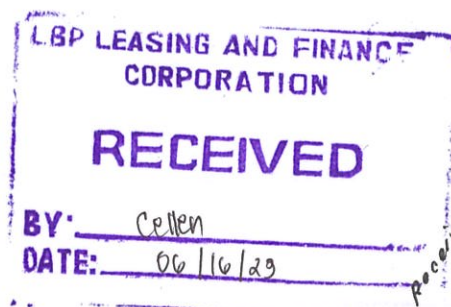




Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines  
**CORPORATE GOVERNMENT AUDIT SECTOR**  
Cluster 1 –Banking and Credit

June 16, 2023

**Mr. MICHAEL P. ARAÑAS**  
President and CEO  
LBP Leasing and Finance Corporation  
15th Floor, SSHG Law Center  
105 Paseo De Roxas  
Legaspi Village  
Makati City



*Received by:*  
*all June 16, 2023*  
*CHRISTINE DIOKNO*

Dear President Arañas:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of the LBP Leasing and Finance Corporation (LLFC) for the years ended December 31, 2022 and 2021.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the LLFC for the years ended December 31, 2022 and 2021.

The significant observations and recommendations that need immediate action are as follows:

1. The faithful representation of the balance of the intra-group receivable account of P737.964 million and payable account of P1,129.824 million in the financial statements as at December 31, 2022 were not established due to the unreconciled variance of P29.372 million and P41.520 million, respectively, between LLFC and LBP books. Moreover, the absence of policy on the periodic reconciliation and confirmation of intra-group accounts indicating internal control lapses leads to risk of accounting and reporting errors.

We recommended and Management agreed that LLFC:

a. Reconcile with LBP-Administrative Accounting Department (LBP-AAD) the variances in the intra-group accounts in order to establish and faithfully represent the receivable and payable balances of LLFC the as at December 31, 2022. Follow through meeting with LBP-AAD including written communications are necessary to remind LBP-AAD of their commitment to provide summary of transactions with the supporting documents; and

b. Formulate policy on the periodic reconciliation of intragroup receivable and payable with LBP, to include the matter on the exchanges between LLFC and LBP-AAD of summary of transactions and supporting documents within specific timelines, to determine a common ground for the booking of the transactions, and, henceforth, ensure faithful compliance with said policy.

2. The LLFC's continued operation of the Retirement Benefit Plan after the implementation of the Compensation and Position Classification System (CPCS) without the recommendation of the Governance Commission for GOCC (GCG) and approval of the President of the Philippines, is not in accordance with the Item VI(B)(4) of the CPCS under Executive Order (E.O.) No. 150, s 2021.

We recommended and Management agreed to seek the recommendation of the GCG and the approval of the President of the Philippines for the continued operation of the LLFC Retirement Benefit Plan, pursuant to Item VI(B)(4) of the CPCS of the E.O. No. 150, s. 2021.

The above audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 9, 2023, are presented in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**ADELA L. DONDONILLA**  
Director IV  
Cluster Director

Copy Furnished:

The President of the Philippines  
The Vice President  
The President of the Senate  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee

The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission of Government-Owned or Controlled Corporation  
The National Library  
The UP Law Center



**Republic of the Philippines**  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines  
**CORPORATE GOVERNMENT AUDIT SECTOR**  
Cluster 1 –Banking and Credit

June 16, 2023

**THE BOARD OF DIRECTORS**

LBP Leasing and Finance Corporation  
15th Floor, SSHG Law Center  
105 Paseo De Roxas  
Legaspi Village  
Makati City

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of the LBP Leasing and Finance Corporation (LLFC) for the years ended December 31, 2022 and 2021.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the LLFC for the years ended December 31, 2022 and 2021.

The significant observations and recommendations that need immediate action are as follows:

1. The faithful representation of the balance of the intra-group receivable account of P737.964 million and payable account of P1,129.824 million in the financial statements as at December 31, 2022 were not established due to the unreconciled variance of P29.372 million and P41.520 million, respectively, between LLFC and LBP books. Moreover, the absence of policy on the periodic reconciliation and confirmation of intra-group accounts indicating internal control lapses leads to risk of accounting and reporting errors.

We recommended and Management agreed that LLFC:

a. Reconcile with LBP-Administrative Accounting Department (LBP-AAD) the the variances in the intra-group accounts in order to establish and faithfully represent the receivable and payable balances of LLFC as at December 31, 2022. Follow through meeting with LBP-AAD including written communications are necessary to remind LBP-AAD of their commitment to provide summary of transactions with the supporting documents; and

b. Formulate policy on the periodic reconciliation of intragroup receivable and payable with LBP, to include the matter on the exchanges between LLFC and LBP-AAD of summary of transactions and supporting documents within specific timelines, to determine a common ground for the booking of the transactions, and, henceforth, ensure faithful compliance with said policy.

2. The LLFC's continued operation of the Retirement Benefit Plan after the implementation of the Compensation and Position Classification System (CPCS) without the recommendation of the Governance Commission for GOCC (GCG) and approval of the President of the Philippines, is not in accordance with the Item VI(B)(4) of the CPCS under Executive Order (E.O.) No. 150, s. 2021.

We recommended and Management agreed to seek the recommendation of the GCG and the approval of the President of the Philippines for the continued operation of the LLFC Retirement Benefit Plan, pursuant to Item VI(B)(4) of the CPCS of the E.O. No. 150, s. 2021.

The above audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 9, 2023, are presented in detail in Part II of the report.

In a letter of even date, we requested the President and CEO of LLFC that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

**COMMISSION ON AUDIT**

By:



**ADELA L. DONDONILLA**  
Director IV  
Cluster Director

Copy Furnished:

The President of the Philippines  
The Vice President  
The President of the Senate  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee

The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission of Government-Owned or Controlled Corporation  
The National Library  
The UP Law Center



*Republic of the Philippines*  
**COMMISSION ON AUDIT**  
*Commonwealth Ave., Quezon City*

## **ANNUAL AUDIT REPORT**

**on the**

**LBP LEASING AND FINANCE CORPORATION**  
**(A wholly-owned subsidiary of Land Bank of the Philippines)**

**For the Years ended December 31, 2022 and 2021**



## **EXECUTIVE SUMMARY**

### **INTRODUCTION**

The LBP Leasing and Finance Corporation (LLFC or “the Corporation”), formerly LBP Leasing Corporation, was registered with the Securities and Exchange Commission (SEC) on March 17, 1983 under SEC Registration No. 111115. It is under the direct supervision of the Bangko Sentral ng Pilipinas, being a financial institution and subsidiary of the Land Bank of the Philippines (LBP), its parent bank.

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

The LLFC’s place of business is at the 15th Floor SSHG Law Center, 105 Paseo De Roxas St., Legaspi Village, Makati City.

The principal activities of LLFC are:

- a. to engage in direct lease or financial lease 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 issuance of debt instruments and/or securitization of its assets.

The LLFC Board of Directors (BOD), consisting of 10 members, including the Chairperson, is the policy making body of the Corporation. Of the 10 Board Members, one is an interlocking director, being the President and Chief Executive Officer (CEO) of LLFC. The President and CEO of the Corporation takes charge of the day-to-day affairs of the Corporation. Other key corporate officers include the Corporate Secretary; a Vice President who heads the Account Servicing Group and also the concurrent Treasurer; a Vice President who heads the Account Management Group; a Vice President who heads the Corporate Services Group and a Vice President /General Counsel who heads the Office of General Counsel. The personnel complement of the Corporation consists of 56 personnel who are members of the Social Security System.

## SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of the accounts and transactions of LLFC for the period January 1 to December 31, 2022 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2022 and 2021. Also, we conducted the audit to assess compliance with pertinent laws, rules and regulations as well as adherence to prescribed policies and procedures.

## FINANCIAL HIGHLIGHTS (In Philippine Peso)

### I. Comparative Financial Position

	<b>2022</b>	<b>2021 (as restated)</b>	<b>Increase/ (Decrease)</b>
Assets	5,472,577,418	4,964,627,945	507,949,473
Liabilities	3,873,288,461	3,346,795,080	526,493,381
Equity	1,599,288,957	1,617,832,865	(18,543,908)

### II. Comparative Results of Operations

	<b>2022</b>	<b>2021 (as restated)</b>	<b>Increase/ (Decrease)</b>
Interest and other income	648,506,076	581,297,029	67,209,047
Direct and financial expenses	464,801,142	424,501,359	40,299,783
Gross income	183,704,934	156,795,670	26,909,264
General and administrative expenses	120,845,796	96,285,186	24,560,610
Net income before tax	62,859,138	60,510,484	2,348,654
Income tax expense	21,791,277	30,441,123	(8,649,846)
Net income	41,067,861	30,069,361	10,998,500
Other comprehensive income/(loss)	(145,135)	3,358,616	(3,503,751)
Total comprehensive income	40,922,726	33,427,977	7,494,749

### III. Comparative Budget and Actual Expenditures

	<b>Budget</b>		<b>Utilization</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Personnel services	101,844,586	68,321,934	70,642,169	60,113,943
Maintenance and other operating expenses	410,234,976	353,542,023	411,555,979	358,303,973
Financial expenses	160,088,510	151,553,248	103,448,790	102,368,629
Capital expenditures	30,307,500	30,000,000	15,086,808	5,842,088
	702,475,572	603,417,205	600,733,746	526,628,633

## **INDEPENDENT AUDITOR'S OPINION**

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of LLFC for the years ended December 31, 2022 and 2021.

## **SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

1. The faithful representation of the balance of the intra-group receivable account of P737.964 million and payable account of P1,129.823 million in the financial statements as at December 31, 2022 were not established due to the unreconciled variance of P29.372 million and P41.520 million, respectively, between LLFC and LBP books. Moreover, the absence of policy on the periodic reconciliation and confirmation of intra-group accounts indicating internal control lapses leads to risk of accounting and reporting errors.

We recommended and Management agreed that LLFC:

a. Reconcile with LBP-Administrative Accounting Department (LBP-AAD) the variances in the intra-group accounts in order to establish and faithfully represent the receivable and payable balances of LLFC as at December 31, 2022. Follow through meeting with LBP-AAD including written communications are necessary to remind LBP-AAD of their commitment to provide summary of transactions with the supporting documents; and

b. Formulate policy on the periodic reconciliation of intragroup receivable and payable with LBP, to include the matter on the exchanges between LLFC and LBP-AAD of summary of transactions and supporting documents within specific timelines, to determine a common ground for the booking of the transactions, and, henceforth, ensure faithful compliance with said policy.

2. The LLFC's continued operation of the Retirement Benefit Plan after the implementation of the Compensation and Position Classification System (CPCS) without the recommendation of the Governance Commission for GOCC (GCG) and approval of the President of the Philippines, is not in accordance with the Item VI(B)(4) of the CPCS under Executive Order (E.O.) No. 150, s 2021.

We recommended and Management agreed to seek the recommendation of the GCG and the approval of the President of the Philippines for the continued operation of the LLFC Retirement Benefit Plan, pursuant to Item VI(B)(4) of the CPCS of the E.O. No. 150, s. 2021.

## **SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES**

The audit disallowance as of December 31, 2022 amounted to P0.756 million. There are no outstanding charges and suspensions as at year end.



## **STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Out of the seven audit recommendations embodied in the CY 2022 Annual Audit Report, six were fully implemented and one was partially implemented.

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**PART I**

**AUDITED FINANCIAL STATEMENTS**

## **PART II**

# **OBSERVATIONS AND RECOMMENDATIONS**

## **PART III**

### **STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**



**REPUBLIC OF THE PHILIPPINES  
COMMISSION ON AUDIT  
Corporate Government Audit Sector  
Cluster 1 – Banking and Credit**

**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Audit of the Financial Statements**

*Opinion*

We have audited the financial statements of **LBP Leasing and Finance Corporation (LLFC)**, a wholly-owned subsidiary of Land Bank of the Philippines, which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the LLFC as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC), as described in Note 2.2 to the financial statements.

