13, 2015. Plaintiffs' subsequent Manifestation with Motion praying for the dismissal of the case as well as LLFC's counterclaims was likewise granted by the court. With the lifting of the writ of preliminary injunction earlier issued against LLFC, the Corporation was able to consolidate its title to the property.

In addition to the preceding note, 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 of December 31, 2016, Management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.

**29. FINANCIAL STATEMENTS PRESENTATION***a.* Restatement

The financial statements of the Corporation as of and for the year ended December 31, 2016 have been adjusted to reflect the transitional adjustments on retirement benefits as a result of the latest Actuarial Valuation Report issued by an independent appraiser dated February 17, 2017 on LLFC's retirement plan (See Note 21).

The Corporation's December 31, 2015 financial statements have also been restated to reflect the adjustments relating to the following:

- a. Reversal of accruals of interest income lodged under the EOPL account and corresponding accrual of related taxes;
- b. Reversal of deferred income tax asset erroneously recognized on accumulated unrealized losses on AFS financial asset; and
- c. Reversal of over accrual for income tax payable.

## Reconciliation of statement of financial position

	December 31, 2015		
	As Previously Reported	Effect of Restatement (In Philippine Peso)	As Restated
<b>ASSETS</b>			
Equipment and other property for lease	444,317,578	(7,716,143)	436,601,435
Deferred tax asset	63,165,234	(1,747,500)	61,417,734
<b>LIABILITIES</b>			
Trade and other payables	112,381,778	(385,807)	111,995,971
Income tax payable	13,695,867	(1,386,680)	12,309,187
Retirement liability	15,041,950	(8,008,988)	7,032,962
<b>EQUITY</b>			
Retained earnings	207,381,726	2,027,341	209,409,067
Unrealized loss on available for sale securities	(4,077,500)	(1,747,500)	(5,825,000)
Re-measurement of retirement benefit obligation	(947,597)	37,991	(909,606)

## Reconciliation of statement of comprehensive income

	December 31, 2015		
	As Previously Reported	Effect of Restatement (In Philippine Peso)	As Restated
Interest Income			
Leases	327,242,646	(7,716,143)	319,526,503
General and Administrative Expenses			
Retirement expense*	4,656,128	(3,182,955)	1,473,173
Taxes and licenses	23,216,438	(385,807)	22,830,631
Income Tax Expense			
Current income tax	51,228,398	(1,386,680)	49,841,718
Other Comprehensive Income			
Re-measurement of retirement benefit obligation	(596,739)	(312,867)	(909,606)

\*Lodged under Compensation and other fringe benefits

## b. Reclassification

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements following the adoption of the Revised Chart of Accounts prescribed by COA through their Circular No. 2016-006 dated December 29, 2016.

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

The items were reclassified as follows:

As previously reported:

	2016	2015
Deposits in bank (Note 6)	42,440,120	42,917,083
Loans and receivables - Financed (Note 8)		
Current portion, net	818,606,723	880,138,310
Non-current portion, net	789,113,177	798,301,021
Accounts receivable - others (Note 13)	731,010	904,988

Fringe benefit taxes previously lodged under the Other expenses line item in the statement of comprehensive income as of December 31, 2015 has also been reclassified to the Taxes and licenses account to enhance comparability with the current year's financial statements.

### 30. SUBSEQUENT EVENTS

Write-off of investment in shares of stocks of Export Industry Bank (EIB)

On February 17, 2017, the Board of Directors of LLFC thru their Resolution No. 17-020, authorized the write-off of the investment in the shares of stocks of EIB lodged in the Available for Sale Financial Asset account in the Statement of Financial Position. Accordingly, the financial statements of LLFC have been adjusted to reflect the effect of the write-off, the objective evidence of impairment being present as at December 31, 2016.

### 31. INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

#### A. REVENUE REGULATIONS (RR) NO. 15-2010

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

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

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

2. The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P5,393,381.

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

a. Local	
Real estate taxes	300,756
Business tax	20,216,939
Licenses	1,278,765
Others	500
	<u>21,796,960</u>
b. National	
Fringe benefit tax	<u>6,777</u>

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

Compensation and benefits	3,674,904
Expanded withholding taxes	17,909,844
	<u>21,584,748</u>

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

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

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

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

## 1. Sales/Receipts/Fees

	Regular Rate	
	Creditable Tax Withheld	Taxable Amount
Sale of services	18,803,516	394,873,836
Lease of Properties	2,197,151	46,140,175
	21,100,667	444,014,011

## 2. Cost of Sales/Services

	Amount under Special Rate	Amount under Regular Rate
Direct Charges - Salaries, Wages and Benefits	0	11,874,293
Direct Charges - Depreciation	0	7,630,917
Direct Charges - Outside Services	0	136,155,682
Direct Charges - Others	0	83,996,877
	0	239,657,769

## 3. Non-Operating and Taxable Other Income

Nature of Income	Special Rate		Regular Rate	
	Creditable	Taxable	Creditable	Taxable
	Tax Withheld	Amount	Tax Withheld	Amount
Gain on sale	0	0	0	4,030,275
Miscellaneous income - net	0	0	0	26,531,897
	0	0	0	30,562,172

## 4. Optional Standard Deduction (OSD)

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

The Corporation has opted to use the Optional Standard Deduction (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 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 P5,393,381.

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

Particulars	Amount
a. Local	
Realty taxes	300,756
Business tax	20,216,939
Licenses	1,278,765
Others	500
b. National	
Fringe benefits tax	6,777
	<u>21,803,737</u>



## LEASING FACILITIES

### Finance Leases

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

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

### Operating Leases

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

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

## FINANCING FACILITIES

### Fixed Asset Financing

This facility provides medium or long-term financing to clients and may be granted to provide funding for the following:

- Acquisition of equipment or other capital assets to be secured by the object to be financed.
- Construction and/or improvement of client's fixed asset/s that may contribute to the expansion and improvement of their business and will be secured by real estate and/or chattel mortgages.

### Working Capital Financing

This facility provides clients with a source of funds to finance their permanent or short-term working capital requirements.

### Receivable Discounting/Purchase

This facility provides client with working capital to improve liquidity through the discounted purchase of receivables due in the future on a "with recourse" or "without recourse" basis.

## SPECIAL CREDIT PROGRAMS

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

- Vendor Partnership Program
- Institutional Consumer Financing
- Anchor-Based Program
- Other Special Programs

**LBP LEASING AND FINANCE  
CORPORATION**  
*(A LandBank Subsidiary)*

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