*Basis for Opinion*

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the LLFC in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.





### *Emphasis of Matter*

We draw attention to Note 2.2 to the financial statements which states that the financial statements have been prepared in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by SEC in response to the COVID-19 pandemic. The impact of the application of the financial reporting reliefs on the financial statements is discussed in detail in Note 8. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2.2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LLFC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the LLFC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the LLFC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2.2 to the financial statements.

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

### **Report on Other Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under the Revenue Regulations 15-2010 in Note 30-A, the Revised Securities Regulation Code Rule 68 in Note 31-A, and the Bangko Sentral ng Pilipinas (BSP) Circular No. 1075 in Note 31-B to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue, the Securities and Exchange Commission, and the BSP, respectively, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **COMMISSION ON AUDIT**



COA Signed  
2023-06-16  
12:07:31

**MARIE FRANCES HAZEL S. ACEBEDO**  
Supervising Auditor

May 9, 2023





## **LBP LEASING AND FINANCE CORPORATION**

(A LANDBANK SUBSIDIARY)

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

The management of **LBP LEASING AND FINANCE CORPORATION** or "**the Corporation**" is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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


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

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

Signature: \_\_\_\_\_

  
**CECILIA CAYOSA BORRROMEO**  
Chairperson of the Board

Signature: \_\_\_\_\_

  
**MICHAEL P. ARAÑAS**  
President and CEO

Signature: \_\_\_\_\_

  
**RAIZZA L. GONZALES**  
VP/Chief Finance Officer

Signed this 8th day of May 2023

**LBP LEASING AND FINANCE CORPORATION**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2022 and 2021**  
(In Philippine Peso)

	Notes	2022	2021 (as restated)	January 1, 2021 (as restated)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	7	49,424,156	62,547,115	299,219,919
Financial Assets at Amortised Cost	8, 13	1,110,409,542	1,415,676,645	1,559,318,664
Other current assets	12	64,937,964	70,708,932	84,082,349
<b>Total current assets</b>		<b>1,224,771,662</b>	<b>1,548,932,692</b>	<b>1,942,620,932</b>
<b>Non-current assets</b>				
Financial Assets at Amortised Cost	8, 13	3,811,828,022	3,083,314,809	2,645,287,043
Investment properties, net	9, 13	3,730,500	6,709,984	13,921,984
Equipment and other property for lease, net	10	232,022,273	146,027,352	245,274,992
Property and equipment, net	11, 13	34,032,315	27,727,430	27,250,819
Deferred tax asset	23	165,672,063	151,273,363	160,988,897
Other non-current assets	12	520,583	642,315	1,037,748
<b>Total non-current assets</b>		<b>4,247,805,756</b>	<b>3,415,695,253</b>	<b>3,093,761,483</b>
<b>TOTAL ASSETS</b>		<b>5,472,577,418</b>	<b>4,964,627,945</b>	<b>5,036,382,415</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Financial Liabilities	14	2,254,237,459	1,888,084,970	2,431,411,259
Deposit on lease contracts	20	214,843,625	264,691,845	166,810,719
Inter-Agency Payables	15	13,456,460	14,311,350	23,525,935
Other payables	16	207,309,837	125,348,407	79,553,132
<b>Total current liabilities</b>		<b>2,689,847,381</b>	<b>2,292,436,572</b>	<b>2,701,301,045</b>
<b>Non-current liabilities</b>				
Financial Liabilities	14	710,000,000	841,566,026	316,583,654
Deposit on lease contracts	20	457,884,678	201,038,477	240,992,411
Retirement liability	21(b)	15,556,402	11,754,005	11,595,740
<b>Total non-current liabilities</b>		<b>1,183,441,080</b>	<b>1,054,358,508</b>	<b>569,171,805</b>
<b>Total liabilities</b>		<b>3,873,288,461</b>	<b>3,346,795,080</b>	<b>3,270,472,850</b>
<b>EQUITY</b>				
Capital stock	17(a)			
Issued capital		485,552,550	485,552,550	485,552,550
Additonal paid-in capital		113,970,900	113,970,900	113,970,900
Treasury stock		(10)	(10)	(10)
		<b>599,523,440</b>	<b>599,523,440</b>	<b>599,523,440</b>
Retained earnings	17(b)			
Appropriated		600,000,000	600,000,000	600,000,000
Unappropriated		409,468,406	427,867,179	579,302,495
		<b>1,009,468,406</b>	<b>1,027,867,179</b>	<b>1,179,302,495</b>
Accumulated other comprehensive income (loss)				
Remeasurement of retirement benefit obligation	17(c)	(9,702,889)	(9,557,754)	(12,916,370)
		<b>(9,702,889)</b>	<b>(9,557,754)</b>	<b>(12,916,370)</b>
<b>Total equity</b>		<b>1,599,288,957</b>	<b>1,617,832,865</b>	<b>1,765,909,565</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,472,577,418</b>	<b>4,964,627,945</b>	<b>5,036,382,415</b>

The Notes on pages 9 to 81 form part of these financial statements.

**LBP LEASING AND FINANCE CORPORATION**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended December 31, 2022 and 2021  
(In Philippine Peso)

	Notes	2022	2021 (as restated)
<b>INTEREST INCOME</b>			
Leases	8, 20	286,221,407	187,384,859
Loans	8	169,332,595	159,564,819
Deposits in banks	7	44,291	1,396,831
		<b>455,598,293</b>	<b>348,346,509</b>
<b>INTEREST EXPENSE</b>			
Borrowed funds	14	103,448,790	102,368,629
<b>NET INTEREST INCOME</b>		<b>352,149,503</b>	<b>245,977,880</b>
<b>OTHER INCOME</b>			
Operating leases	8, 20	44,509,816	56,013,584
Other income	18	148,397,967	176,936,936
		<b>192,907,783</b>	<b>232,950,520</b>
<b>DIRECT EXPENSES</b>			
Security, messengerial, janitorial and contractual services	20	196,263,519	182,995,449
Provision for credit and impairment losses	13	94,512,363	68,656,094
Personnel Services - Marketing operations	21(a)	21,162,146	26,458,749
Documentary stamp used	14	16,202,204	21,070,824
Depreciation-equipment and other property for lease	10	752,143	3,609,068
Insurance		8,829,537	8,187,098
Repairs and maintenance		8,589,281	9,778,780
Transfer mortgage and registration fees		15,041,159	1,376,668
		<b>361,352,352</b>	<b>322,132,730</b>
<b>GROSS INCOME</b>		<b>183,704,934</b>	<b>156,795,670</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Taxes, Insurance Premiums and Other Fees		33,591,822	29,028,361
Personnel Services	21(a)	49,480,023	33,655,194
Depreciation/amortization	11	5,786,392	4,356,287
Other Maintenance and Operating Expenses	19	31,987,559	29,245,344
		<b>120,845,796</b>	<b>96,285,186</b>
<b>NET INCOME BEFORE INCOME TAX</b>		<b>62,859,138</b>	<b>60,510,484</b>
Income tax expense	23	21,791,277	30,441,123
<b>NET INCOME AFTER TAX</b>		<b>41,067,861</b>	<b>30,069,361</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
<i>Item that will not be reclassified to profit and loss</i>			
Remeasurement (loss)/gain on retirement benefit obligation	21(b)	(145,135)	3,358,616
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>40,922,726</b>	<b>33,427,977</b>
<b>EARNINGS PER SHARE</b>	26	<b>0.85</b>	<b>0.62</b>

The Notes on pages 9 to 81 form part of these financial statements.

**LBP LEASING AND FINANCE CORPORATION**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF CHANGES IN EQUITY**  
For the years ended December 31, 2022 and 2021  
(In Philippine Peso)

	Issued Capital	Additional Paid-in Capital	Treasury Stock	Retained Earnings		Accumulated Other Comprehensive Gains/(Losses) Note 18(c)	Total
				Unappropriated	Appropriated		
	Note 17(a)			Note 17(b)			
Balance, January 1, 2021	485,552,550	113,970,900	(10)	582,157,810	600,000,000	(12,916,370)	1,768,764,880
Prior period adjustments				(2,855,315)			(2,855,315)
Balance, January 1, 2021, as restated	485,552,550	113,970,900	(10)	579,302,495	600,000,000	(12,916,370)	1,765,909,565
Cash dividend to National Government				(181,504,677)			(181,504,677)
Reacquisition of common stock			10				10
Reissuance of common stock			(10)				(10)
Net income for the year, as restated				30,069,361			30,069,361
Remeasurement gain on retirement benefit obligation						3,358,616	3,358,616
Balance, December 31, 2021, as restated	485,552,550	113,970,900	(10)	427,867,179	600,000,000	(9,557,754)	1,617,832,865
Cash dividend to National Government				(58,134,200)			(58,134,200)
BIR Audit Tax Deficiency				(1,332,434)			(1,332,434)
Net income for the year				41,067,861			41,067,861
Remeasurement loss on retirement benefit obligation						(145,135)	(145,135)
Balance, December 31, 2022	485,552,550	113,970,900	(10)	409,468,406	600,000,000	(9,702,889)	1,599,288,957

The Notes on pages 9 to 81 form part of these financial statements.



**LBP LEASING AND FINANCE CORPORATION**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2022 and 2021  
(In Philippine Peso)

	Note	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash Inflow</b>			
Interest received		466,506,710	365,828,355
Other income received		57,829,242	4,147,432
Cash received from clients		1,363,475,603	1,654,828,334
<b>Total Cash Inflow</b>		<b>1,887,811,555</b>	<b>2,024,804,121</b>
<b>Cash Outflow</b>			
Cash paid to clients		(1,543,086,525)	(1,513,529,286)
Cash paid to settle expenses		(383,282,363)	(292,450,459)
Interest paid		(105,671,285)	(102,526,095)
<b>Total Cash Outflow</b>		<b>(2,032,040,173)</b>	<b>(1,908,505,840)</b>
<b>Net cash provided by/(used in) operating activities</b>		<b>(144,228,618)</b>	<b>116,298,281</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash Inflow</b>			
Disposal of Investment Property		11,656,000	14,200,000
Disposal of leased assets		10,051,084	0
Disposal of property and equipment		4,752,000	2,528,000
<b>Cash Outflow</b>			
Acquisitions of leased assets		(80,659,468)	(126,000,000)
Acquisitions of property and equipment		(10,781,761)	(1,253,608)
<b>Net cash used in investing activities</b>		<b>(64,982,145)</b>	<b>(110,525,608)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash Inflow</b>			
Proceeds from borrowings under line of credit agreement		2,287,177,437	2,438,040,400
Reissuance of shares		0	10
<b>Total Cash Inflow</b>		<b>2,287,177,437</b>	<b>2,438,040,410</b>
<b>Cash Outflow</b>			
Payment of long term debt		(2,031,622,999)	(2,498,981,200)
Reacquisition of shares	17a	0	(10)
Cash dividends paid	17b	(58,134,200)	(181,504,677)
BIR Audit Tax Deficiency	17b	(1,332,434)	0
<b>Total Cash Outflow</b>		<b>(2,091,089,633)</b>	<b>(2,680,485,887)</b>
<b>Net cash provided by/(used in) financing activities</b>		<b>196,087,804</b>	<b>(242,445,477)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(13,122,959)</b>	<b>(236,672,804)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>62,547,115</b>	<b>299,219,919</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>7</b>	<b>49,424,156</b>	<b>62,547,115</b>

*The Notes on pages 9 to 81 form part of these financial statements.*

**LBP LEASING AND FINANCE CORPORATION**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2022 and 2021**  
(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. 23-054, approved and authorized for issuance the Corporation’s financial statements as of and for the years ended December 31, 2022 and 2021 on March 23, 2023.

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

### **2.1 Statement of Compliance**

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

### **2.2 Basis of Preparation**

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

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

- Staggered booking of allowance for credit losses over a maximum period of five years; and
- Exclusion of eligible loans from past due and non-performing classification until December 31, 2021.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of measurement**

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

### **Presentation of Financial Statements**

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

The Corporation presents its statement of financial position broadly in order of liquidity. Analysis regarding recovery (asset) or settlement (liability) within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 24 to the financial statements.

### **Current versus Noncurrent Classification**

The Corporation presents assets and liabilities in the statements of financial position based on current and noncurrent classification. An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12

months after the reporting period; or (d) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

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

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

### **Functional and Presentation Currency**

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

### **Use of judgments and estimates**

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

### **Changes in accounting policies and disclosures**

- a. New standards and amendments issued and effective from January 1, 2022.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Corporation adopted effective for annual periods beginning on or after January 1, 2022.

- a) New standards, interpretations and amendments adopted from January 1, 2022:

- References to Conceptual Framework (Amendments to PFRS 3) - The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to PAS 16) - The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to PAS 37) - The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Annual Improvements to PFRS Standards 2018-2020

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

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

- PFRS 9, Financial Instruments

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

- PFRS 16, Leases

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

- PAS 41, Agriculture

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

b. New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ended December 31, 2022 and have not been applied in preparing the financial statements are summarized below.

The following amendments are effective for the period beginning 1 January 2023:

- PAS 1 Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current - The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
- Disclosure of Accounting Policies - Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure and Initiative – Accounting Policies - The amendments to PAS 1 require entities to disclose their material accounting policies information rather than their significant accounting policies. The amendments to PFRS Practice Statement 2 provide guidance on how an entity can identify a material accounting policy.
- Definition of Accounting Estimates (Amendments to PAS 8 - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty.”
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to PAS 12 – the amendments that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

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

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

- Amendments to PAS 1, Presentation of Financial Statements, Non-Current Liabilities with Covenants (effective January 1, 2024) – To clarify how conditions with which entity must comply within the twelve months after the reporting period affect the classification of a liability.
- Amendments to PFRS 16 Leases, Lease Liability in a Sale and Leaseback (Effective January 1, 2024) - The amendment requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from



recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease.

- Initial Application of PFRS 17 and PFRS 9 — Comparative Information - Amendment to PFRS 17 (Effective January 1, 2025) - The amendment is a transition option relating to comparative information about financial assets presented on initial application of PFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.
- PFRS 17 Insurance Contracts (Effective January 1, 2025) - The amendments address concerns and implementation challenges that were identified after PFRS 17 was published in 2017, including deferral of its date of initial application by two years to annual periods beginning on or after January 1, 2025.

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

### **3.1 Financial instruments**

#### **Initial recognition**

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

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

#### **Determination of fair value**

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

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

## **Day 1' difference**

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

## **Classification of financial instruments**

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

## **Financial instruments**

### *Financial assets and liabilities at FVPL.*

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

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

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

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

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

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

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

#### *Financial assets at amortised cost*

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

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

After initial recognition, financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method, less allowance for impairment, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortisation process. Financial assets at amortised cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as non-current assets.

The Corporation's cash and cash equivalents and financial assets at amortised cost, as disclosed in Notes 7 and 8, respectively, are included in this category.

Cash pertains to cash on hand and in banks.

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

The financial assets at amortised account include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as deduction from the "Financial Assets at Amortised Cost" account in the statement of financial position.

#### *Financial assets at FVOCI*

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

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

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

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

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

The Corporation does not have financial assets at FVOCI.

#### *Financial liabilities at amortised cost.*

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

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

The Corporation's financial liabilities and clients' deposits on lease contracts as disclosed in Notes 14 and 20, respectively, are included in this category.

#### **Reclassification**

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

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

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

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

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

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

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

## **Derecognition of financial assets and liabilities**

### **Financial assets**

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

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

## Financial liabilities

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

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

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

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

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

## **Offsetting of financial assets and financial liabilities**

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

## **Classification of Financial Instrument between Financial Liability and Equity Instrument**

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

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Corporation; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

A financial instrument is an equity instrument only if:

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

### **Impairment of financial assets at amortised cost and FVOCI**

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

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

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

<b>Stage of Credit Impairment</b>	<b>Characteristics</b>	<b>Time Horizon in measuring ECL</b>
Stage 1	Credit exposure that are considered “performing” and with no significant increase in credit risk since initial recognition or with low credit risk	12 - month ECL
Stage 2	Credit exposure that are considered “under-performing” or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime ECL
Stage 3	Credit exposure with objective evidence of impairment, thus, considered as “non-performing”	Lifetime ECL

#### **12 Month - ECL**

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

#### **Lifetime ECL**

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

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

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

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

#### Transfer from 12 - month ECL to Lifetime ECL

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

#### Transfer from Lifetime ECL to 12 - month ECL

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

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

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



### Restructured Loans

Where possible, the Corporation seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR, except if classified under "Stage 3" criteria. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment losses' in the statement of comprehensive income.

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

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

### **3.2 Investment property**

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

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

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

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

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

there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

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

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

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

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

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

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

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

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

The carrying values of the property and equipment and EOPL are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be

recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in profit or loss.

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

### **3.4 Non-current assets held for sale**

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

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

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

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

### **3.5 Other assets**

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

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

Other assets pertain to expenditures which have future economic benefits and are not identified as financial assets, prepayments, or equipment. These are classified as current in the statement of financial position because the benefit from such assets are expected

to be realized within one year from the financial reporting date, otherwise, they are classified as non-current.

### **3.6 Intangibles**

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

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

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

### **3.7 Impairment of non-financial assets**

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

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

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

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

### **3.8 Inter-agency and other payables**

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

### **3.9 Provisions and contingencies**

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

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

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

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

### **3.10 Dividends**

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

### **3.11 Equity**

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

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

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

The Corporation's retained earnings account is composed of:

#### Appropriated retained earnings

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

#### Unappropriated retained earnings

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

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

#### Treasury Shares

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

#### Other Comprehensive Income (Loss)

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

### **3.12 Revenue recognition**

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

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

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

(a) Interest Income

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

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

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

(b) Income from operating leases

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

(c) Penalties and service fees

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

(d) Gain (Loss) on foreclosures

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

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

Gain (loss) on sale of asset sold/exchanged is recognized upon sale of an investment property, property and equipment or other properties acquired wherein the fair market

value of the asset received is greater (less) than the outstanding balance of receivables sold.

(f) Other income

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

### **3.13 Costs and expenses recognition**

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

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

#### **Borrowing costs**

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

### **3.14 Employee benefits**

(a) Retirement benefit obligations

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

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



Defined benefit costs comprise the following:

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

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

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

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

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

(b)      **Compensated absences**

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

### **3.15    Leases**

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

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

## Finance Lease

### Corporation as Lessor.

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

## Operating Lease

### Corporation as Lessee.

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

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

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

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

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

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

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

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

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

Corporation as Lessor.

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

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

### **3.16 Residual value of leased assets and deposits on lease contracts**

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

### **3.17 Related parties**

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

### **3.18 Income tax**

#### **Current income tax**

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

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

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

#### **Deferred tax**

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

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

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

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

### **3.19 Earnings per share**

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

### **3.20 Events after the financial reporting date**

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

### **3.21 Contingencies**

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

## **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

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

### **4.1 Estimates**

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

#### **Estimation of allowance Impairment of Financial assets at FVOCI**

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

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

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

In 2022 and 2021, Management has assessed an amount of P661,466,341 and P598,634,026 as doubtful of collection (Note 13). Accordingly, a provision for impairment was recognized in the statements of comprehensive income.

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

The Corporation estimates the useful lives of property and equipment, EOPL and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, EOPL and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property and equipment, EOPL and investment properties is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment, EOPL and investment properties would increase recorded operating expenses and decrease non-current assets.

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

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

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

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

The Corporation recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the assets' net selling price or value in use. The net selling price is the amount obtainable from the sale

of an asset in an arm's length transaction less cost to sell while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, the cash generating unit to which the asset belongs.

Allowance for impairment losses on Investment Properties amounted to P1,100,000 and P6,337,516 as of December 31, 2022 and 2021 (Note 9) while allowance for impairment losses on Property and Equipment amounted to P121,910 in 2022 and 2021 (Note 11). There are no impairment losses on EOPL for the years 2022 and 2021.

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

	<b>2022</b>	<b>2021</b> (as restated)
Investment Properties (Note 9)	<b>3,730,500</b>	6,709,984
EOPL (Note 10)	<b>232,022,273</b>	146,027,352
Property and Equipment (Note 11)	<b>34,032,315</b>	27,727,430

Estimation of liability for retirement benefits cost

The determination of the Corporation's pension cost is dependent on the selection of certain assumptions used by actuaries in calculating such amount. Those assumptions include, among others, discount rate, expected rate of return on plan assets and salary increase rate. In accordance with PAS 19R, actual results that differ from the assumptions used are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit cost charged to operations under "General and Administrative Expenses" account amounted to P3,657,262 and P3,516,881 as at December 31, 2022 and 2021, respectively, as disclosed in Note 21(a).

The related liability stands at P15,556,402 and P11,754,005 as at December 31, 2022 and 2021, respectively, as disclosed in Note 21(b).

Realizability of deferred tax assets

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

## **4.2 Judgments**

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



#### Determination of functional currency

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

#### Classification of financial instruments

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

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

#### Determination of fair value of financial assets

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

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

#### Determination Whether an Arrangement Contains a Lease.

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

#### Classification of leases

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

#### Corporation as Lessor.

As a lessor, total rental earned from operating leases amounted to P44,509,816 in 2022 and P56,013,584 in 2021, as disclosed in Note 20.

Interest earned on finance lease arrangements amounted to P286,221,407 and P187,384,859 in 2022 and 2021, respectively, as disclosed in Note 20 to the financial statements.

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

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

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

As a lessee, total rental expenses incurred from the leases amounted to P1,220,625 and P385,035 in 2022 and 2021, respectively, as disclosed in Notes 19 and 20.

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

#### Evaluating Deferred Tax

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

Deferred tax assets recognized amounted to P165,672,063 and P151,273,363 as at December 31, 2022 and 2021, respectively, as disclosed in Note 23.

Management believes that the amount is fully recoverable.

## **5. FINANCIAL RISK AND CAPITAL MANAGEMENT OBJECTIVES AND POLICIES**

### **Principal financial instruments**

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

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

- Credit Risk
- Interest Rate Risk
- Liquidity Risk

### **Risk Management Framework**

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

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

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

The Corporations' risk management policies are summarized below:

### **5.1 Credit Risk**

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

(a) Credit Risk Management

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

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

(b) Collateral and other credit risk mitigation

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

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

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

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

	2022	2021
Secured		
Property under finance lease	1,787,694,419	1,239,306,146
Real estate mortgage	883,081,332	1,062,495,521
Chattel mortgage	2,607,274,105	2,478,352,377
	5,278,049,856	4,780,154,044
Unsecured	305,654,049	317,471,436
	5,583,703,905	5,097,625,480

(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.

	2022		2021	
	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
Financial assets:				
Cash in Banks	49,379,156	49,379,156	62,502,115	62,502,115
Financial Assets at Amortised Cost	5,583,703,905	5,583,703,905	5,097,625,480	5,097,625,480
	5,633,083,061	5,633,083,061	5,160,127,595	5,160,127,595

The preceding table represents the maximum credit risk exposure of the Corporation at December 31, 2022 and 2021, without taking into account any collateral held or other credit enhancements as it is impracticable to determine the fair values of these collaterals held by the Corporation as security against its financial assets at amortised cost. The exposures set out above are based on gross carrying amounts as reported in the statement of financial position.

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

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

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

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

**As at December 31, 2022**

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

**As at December 31, 2021**

	Cash	Financial Assets at Amortised Cost
Wholesale and retail trade	0	346,570,946
Manufacturing	0	881,881,039
Public utilities	0	466,388,397
Services	0	1,520,339,902
Banks and other financial institutions	62,502,115	486,032,477
Real estate	0	25,426,758
Public sector	0	756,713,119
Others	0	614,272,842
<b>Total</b>	<b>62,502,115</b>	<b>5,097,625,480</b>
Less: Allowance for probable losses/fair value changes	0	(598,634,026)
	<b>62,502,115</b>	<b>4,498,991,454</b>

(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, 2022**

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

As at December 31, 2021

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash in Banks	62,502,115	0	0	62,502,115
Financial Assets at Amortised Cost	2,660,520,788	0	2,437,104,692	5,097,625,480
	2,723,022,903	0	2,437,104,692	5,160,127,595

#### Neither past due nor impaired

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

#### Past due but not impaired

Past due loans and lease receivables are not considered impaired, unless other information is available to the contrary. Collateralized past due loans are not considered impaired when cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans.

#### Impaired

Impaired loans and lease receivables include accounts which are individually and collectively assessed for impairment. The total impairment provision for loans and lease receivables represents provision for individually and collectively impaired loans and lease receivables. Further information on impairment of loans and lease receivable is provided in Note 8.

## 5.2 Interest Rate Risk

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

## 5.3 Liquidity Risk

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

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

Analysis of financial liabilities by remaining contractual maturities

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

**As at December 31, 2022**

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

**As at December 31, 2021**

	Up to 1 year	Over 1 year to 3 years	Over 3 years	Total
<b>Bills Payable</b>	<b>1,838,723,767</b>	<b>579,566,026</b>	<b>262,000,000</b>	<b>2,680,289,793</b>
<b>Accounts Payable – Trade</b>	<b>43,392,441</b>	<b>0</b>	<b>0</b>	<b>43,392,441</b>
<b>Accrued Interest Payable</b>	<b>5,968,762</b>	<b>0</b>	<b>0</b>	<b>5,968,762</b>
<b>Other Payables</b>	<b>125,348,407</b>	<b>0</b>	<b>0</b>	<b>125,348,407</b>
<b>Deposits on Lease Contracts</b>	<b>264,691,845</b>	<b>102,601,922</b>	<b>98,436,555</b>	<b>465,730,322</b>
	<b>2,278,125,222</b>	<b>682,167,948</b>	<b>360,436,555</b>	<b>3,320,729,725</b>

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

## 6. FAIR VALUE MEASUREMENT

The Corporation's principal financial instruments comprised cash, financial assets at amortised cost, financial liabilities, other payables and deposits on lease contracts.

### (a) Carrying Amount versus Fair Value

The following table compares the carrying amounts and fair values of the Corporation's financial assets and financial liabilities as at December 31, 2022 and 2021.

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and Cash Equivalents (Note 7)	49,379,156	49,379,156	62,502,115	62,502,115
Financial Assets at Amortised Cost (Note 8)	5,583,703,905	5,583,703,905	5,097,625,480	5,097,625,480
	5,633,083,061	5,633,083,061	5,160,127,595	5,160,127,595



	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Financial liabilities:				
Bills Payable (Note 14)	2,935,844,231	2,935,844,231	2,680,289,793	2,680,289,793
Accounts Payable - Trade (Note 14)	15,782,606	15,782,606	43,392,441	43,392,441
Accrued Interest Payable (Note 14)	12,610,622	12,610,622	5,968,762	5,968,762
Other Payables (Note 16)	207,309,837	207,309,837	125,348,407	125,348,407
Deposit on Lease Contracts (Note 20)	672,728,303	672,728,303	465,730,322	465,730,322
	<b>3,844,275,599</b>	<b>3,844,275,599</b>	<b>3,320,729,725</b>	<b>3,320,729,725</b>

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

- Cash
- Trade and other payables

(b) Fair value hierarchy

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

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

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

(c) Valuation techniques

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

(i) Loans and other receivables

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

(ii) Bills payable

The estimated fair value of bills payable represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Deposits on lease contracts

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

## 7. CASH AND CASH EQUIVALENTS

This account consists of:

	2022	2021
Cash in Banks	49,379,156	62,502,115
Cash on Hand	45,000	45,000
	<b>49,424,156</b>	<b>62,547,115</b>

Cash in banks earns interest at floating rates based on daily bank deposit rates. Annual interest earned on deposits in banks is 0.25 per cent to 1.40 per cent in 2022 and 2021, respectively. Interest income earned from deposits in banks reported in the statements of comprehensive income totaled P44,291 and P1,396,831 for the years ended December 31, 2022 and 2021, respectively.

Cash on hand includes petty cash amounting of P45,000 as at December 31, 2022 and 2021.

## 8. FINANCIAL ASSETS AT AMORTISED COST

The current portion consists of:

	2022	2021
Finance Lease Receivables	304,885,976	400,289,913
Finance Lease Receivables – LBP	16,722,576	16,501,977
Loans and Receivables – Others	703,670,732	929,792,708
Allowance for Probable Losses	(211,374,892)	(231,028,027)
	<b>813,904,392</b>	<b>1,115,556,571</b>
Accounts Receivable – Clients	12,295,221	12,543,715
Allowance for Probable Losses	(5,590,067)	(8,792,048)
	<b>6,705,154</b>	<b>3,751,667</b>
Accrued Interest Receivable	10,490,720	21,399,137
Allowance for Probable Losses	(318,808)	(3,647,984)
	<b>10,171,912</b>	<b>17,751,153</b>
Due from Parent Bank	281,944,066	281,044,576
Due from National Government Agencies	498,287	386,994
Due from Officers and Employees	425,712	415,557
Allowance for Probable Losses	(3,239,981)	(3,229,873)
	<b>279,628,084</b>	<b>278,617,254</b>
	<b>1,110,409,542</b>	<b>1,415,676,645</b>

The non-current portion consists of:

	2022	2021
Finance Lease Receivables	1,889,336,660	1,532,827,488
Allowance for Probable Losses	(94,860,370)	(143,953,421)
	<b>1,794,476,290</b>	1,388,874,067
Finance Lease Receivables - LBP	439,297,514	122,817,695
Allowance for Probable Losses	(3,862,939)	(1,196,454)
	<b>435,434,575</b>	121,621,241
Loans and Receivables - Others	1,924,136,441	1,779,605,720
Allowance for Probable Losses	(342,219,284)	(206,786,219)
	<b>1,581,917,157</b>	1,572,819,501
	<b>3,811,828,022</b>	3,083,314,809
Total Financial Asset at Amortised Cost	<b>4,922,237,564</b>	4,498,991,454

As at December 31, 2022, 40 per cent of the Corporations' finance lease and loans receivable are subject to interest re-pricing (2021: 51 per cent). The remaining loans earn annual fixed interest rates ranging from 2 per cent to 15.50 per cent and 7.50 per cent to 14 per cent in 2022 and 2021, respectively.

Due from parent bank represents amounts for the chauffeuring services rendered in relation to finance and operating lease facilities entered into with the Parent Bank and fleet management services for those vehicles with expired lease term but still servicing by the Corporation.

Total revenues generated from finance and operating lease facilities with the Parent Bank amounted to P136,684,793 and P44,509,816, respectively, in 2022 (2021: P36,447,551 for finance leases and P56,013,584 for operating leases) as disclosed in Notes 20 and 22 to the financial statements.

#### Finance lease receivables

An analysis of the LLFC's finance lease receivables as at December 31, 2022 and 2021 is presented as follows:

	2022	2021
Finance Lease Receivables:		
Within 1 year	23,561,337	101,707,400
Beyond 1 year but not beyond 5 years	1,141,652,312	930,336,760
Beyond 5 years	522,553,301	565,081,775
	<b>1,687,766,950</b>	1,597,125,935
Residual value of leased assets:		
Within 1 year	132,406,992	163,649,061
Beyond 1 year but not beyond 5 years	505,690,691	293,093,340
Beyond 5 years	0	0
	<b>638,097,683</b>	456,742,401

	2022	2021
Total minimum lease receivable	2,325,864,633	2,053,868,336
Less: Unearned Leasing Income		
Within 1 year	1,586,102	8,440,503
Beyond 1 year	501,240,000	521,100,322
	502,826,102	529,540,825
Net investment in finance lease receivables	1,823,038,531	1,524,327,511
Past due receivables		
Within 1 year	41,743,232	60,144,194
Beyond 1 year	10,108,272	14,707,844
	51,851,504	74,852,038
Restructured accounts		
Within 1 year	33,989,229	4,817,881
Beyond 1 year	33,644,973	90,487,388
	67,634,202	95,305,269
Past due - restructured accounts		
Within 1 year	0	2,928,610
Beyond 1 year	243,191,551	237,434,755
	243,191,551	240,363,365
Items in Litigation		
Within 1 year	85,458,059	85,458,059
Beyond 1 year	0	0
	85,458,059	85,458,059
	2,271,173,847	2,020,306,242
Less: Unearned Leasing Income		
Within 1 year	10,686,771	9,974,789
Beyond 1 year	66,264,440	77,214,052
	76,951,211	87,188,841
	2,194,222,636	1,933,117,401
	2022	2021
Finance Lease Receivables – LBP		
Within 1 year	15,733,176	59,328,411
Beyond 1 year but not beyond 5 years	41,455,960	115,466,323
Beyond 5 years	640,865,607	325,183,320
	698,054,743	499,978,054
Residual value of leased assets:		
Within 1 year	989,400	989,400
	989,400	989,400
Total minimum lease receivable	699,044,143	500,967,454
Less: Unearned leasing income		
Within 1 year	0	43,815,834
Beyond 1 year	243,024,053	317,831,948
	243,024,053	361,647,782
Net investment in finance lease receivables – LBP	456,020,090	139,319,672

### Loans and receivables – others

The breakdown of loans and receivables – others as at December 31, 2022 and 2021 are as follows:

	2022	2021
Loans and Receivables – Others		
Within 1 year	279,866,026	702,991,213
Beyond 1 year	523,702,378	472,915,671
	803,568,404	1,175,906,884
Past due receivables		
Within 1 year	132,711,374	43,222,102
Beyond 1 year	4,060,915	14,862,657
	136,772,289	58,084,759
Restructured accounts		
Within 1 year	2,822,043	95,260,875
Beyond 1 year	381,202,315	1,344,249,185
	384,024,358	1,439,510,060
Past due – restructured accounts		
Within 1 year	281,808,458	13,580,036
Beyond 1 year	1,100,072,704	19,602,621
	1,381,881,162	33,182,657
Items in litigation		
Within 1 year	59,613,579	83,258,229
Beyond 1 year	0	0
	59,613,579	83,258,229
	2,765,859,792	2,789,942,589
Less: Unearned Interest Income		
Within 1 year	53,150,748	8,519,747
Beyond 1 year	84,901,871	72,024,414
	138,052,619	80,544,161
	2,627,807,173	2,709,398,428

### Summary of Financial Assets at Amortised Cost

#### Loans and lease receivables

	2022	2021
Finance lease receivables	2,194,222,636	1,933,117,401
Finance lease receivables – LBP	456,020,090	139,319,672
Loans and receivables - others	2,627,807,173	2,709,398,428
	5,278,049,899	4,781,835,501

## Other receivables

	2022	2021
Due from parent bank	281,944,066	281,044,576
Accounts receivable – clients	12,295,221	12,543,715
Accrued interest receivable	10,490,720	21,399,137
Due from officers and employees	425,712	415,557
Due from national government agencies	498,287	386,994
	<b>305,654,006</b>	<b>315,789,979</b>

## Interest and lease income on receivables

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

	2022	2021
Lease Contracts Receivables	286,221,407	187,384,859
Loans and Receivables	169,332,595	159,459,707
Sales Contract Receivables	0	105,112
	<b>455,554,002</b>	<b>346,949,678</b>

## Reconciliation of credit losses

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

### As at December 31, 2022

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

As at December 31, 2021

	Finance lease receivables	Loans and receivables – others	Other receivables	Total
At January 1, 2021	135,947,943	400,997,761	5,161,807	542,107,511
Provisions during the year	730,817	57,400,658	10,524,619	68,656,094
Foreclosures and adjustments (Note 13)	79,625,679	(91,738,737)	(16,521)	(12,129,579)
At December 31	216,304,439	366,659,682	15,669,905	598,634,026
Specific impairment provision	161,381,254	327,963,449	12,855,589	502,200,292
Collective impairment provision	54,923,185	38,696,233	2,814,316	96,433,734
Total impairment provision	216,304,439	366,659,682	15,669,905	598,634,026
Gross amount of loans specifically determined to have significant increase in credit risk since initial recognition before deducting individually-assessed credit losses	380,641,331	2,049,427,513	7,035,848	2,437,104,692

### **BSP Reporting**

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

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

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

- Staggered booking of allowance for credit losses over a maximum period of five years; and
- Exclusion of eligible loans from past due and non-performing classification until December 31, 2021

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

**As of December 31, 2022**

	PFRS	PFRS with regulatory relief	Difference
<b>Past Due and Non-performing Lease Receivables</b>	<b>311,342,197</b>	<b>311,342,197</b>	<b>0</b>
<b>Past Due and Non-performing Loans Receivables</b>	<b>1,475,117,871</b>	<b>1,475,117,871</b>	<b>0</b>
<b>Allowance for Credit Losses</b>	<b>661,466,341</b>	<b>820,902,036</b>	<b>159,435,695</b>
<b>Retained Earnings</b>	<b>1,009,286,843</b>	<b>889,710,074</b>	<b>119,576,769</b>
<b>Deferred Tax Asset</b>	<b>165,672,063</b>	<b>205,530,987</b>	<b>39,858,924</b>
<b>Provision for credit and impairment losses</b>	<b>94,512,363</b>	<b>44,164,249</b>	<b>50,348,114</b>
<b>Deferred Tax Expense</b>	<b>(15,441,765)</b>	<b>(2,854,736)</b>	<b>12,587,029</b>

	<b>PFRS</b>	<b>PFRS with regulatory relief</b>	<b>Difference</b>
<b>Earnings per Share</b>	<b>0.85</b>	<b>1.62</b>	<b>0.78</b>

As of December 31, 2021

	<b>PFRS</b>	<b>PFRS with regulatory relief</b>	<b>Difference</b>
Past Due and Non-performing Lease Receivables	326,377,881	341,671,584	15,293,703
Past Due and Non-performing Loans Receivables	158,115,838	1,099,741,085	941,625,247
Allowance for Credit Losses	598,634,026	808,417,835	209,783,809
Retained Earnings	1,030,568,570	873,230,713	157,337,857
Deferred Tax Asset	151,273,363	203,719,315	52,445,952
Provision for credit and impairment losses	68,656,094	26,699,332	41,956,762
Deferred Tax Expense	9,715,534	20,204,725	10,489,191
<b>Earnings per Share</b>	<b>0.62</b>	<b>1.26</b>	<b>0.64</b>

Allowance for credit losses booked during the year is at P50,348,114 and P41,956,762 as of December 31, 2022 and 2021, respectively. Total amount of allowance for credit losses being applied for staggered booking is at P251,740,571 based on total lease and loans receivable amounting to P944,308,528.

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

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

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

	<b>2022</b>	<b>2021</b>
Services	<b>26.89</b>	29.82
Manufacturing	<b>18.79</b>	17.30
Banks and other financial institutions	<b>15.50</b>	9.53
Public sector	<b>11.25</b>	14.84
Wholesale and retail trade	<b>8.54</b>	6.80
Public utilities	<b>8.41</b>	9.15
Real estate	<b>1.13</b>	0.50
Others	<b>9.49</b>	12.06
	<b>100.00</b>	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30 per cent of total loan portfolio. However, BSP Circular No. 514 and BSP Manual of Regulations for Banks and Non-Bank Financial Intermediaries, specifically provide that loans, other credit accommodations and guarantees to the Republic of the Philippines (ROP) and/or its



agencies/departments/bureaus, which are credit granted to public sectors, shall be considered non-risk and not subject to any ceiling.

As to collateral

	2022	2021
Secured		
Property under finance lease	1,787,694,419	1,239,306,146
Real estate mortgage	883,081,332	1,062,495,521
Chattel mortgage	2,607,274,105	2,478,352,377
	5,278,049,856	4,780,154,044
Unsecured	305,654,049	317,471,436
	5,583,703,905	5,097,625,480

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

As of December 31, 2022 and 2021, non-performing loans (NPLs) not fully- covered by allowance for credit losses follow:

	2022	2021
Total NPLs	1,786,460,068	484,493,719
Less: NPLs fully-covered by allowance for credit losses	(879,234,986)	(482,812,290)
	907,225,082	1,681,429

As of December 31, 2022 and 2021, secured and unsecured NPLs follow:

	2022	2021
Secured	1,786,460,043	482,812,277
Unsecured	25	1,681,442
	1,786,460,068	484,493,719

## 9. INVESTMENT PROPERTIES

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

	2022	2021
<b>Cost</b>		
At January 1	13,047,500	20,259,500
Additions	3,323,000	0
Disposal	(11,540,000)	(7,212,000)
At December 31	4,830,500	13,047,500
<b>Allowance for Impairment</b>		
At January 1	6,337,516	6,337,516
Disposal	(5,237,516)	0

	<b>2022</b>	<b>2021</b>
At December 31	<b>1,100,000</b>	6,337,516
<b>Net book value</b>		
December 31	<b>3,730,500</b>	6,709,984

The Corporation sold foreclosed land in 2022 and 2021 with a total carrying value of 6,302,484 and P7,212,000 on which it realized a gain of P5,353,516 and P6,988,000 respectively, as disclosed in Note 18 to the Financial Statements.

The aggregate market value of investment properties as at December 31, 2022 and 2021 amounted to P10,971,000 and P36,009,800, respectively. The fair value has been determined based on valuations made by in-house appraisers or accredited independent appraisers. Valuations were based on information on the prevailing market value of similar or comparable real properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuation were made.

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

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

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

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

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

	<b>2022</b>	<b>2021</b>
Finance lease	<b>226,213,823</b>	136,690,000
Operating lease	<b>5,808,450</b>	9,337,352
	<b>232,022,273</b>	146,027,352

Equipment and other property for lease under finance lease comprises of vehicles pending delivery and construction of a building currently in progress as of December 31, 2022 and 2021.

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

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

	2022	2021
<b>Cost</b>		
At January 1	70,182,456	70,182,456
Disposals	(27,767,587)	0
At December 31	42,414,869	70,182,456
<b>Accumulated depreciation</b>		
At January 1	60,845,104	57,236,036
Depreciation for the year	752,143	3,609,068
Disposals	(24,990,828)	0
At December 31	36,606,419	60,845,104
<b>Net book value, December 31</b>	<b>5,808,450</b>	<b>9,337,352</b>

Depreciation charges amounting P752,143 and P3,609,068 for 2022 and 2021, respectively, are lodged under the Depreciation-EOPL account under Direct Expenses in the statements of comprehensive income.

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

## 11. PROPERTY AND EQUIPMENT

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

### As at December 31, 2022

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

As at December 31, 2021 (as restated)

	Building and improvements	Furniture and Fixtures	Transportation Equipment	Other properties acquired	Total
Cost					
At January 1	42,566,207	9,692,521	2,883,150	292,000	55,433,878
Additions	0	734,597	0	4,588,480	5,323,077
Disposals	0	0	0	(1,313,980)	(1,313,980)
At December 31	42,566,207	10,427,118	2,883,150	3,566,500	59,442,975
Accumulated depreciation					
At January 1	21,971,672	5,300,822	736,065	52,590	28,061,149
Depreciation for the year	1,256,776	1,255,397	518,967	754,182	3,785,322
Disposals	0	0	0	(252,836)	(252,836)
At December 31	23,228,448	6,556,219	1,255,032	553,936	31,593,635
Allowance for impairment					
At January 1	0	0	0	121,910	121,910
Addition	0	0	0	0	0
At December 31	0	0	0	121,910	121,910
Net book value	19,337,759	3,870,899	1,628,118	2,890,654	27,727,430

As at December 31, 2022 and 2021, the total cost of fully-depreciated property and equipment still in use by the Corporation amounted to P3,376,246 and P3,312,197 respectively.

LLFC foreclosed other properties realizing a gain on foreclosure amounting to 1,170,449 and P1,149,668 in 2022 and 2021, respectively as disclosed in Note 18.

The Corporation sold other properties in 2022 and 2021 resulting in gain of P1,550,748 and P1,466,856, respectively as disclosed in Note 18.

The Corporation recognized depreciation/amortization charges in the amount of P6,538,535 in 2022 and P7,965,355 in 2021, as shown in the Direct and General and Administrative Expense sections in the statements of comprehensive income, with details as follows:

	2022	2021 As Restated
Direct Expense		
Equipment and Other Properties for Lease (Note 10)	752,143	3,609,068
General and Administrative Expense		
Property and Equipment	5,580,671	3,785,322
Intangibles (Note 12)	205,721	570,965
	5,786,392	4,356,287
	6,538,535	7,965,355

Management has reviewed the carrying values of the Corporation's property and equipment as of December 31, 2022 and 2021 for impairment. Based on the results of its evaluation, the Corporation booked an allowance for impairment amounting to P121,910 for 2022 and 2021, for its other properties acquired which were no longer unserviceable.

## 12. OTHER ASSETS

Current and non-current classification of other assets as at December 31, 2022 and 2021 are as follows:

### As at December 31, 2022

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

### As at December 31, 2021

	Due within 1 year	Due beyond 1 year	Total
Prepaid Expense	11,744,515	0	11,744,515
Prepaid Income Tax (Note 23)	54,494,017	0	54,494,017
Creditable Withholding Taxes	4,350,666	0	4,350,666
Security and Utility Deposits	0	351,747	351,747
Stationeries and Supplies – Unissued	119,734	0	119,734
Intangibles	0	274,262	274,262
Other Investments	0	16,000	16,000
Other Assets	0	306	306
	<b>70,708,932</b>	<b>642,315</b>	<b>71,351,247</b>

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

An Intangible Asset, as defined in Philippine Accounting Standard 38, is a non-physical asset having a useful life greater than one year. The Corporation applied this standard to software licenses and operating system of a computer, that whenever a computer software is purchased and does not form as an integral part of the related hardware, this computer software is treated as an intangible asset.

In accordance with paragraph 9.2 under COA Resolution No. 2006-006 dated January 31, 2006, and as it is probable that future economic benefits attributable to the assets shall flow to the Corporation, the computer software are recognized at cost, and reported herein as net of accumulated amortization. Amortization is based on the straight line method less 10 per cent residual value.

Movements of the Intangibles account are as follows:

	2022	2021
<b>Cost</b>		
At January 1	4,312,919	4,076,419
Additions	151,200	236,500
At December 31	4,464,119	4,312,919
<b>Accumulated Amortization</b>		
At January 1	4,038,657	3,467,692
Amortization for the year	205,721	570,965
At December 31	4,244,378	4,038,657
<b>Net book value, December 31</b>	<b>219,741</b>	<b>274,262</b>

The Corporation recognized amortization charges in the amount of P205,721 and P570,965 in 2022 and 2021, respectively, (Note 11) as shown in the General and Administrative Expense sections in the statements of comprehensive income.

### 13. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowance for probable losses are as follows:

	2022	2021
At January 1		
Finance Lease Receivables	216,304,439	135,947,943
Loans and Receivables - Others	366,659,682	400,997,761
Other Receivables	15,669,905	5,161,807
Investment Properties	6,337,516	6,337,516
Property and Equipment	121,910	121,910
	605,093,452	548,566,937
Provisions for the Year	94,512,363	68,656,094
Write-Offs	(21,314,451)	0
Accounts Charged-Off/Other Adjustments (Note 8 and 9)	(15,603,113)	(12,129,579)
At December 31	662,668,251	605,093,452

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

	2022	2021
Finance Lease Receivables	159,877,419	216,304,439
Loans and Receivables - Others	492,440,066	366,659,682
Other Receivables	9,148,856	15,669,905
Investment Properties	1,100,000	6,337,516
Property and Equipment	121,910	121,910
	662,688,251	605,093,452

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

#### 14. FINANCIAL LIABILITIES

This account consists of:

	2022	2021
Bills Payable	2,935,844,231	2,680,289,793
Accounts Payable – Trade	15,782,606	43,392,441
Accrued Interest Payable	12,610,622	5,968,762
At December 31	2,964,237,459	2,729,650,996

Current and non-current classification of financial liabilities as at December 31, 2022 and 2021 are as follows:

##### *As at December 31, 2022*

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

##### *As at December 31, 2021*

	Due within 1 year	Due beyond 1 year	Total
Bills Payable	1,838,723,767	841,566,026	2,680,289,793
Accounts Payable – Trade	43,392,441	0	43,392,441
Accrued Interest Payable	5,968,762	0	5,968,762
	1,888,084,970	841,566,026	2,729,650,996

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

Interest rates on bills payable range from 4.25 per cent to 6.25 per cent in 2022 and 4.00 per cent to 6.00 per cent in 2021, respectively.

Bills payable are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances as of December 31, 2022 and 2021 are partially secured with terms of original maturity ranging from 88 days to 17 years. Interest expense on borrowings amounted to P103,448,790 and P102,368,629 and for the years ending December 31, 2022 and 2021, respectively, as stated in the Statements of Comprehensive Income. Documentary stamp used for the borrowings amounted to 16,202,204 and P21,070,824 for the years ending December 31, 2022 and 2021, respectively, as stated in the Statements of Comprehensive Income.

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

As at December 31, 2022 and 2021, there are no defaults or breaches on these promissory notes.

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

## 15. INTER-AGENCY PAYABLES

This account consists of payables to the following:

	2022	2021
Due to BIR	12,987,220	13,969,711
Due to Pag-ibig Fund	94,122	72,574
Due to Social Security System	218,103	197,589
Due to Philhealth	157,015	71,476
	<b>13,456,460</b>	<b>14,311,350</b>

All other inter-agency payables were remitted to the Agency concerned in January 2022. Due to BIR remittances will be net of applicable creditable withholding tax booked under Other Assets (Note 12).

## 16. OTHER PAYABLES

This account consists of:

	2022	2021
Accounts payable – Others	15,840,748	4,483,612
Accrued expenses – Others	79,313,237	67,485,473
Miscellaneous Liabilities	112,155,852	53,379,322
	<b>207,309,837</b>	<b>125,348,407</b>

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

Accrued expenses – others include costs of security, messengerial, and janitorial services amounting to P49,081,269 and P46,077,535 in 2022 and 2021, respectively, payable to a service corporation and monetary value of employees' leave credits amounting to P11,140,039 and P8,772,080 in 2022 and 2021, respectively.

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

As at December 31, 2022 and 2021, 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, 2022 and 2021 is presented hereunder:

	<b>2022</b>	2021
	No. of Shares	
Issued and paid	<b>48,555,255</b>	48,555,255
Treasury Stock	<b>(1)</b>	(1)
Total outstanding shares	<b>48,555,254</b>	48,555,254

As of January 1, 2021, there is an outstanding one treasury share which was reacquired in the previous years.

During 2021, one issued and paid outstanding share was issued to newly appointed directors of the Corporation while the replaced director's share was reacquired.

### (b) Retained earnings

#### Dividend declaration

In compliance with Republic Act No. 7656 requiring the GOCCs to declare and remit dividends to the National Government (NG) of at least 50 per cent of their annual earnings, the Board of Directors of LLFC declared cash dividends to the NG through a Resolution dated April 19, 2022, the Board of Directors of LBP Leasing and Finance Corporation, through its Resolution, approved the declaration of cash dividends amounting to P51,191,805 or P1.0543 per share on the 48,555,254 common stocks held by all stockholders of date of record, December 31, 2021.

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

The Board of Directors of LLFC also declared cash dividends to the NG through a resolution dated April 29, 2021 amounting to P181,324,744 or P3.7344 per share on the 48,555,254 common stocks held by all stockholders of date of record, December 31, 2020 and remitted/paid the same on April 30, 2021.

Additional cash dividend was declared and paid on July 2021 through compliance with the Republic Act 7656 amounting to P179,933 for dividend year 2017 to 2019.

#### Appropriation of retained earnings

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

Reconciliation of Retained earnings-unappropriated

The financial statements of the Corporation as of and for the years ended December 31, 2021 and 2020, respectively, have been restated to reflect the impact of change in accounting policy related to the implementation of COA Circular 2022-004 (Note 28).

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

<b>At December 31, 2020, as previously stated</b>	<b>582,157,810</b>
Add: Effect of prior period adjustment	
Change in accounting policy	(2,855,315)
<b>At December 31, 2020, as restated</b>	<b>579,302,495</b>
Declaration of Cash dividend paid to the National Government	(181,504,677)
Net income for the year ended December 31, 2021, as previously stated	29,915,437
Add/(Deduct): Effect of prior period adjustments	
Depreciation expense – Property and Equipment	672,935
Stationeries and supplies used	(519,011)
Net Income for the year ended December 31, 2021, as restated	30,069,361
<b>At December 31, 2021, as restated</b>	<b>427,867,179</b>
Cash dividend paid to the National Government	(58,134,200)
BIR Audit Tax Deficiency CY2018	(1,332,434)
Net income for the year ended December 31, 2022	40,886,298
<b>At December 31, 2022</b>	<b>409,286,843</b>

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

(c) Other Comprehensive Income/(Loss)

	<b>Remeasurement on Retirement Benefit Obligation</b>
<b>Balance, January 1, 2021</b>	<b>(12,916,370)</b>
Add/(Deduct): Transactions during the year (Note 21b)	3,358,616
<b>Balance, December 31, 2021</b>	<b>(9,557,754)</b>
Add/(Deduct): Transactions during the year (Note 21b)	(145,135)
<b>Balance, December 31, 2022</b>	<b>(9,702,889)</b>

## 18. OTHER INCOME

This account is composed of:

	2022	2021
Fleet management service chauffeur fees (Note 22)	110,546,757	151,623,460
Fleet management service fees (Note 22)	13,184,055	11,561,520
Gain on sale of non-financial assets (Note 9, 11)	6,904,264	8,454,856
Gain on sale of equipment and other properties for lease (Note 10)	7,274,325	0
Gain on exchange of non-financial asset (Note 11)	1,170,449	1,149,668
Recovery from charged-off assets	1,004,321	0
Miscellaneous Income	8,313,796	4,147,432
	<b>148,397,967</b>	<b>176,936,936</b>

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

Miscellaneous income pertains to penalties and surcharges.

## 19. OTHER MAINTENANCE AND OPERATING EXPENSES

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

	2022	2021 (as restated)
Security, messengerial, janitorial and contractual services	4,983,798	6,214,597
Representation and entertainment	4,785,101	2,846,658
Information technology	3,351,339	1,419,369
Transportation and travelling	3,136,844	1,900,905
Litigation/assets acquired expenses	2,330,115	4,836,838
Management and other professional fees	1,769,258	1,418,500
Repairs and maintenance	1,739,822	1,732,574
Power, light and water	1,450,000	1,163,833
Stationeries and supplies used	1,447,835	1,779,964
Fuels and lubricants	1,264,224	923,406
Rent (Note 20)	1,220,625	385,035
Postage, cables, telephone and telegram	1,163,457	1,424,935
Membership fees and dues	964,576	950,506
Advertising and publicity	685,963	620,000
Fines, penalties and other charges	126,700	52,480
Data processing charges	123,240	231,209
Bank charges	29,071	25,533
Periodicals and magazines	5,000	5,000
Miscellaneous expenses	1,410,591	1,314,002

	<b>2022</b>	2021 (as restated)
	<b>31,987,559</b>	29,245,344

## 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 P286,221,407 and P187,384,859 in 2022 and 2021, 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, 2022 and 2021 amounted to P44,509,816 and P56,013,584, respectively.

The carrying amount of lease deposits payable to the respective lessees as of December 31, 2022 and 2021 are presented in the table below:

	<b>2022</b>	2021
Finance leases	<b>661,621,103</b>	454,623,122
Operating leases	<b>11,107,200</b>	11,107,200
	<b>672,728,303</b>	465,730,322

The breakdown of deposits on finance and operating leases by contractual settlement dates as at December 31, 2022 and 2021 is as follows:

	<b>2022</b>	2021
Due within 1 year	<b>214,843,625</b>	264,691,845
After 1 year up to maturity	<b>457,884,678</b>	201,038,477
	<b>672,728,303</b>	465,730,322

### Operating lease commitments

Future minimum rental receivables under non-cancelable operating leases as of December 31, 2022 and 2021 are as follows:

	<b>2022</b>	2021
Due within 1 year	<b>0</b>	10,843,182
After 1 year up to maturity	<b>0</b>	0
	<b>0</b>	10,843,182

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

	<b>2022</b>	<b>2021</b>
Finance lease	<b>74,585,109</b>	44,287,837
Operating lease	<b>20,931,023</b>	25,204,871
Fleet Management	<b>100,747,387</b>	113,502,741
	<b>196,263,519</b>	182,995,449

#### Corporation as lessee

##### Short-term and leases of low-value assets

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

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

On September 1, 2017, the Corporation entered into an operating lease agreement wherein nine parking slots were designated for LLFC's use at a monthly rental rate of P3,360 inclusive of VAT. The lease agreement can be terminated any time by both the lessor and lessee. The said contract was terminated on June 30, 2021.

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

Rental fees paid to the lessors for the years ended December 2022 and 2021 totalled P1,220,625 and P385,035 (Note 19), respectively.

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

## 21. PERSONNEL SERVICES

### (a) Compensation and employee benefits

Expenses recognized for compensation and employee benefits are presented below:

	2022	2021
Salaries and wages	45,389,620	42,676,209
Bonuses	13,229,990	6,340,931
Retirement benefit cost	3,657,262	3,516,881
Directors' remuneration	3,105,000	2,447,000
Social security cost	2,173,689	2,060,477
Hazard Pay	0	1,209,000
Other benefits	3,086,608	1,863,445
	<b>70,642,169</b>	<b>60,113,943</b>

Personnel Services benefits include annual salaries, paid leaves, bonuses and other non-monetary benefits. The expenses accrued for the compensated absences of the employees recorded under Salaries and Wages account for the years CY 2022 and 2021 amounted to P3,744,015 and P1,920,000, respectively. The accrued compensated absences refers to the monetary value of the accumulated leave credit of employees.

The breakdown of Personnel Services as to direct and general and administrative expense as at December 31, 2022 and 2021 is as follows:

	2022	2021
Direct expense – marketing operation	21,162,146	26,458,749
General and administrative expense	49,480,023	33,655,194
	<b>70,642,169</b>	<b>60,113,943</b>

### (b) Retirement benefits

#### (i) Characteristics and funding

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

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

The Retirement Trust Fund account with LBP Trust Banking Group (LBP-TBG) was opened on November 28, 2012. Prior to the opening of Retirement Trust Fund account with LBP and the availability of the Funding Actuarial Valuation report, the Corporation accrues Retirement Costs based on actual services rendered by the employees and Article V of the LBP Subsidiaries Retirement Benefit Plan which

defines the percentage of entitlement of incumbents to retirement benefits. Among the salient provisions of the Trust Agreement are the following:

- The Trustor (LLFC) shall deliver and pay to the Trustee such sums representing the annual contributions of the Trustor as provided in the Plan, starting with the contributions for the year 2012 in the amount of Six Million Seven Hundred Fifty One Thousand One Hundred Fifty Pesos and 86 Centavos (P6,751,150.86) Philippine Currency.
- The Trustor waives all its rights and interests to the money or properties which are and will be paid or transferred to the Fund, to the extent required to provide the benefits payable pursuant to the Plan.
- The Trustee shall administer the Fund to be held in trust for the purpose stated in and subject to all the terms and conditions of this Agreement as well as the Plan, which shall be deemed part of this Agreement. It shall invest and re-invest the Fund, together with all increments and proceeds in fixed-income government securities.
- The Trustee has the right and power to cause any asset acquired from the investment/re-investment of the fund to be held, registered and issued in its own name as Trustee or in the name of its nominee, provided, that the books and records of the Trustee shall at all times show that all such properties are part of the Fund. It shall open and maintain savings and/or checking account as may be determined necessary from time to time in the performance of the trust and the authority herein conferred to the Trustee as well as pay all costs, fees, charges and such other expenses connected with the investments, administration, preservation and maintenance of the Fund and to charge the same to the Fund.
- The Trustee shall exercise any right or privileges pertaining to the bonds, securities or other properties held in trust. It shall open a savings account with its own commercial banking sector, for and in the name of the Fund wherein all funds awaiting investments and those received as contribution or by way of income or earnings from the investment/re-investments of the fund may be deposited temporarily. The Trustee shall execute and deliver any and all documents and to perform any act which may be deemed necessary or proper to carry out the powers granted.
- In the management of the Fund, the Trustee shall pay to the members or the beneficiaries the benefits under the Plan upon written advice of the Trustor. It shall keep and maintain books of accounts and/or records of the management and operations of the fund, which the Trustor or its authorized representative may inspect from time to time during office hours. It shall, at the end of every calendar quarter, submit the financial reports, i.e. Balance sheet, Statement of Income and Expenses, Schedule of Investments, Investment Activity Report statements and such other reports as may be requested by the Trustor. Such reports shall be deemed conclusive should the Trustor fail to object thereto in writing within 30 days from receipt thereof. The Trustor shall administer the funds held in trust with such degree of skill and care as a prudent man would exercise in the conduct of an enterprise of like character and with similar aims.

It shall secure the Tax Exemption Certificate from the Bureau of Internal Revenue so that the Plan may be entitled to tax exemption benefits as provided by law.

- For its services, the Trustee shall be entitled to a fee equivalent to 0.5 per cent per annum of the average total assets of the Fund, computed daily and collected after the end of each calendar quarter, subject to a minimum of P10,000.00 per year. The Trustee is hereby authorized to debit its fee from the Fund. The above fee is quoted with the understanding that the same may be reviewed at the request of either party and adjusted in a mutually satisfactory basis.
- Except for fraud, bad faith or gross negligence, the Trustee shall not be liable for any loss or depreciation in the value of the Fund resulting from the investments or re-investments thereof as authorized herein, or from the performance of any act in accordance with the provision of this Agreement. This Agreement does not guarantee a yield, return or income on the investments/re-investments of the fund as the same can fall as well as rise depending on prevailing market conditions and is not covered by the Philippine Deposit Insurance Corporation (PDIC). Losses, if any, shall be for the account of the Trustor.
- This Agreement shall remain in full force and effect until the termination of the Plan, unless sooner terminated by either party hereto by giving a 30 day advance written notice to the other.

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

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

(ii) Actuarial assumptions

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

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation are as of December 31, 2022.

The valuation results are based on the employee data as of the valuation dates provided by the Corporation to the independent appraiser. The discount rate assumption is based on the Banker of the Philippines (BAP) PHP Bloomberg BVAL reference rates (BVAL) benchmark reference curve for the government securities market (previously the PDEX (PDST-R2) market yields on government bonds) as



of the valuation dates considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

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

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

	2022	2021
Discount rate	7.17%	5.07%
Expected rate of return on plan assets	7.17%	5.07%
Salary projection rate	9.00%	7.00%
Mortality rate	2017 Philippine Intercompany Mortality Table	2017 Philippine Intercompany Mortality Table
Disability rate	The Disability Study, Period 2 Benefit 5 (Society of Actuaries)	The Disability Study, Period 2 Benefit 5 (Society of Actuaries)
Normal retirement age	60	60
Projected retirement credit	22.5 days pay per year of service	22.5 days pay per year of service
Actuarial cost method	Projected unit credit method	Projected unit credit method
Manner of benefit payment	Lump sum	Lump sum
Withdrawal rates		
19-24	2.56%	12.50%
25-29	14.06%	6.65%
30-34	4.52%	8.07%
35-39	3.23%	10.37%
40-44	5.94%	4.07%
45-49	3.94%	3.98%
50-54	0.00%	3.98%
≥55	0.50%	3.98%

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

	2022	2021
Number of lives covered	57	58
Average age in years	42.2	40.8
Expected average remaining working lives of employees	17.80	19.20
Average years of past service	9.9	9.6
Annual covered payroll	38,167,476	34,032,900
Present value of defined benefit obligation (DBO)	40,338,607	36,253,857
Current service cost (CSC)	3,058,711	3,028,523
Fair value of plan assets	24,782,205	24,499,852
Deficit / (Surplus)	15,556,402	11,754,005
Contributions	0	0
Benefits paid from plan assets	103,452	1,535,500
Benefits paid from booked reserved	0	0
Settlements from plan assets	0	0
Settlements from booked reserved	0	0

As of December 31, 2022, the principal balance of the retirement fund stands at P15,556,402 and as compared to P11,754,005 as of December 31, 2021.

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

	Defined benefit obligation		Fair value of plan assets		Net defined liability	
	2022	2021	2022	2021	2022	2021
<b>Balance, 1 January</b>	<b>36,253,857</b>	37,387,550	<b>(24,499,852)</b>	(25,791,810)	<b>11,754,005</b>	11,595,740
Service cost – current	3,058,711	3,028,523	0	0	3,058,711	3,028,523
Interest cost (income)	1,838,071	1,476,808	(1,239,520)	(988,450)	598,551	488,358
<b>Included in profit or loss</b>	<b>4,896,782</b>	4,505,331	<b>(1,239,520)</b>	(988,450)	<b>3,657,262</b>	3,516,881
<b>Employer Contribution</b>	<b>0</b>	0	0	0	0	0
(a) Actuarial loss (gain) from:						
- Demographic Assumptions	1,303,212	497,339	0	0	1,303,212	497,339
- Financial assumptions	(473,432)	(3,392,147)	0	0	(473,432)	(3,392,147)
- Experience adjustments	(1,538,360)	(1,208,716)	0	0	(1,538,360)	(1,208,716)
(b) Return on plan assets (excluding interest)	0	0	853,715	744,908	853,715	744,908
<b>Included in other comprehensive income</b>	<b>(708,580)</b>	(4,103,524)	<b>853,715</b>	744,908	<b>145,135</b>	(3,358,616)
<b>Benefits Paid</b>	<b>(103,452)</b>	(1,535,500)	<b>103,452</b>	1,535,500	<b>0</b>	0
<b>Balance, December 31</b>	<b>40,338,607</b>	36,253,857	<b>(24,782,205)</b>	(24,499,852)	<b>15,556,402</b>	11,754,005

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

(iv) Allocation of Plan Assets

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

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

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

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

## 22. RELATED PARTY TRANSACTIONS

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

Provisions are held against receivables from related parties in 2022 and 2021 are broken down as follows:

	2022	2021
Finance Lease Receivables - LBP	3,945,469	1,235,277
Due from Parent Bank	2,819,441	2,810,446
	6,764,910	4,045,723

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

	2022	2021
Cash in banks	49,379,156	59,638,463
Due from Parent Bank (Note 8)	281,944,066	281,044,576
Finance Lease Receivables - LBP (Note 8)	456,020,090	139,319,672
Bills payable	1,040,944,231	858,037,115
Deposit on lease contracts	72,852,930	26,899,170
Accrued interest payable	5,205,715	2,623,814
Accounts Payable	0	271,556

	<b>2022</b>	<b>2021</b>
Accrued Expense Payable	<b>10,989,599</b>	6,225,401
Miscellaneous liabilities	<b>2,681,717</b>	2,718,873
	<b>1,920,017,504</b>	1,376,778,640

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

	<b>2022</b>	<b>2021</b>
Finance lease income (Note 8)	<b>136,684,793</b>	36,447,551
Operating lease income (Note 8)	<b>44,509,816</b>	56,013,584
Fleet management service fees (Note 18)	<b>13,184,055</b>	11,561,520
Fleet management service chauffeuring fees (Note 18)	<b>110,546,757</b>	151,623,460
Interest income on deposits	<b>43,652</b>	1,391,718
Interest and finance charges	<b>34,926,474</b>	37,452,894
Miscellaneous Expenses	<b>311,567</b>	137,829
	<b>340,207,114</b>	294,628,556

a) Bills payable and Interest and Financing Charges

Interest rates on borrowings from the parent company ranges from 4.25 per cent to 6.25 per cent. The loans are partially secured by assignment of receivables with terms of maturity ranging from 88 days to 17 years.

(b) Finance Lease Income

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

(c) Operating Lease Income

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

(d) Fleet Management Services

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

(e) Other Related Party Transactions

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

The key management personnel compensations are as follows:

	<b>2022</b>	<b>2021</b>
Salaries and other short-term benefits	<b>13,935,202</b>	12,149,439
Post-employment benefits	<b>1,972,143</b>	733,106
Directors' remuneration	<b>4,739,872</b>	2,533,332

	<b>20,647,217</b>	15,415,877
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## 23. INCOME TAX EXPENSE

The income tax expense consists of:

	<b>2022</b>	2021
Current	<b>36,189,977</b>	20,725,589
Deferred	<b>(14,398,700)</b>	9,715,534
	<b>21,791,277</b>	30,441,123

The reconciliation between the income tax expense computed at the statutory income tax rate of 25 per cent in 2022 and 2021, and the provision for income tax expense as shown in the statements of comprehensive income is as follows:

	<b>2022</b>	2021 (as restated)
Net income before income tax	<b>62,859,138</b>	60,510,484
Add:		
General and administrative expenses	<b>120,845,797</b>	96,285,186
Gross income	<b>183,704,935</b>	156,795,670
Less: Optional Standard Deduction (40% of the total of gross income and net amount of non-deductible and non-taxable expenses amounting to P57,605,872 in 2022 and P69,005,302 in 2021)	<b>96,506,606</b>	89,761,656
Net income subject to income tax	<b>87,198,329</b>	67,034,014
Income tax computed at statutory tax rate of 25%	<b>21,799,582</b>	16,758,504
Tax effect of:		
Adjustment of current tax expense from CY2020 AFS (30%) vs. ITR (27.50%) as a result of CREATE Law	<b>0</b>	(12,935,032)
Adjustment of deferred tax asset as a result of CREATE Law	<b>0</b>	26,879,558
Interest income subject to final tax	<b>(11,073)</b>	(349,209)
Interest in arbitrage	<b>2,768</b>	87,302
Income tax expense	<b>21,791,277</b>	30,441,123

Prepaid Income tax, after deducting creditable withholding taxes and quarterly income tax payments, amounts to P45,117,449 and P54,494,017 as of December 31, 2022 and 2021, respectively, as shown in Note 12, respectively.

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

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

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

The regulations also provide for Minimum Corporate Income Tax (MCIT) of one per cent on modified gross income for 2022 and 2021, respectively. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the NOLCO is allowed as deduction from taxable income in the next three years from the year of inception.

MCIT computed at one per cent of gross profit amounted to P2,412,665 and P2,244,041 in 2022 and 2021, respectively.

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

The Corporation has opted to use OSD in 2022 and 2021. 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:

<b>At December 31, 2020</b>	<b>P160,988,897</b>
Charged to operations	(9,715,534)
<b>At December 31, 2021</b>	<b>P151,273,363</b>
Charged to operations	14,398,700
<b>At December 31, 2022</b>	<b>P165,672,063</b>

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

	2022			2021(as restated)		
	Due within 1 year	Due beyond 1 year	Total	Due within 1 year	Due beyond 1 year	Total
Financial assets						
Cash and cash equivalents	49,424,156	0	49,424,156	62,457,115	0	62,457,115
Financial Assets at Amortised Cost	1,330,933,290	4,252,770,615	5,583,703,905	1,662,374,577	3,435,250,903	5,097,625,480
	<b>1,380,357,446</b>	<b>4,252,770,615</b>	<b>5,633,128,061</b>	<b>1,724,831,692</b>	<b>3,435,250,903</b>	<b>5,160,082,595</b>
Non-financial assets						
Investment properties	0	4,830,500	4,830,500	0	13,047,500	13,047,500
Equipment and other property for lease	0	232,022,273	232,022,273	0	146,027,352	146,027,352
Property and equipment	0	34,032,315	34,032,315	0	27,727,430	27,727,430
Other assets	64,937,964	520,583	65,458,547	70,708,932	642,315	71,351,247

	2022			2021(as restated)		
	Due within 1 year	Due beyond 1 year	Total	Due within 1 year	Due beyond 1 year	Total
	<b>64,937,964</b>	<b>271,405,671</b>	<b>336,343,635</b>	70,708,932	187,444,597	258,153,529
Total assets	<b>1,445,295,410</b>	<b>4,524,176,286</b>	<b>5,969,471,696</b>	1,795,540,624	3,622,695,500	5,418,236,124
Financial liabilities						
Bills payable	<b>2,225,844,231</b>	<b>710,000,000</b>	<b>2,935,844,231</b>	1,838,723,767	841,566,026	2,680,289,793
Accounts Payable - Trade	<b>15,782,606</b>	<b>0</b>	<b>15,782,606</b>	43,392,441	<b>0</b>	43,392,441
Accrued interest payable	<b>12,610,622</b>	<b>0</b>	<b>12,610,622</b>	5,968,762	<b>0</b>	5,968,762
Other payables	<b>207,309,837</b>	<b>0</b>	<b>207,309,837</b>	125,348,407	<b>0</b>	125,348,407
Deposits on lease contracts	<b>214,843,625</b>	<b>457,884,678</b>	<b>672,728,303</b>	264,691,845	201,038,477	465,730,322
Inter-agency payable	<b>13,456,460</b>	<b>0</b>	<b>13,456,460</b>	14,311,350	<b>0</b>	14,311,350
Retirement liability	<b>0</b>	<b>15,556,402</b>	<b>15,556,402</b>	<b>0</b>	11,754,005	11,754,005
Total Liabilities	<b>2,689,847,381</b>	<b>1,183,441,080</b>	<b>3,873,288,461</b>	2,292,436,572	1,054,358,508	3,346,795,080

## 25. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Corporation has not set-off financial instruments in 2022 and 2021 and does not have offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party of the lease agreement will have the option to settle such amount on a net basis in the event of default of the other party. As such, the Corporation's lease contract receivables from the lessees amounting to P2,026,295,589 and P1,322,089,326 as of December 31, 2022 and 2021, respectively, can be offset by the amount of lease deposits amounting to P661,621,103 and P454,623,122 as of December 31, 2022 and 2021 (Note 20), respectively. The balance of lease contract receivables net of lease deposit amounted to P1,364,674,486 and P867,466,204 as of December 31, 2022 and 2021, respectively.

## 26. EARNINGS PER SHARE

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

	2022	2021 (as restated)
Net income after tax	<b>41,067,861</b>	30,069,361
Weighted average number of outstanding shares (Note 17a)	<b>48,555,254</b>	48,555,254
Basic Earnings Per Share	<b>0.85</b>	0.62

There were no outstanding dilutive potential common shares as at December 31, 2022 and 2021.

## 27. CONTINGENCIES

In the ordinary course of business, the Corporation incurs contingent liabilities and commitments arising from normal business transactions which are not reflected in the accompanying financial statements. As at December 31, 2022, Management does not anticipate significant losses from these contingencies and commitments that would adversely affect the Corporation's financial position and results of operations.

## 28. FINANCIAL STATEMENTS PRESENTATION

### a. *Restatement*

The financial statements of the Corporation as of and for the year ended December 31, 2021 to reflect the impact of change in accounting policy related to the implementation of COA Circular 2022-004 on the threshold of Property and Equipment to be capitalized. The Corporation's December 31, 2021 financial statements have also been restated to reflect the adjustments relating to the following:

- a. Derecognition of certain property and equipment as expenses resulting from the change in accounting policy
- b. Reduction of related depreciation expense for those derecognized properties and equipment; and
- c. Additional stationeries and supplies expense resulting from the derecognition of properties and equipment.

### *Reconciliation of statement of financial position*

<b>December 31, 2021</b>				
	<b>Note</b>	<b>As Previously Reported</b>	<b>Effect of Restatement</b> (In Philippine Peso)	<b>As Restated</b>
<b>ASSETS</b>				
Property and equipment, net	<b>11</b>	30,428,821	(2,701,391)	27,727,430
<b>EQUITY</b>				
Retained earnings-unappropriated	<b>17(b)</b>	430,568,570	(2,701,391)	427,867,179



*Reconciliation of statement of comprehensive income*

<b>December 31, 2021</b>				
	<b>Note</b>	<b>As Previously Reported</b>	<b>Effect of Restatement</b>	<b>As Restated</b>
			(In Philippine Peso)	
<b>General and Administrative Expenses</b>				
Depreciation expenses – furniture and fixtures	<b>11</b>	5,029,222	(672,935)	4,356,287
Stationeries and supplies used	<b>19</b>	1,260,953	519,011	1,779,964

**29. EVENTS AFTER THE REPORTING DATE**

Cash Dividend Declaration

On April 26, 2023, the Board of Directors of LBP Leasing and Finance Corporation, through its Resolution No. 23-077, approved the declaration of cash dividends amounting to P54,474,141 or P1.1219 per share on the 48,555,254 common stocks held by all stockholders as of date of record, December 31, 2022.

**30. SUPPLEMENTARY INFORMATION ON REVENUE REGULATIONS**

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

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

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

In compliance, LLFC pays the corresponding GRT on all items treated as gross income, and fringe benefit tax (FBT) on the benefits provided to its officers in accordance with the tax law and revenue regulation prescribing FBT. LLFC withheld corresponding taxes on

payments of compensation of employees, fees to directors and cost or purchase price to contractors and suppliers of goods.

2. The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P16,202,204 (Note 14).

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

<b>Particulars</b>	<b>Amount</b>
a. Local	
Realty Taxes	530,348
Licenses	1,673,685
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500
Tax Clearance Application	200
Gross Receipt Tax	28,981,534
	<b>31,196,767</b>

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

Compensation and benefits	6,806,141
Expanded withholding taxes	13,609,751
Final Withholding taxes	105,067
VAT and other percentage taxes	37,623,924
	<b>58,144,883</b>

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

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

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

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

1. Sales/Receipts/Fees

	<b>Taxable Amount under Regular Rate</b>
Sale of services	455,554,002
Lease of Properties	44,509,816
	<b>500,063,818</b>

2. Cost of Sales/Services

	<b>Amount under Regular Rate</b>
Direct Charges - Salaries, Wages and Benefits	21,162,146
Direct Charges - Depreciation	752,143
Direct Charges - Outside Services	196,263,519
Direct Charges - Others	183,779,946
	<b>401,957,754</b>

3. Non-Operating and Taxable Other Income

	<b>Amount under Regular Rate</b>
Gain on sale	10,111,522
Miscellaneous income - net	133,048,929
	<b>143,160,451</b>

4. Optional Standard Deduction (OSD)

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

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

5. Taxes and Licenses

The documentary stamp taxes paid/accrued on loans availed and renewed during the year totalled P16,202,204.

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

<b>Particulars</b>	<b>Amount</b>
b. Local	
Realty Taxes	530,348
Licenses	1,673,685

<b>Particulars</b>	<b>Amount</b>
Community Tax Certificate	10,500
b. National	
Annual Non-VAT Registration Fee	500
Tax Clearance Application	200
Gross Receipt Tax	28,981,534
	<b>31,196,767</b>

### **31. OTHER SUPPLEMENTARY INFORMATION**

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

	2022	2021 (as restated)
Current ratio	0.46	0.68
Acid test ratio	0.43	0.64
Solvency ratio	0.04	0.03
Debt to equity ratio	2.42	2.07
Asset to equity ratio	3.42	3.07
Interest rate coverage ratio	1.61	1.59
Return on equity	2.55	1.78
Return on assets	0.79	0.60
Net profit margin	6.33	5.17

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

	2022	2021 (as restated)
Return on average equity	2.55	1.78
Return on average assets	0.79	0.60
Net profit margin	6.33	5.17

## **OBSERVATIONS AND RECOMMENDATIONS**

### **A. FINANCIAL ISSUES**

1. The faithful representation of the balance of the intra-group receivable account of P737.964 million and payable account of P1,129.823 million in the financial statements as at December 31, 2022 were not established due to the unreconciled variance of P29.372 million and P41.520 million, respectively, between LLFC and LBP books. Moreover, the absence of policy on the periodic reconciliation and confirmation of intra-group accounts indicating internal control lapses leads to risk of accounting and reporting errors.

1.1 Paragraph 15 of Philippine Accounting Standard (PAS) 1 provides that:

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expense set out in the Framework. (Underscoring ours)*

1.2 A sound internal control suggests, among others, presence of control activities such as adequate policies and procedures in the balancing and reconciliation of records and reports to ensure the integrity of the reported data and balances.

1.3 The financial statements of LBP Leasing and Finance Corporation (LLFC), a subsidiary of Land Bank of the Philippines (LBP), are being consolidated with the LBP financial statements. The balance of each account in the financial statements of LBP and its subsidiaries including LLFC are added together and thereafter the intragroup account balances are eliminated to come up with the consolidated financial statements of the LBP Group.

1.4 The reconciliation of the intragroup account balances in the books of LLFC and LBP is necessary to ensure that transactions are properly recorded and accounts balances are faithfully represented both in the separate financial statements of LLFC and the consolidated financial statements of LBP Group.

1.5 The intragroup receivable in the financial statements of LLFC consist of Finance Lease Receivable – LBP accounts and Due from Parent Bank, while the LLFC intra-group payable consist of Deposit on Lease Contract, Accrued Interest Payable, Accrued Expense Payable and Bills Payable. In the financial statements of LBP, the intragroup receivable is composed of Loans Receivable, Account Receivable-Others (Head Office (HO) and Field Account Units (FAU)), Miscellaneous Assets – Others and Accrued Interest Receivable while the intragroup payable is composed of Finance Lease Payable and Accrued Other Expense Payable (AOEP) accounts.

1.6 Comparison of the balance of receivable from LBP in LLFC books against the balance of payable to LLFC in LBP books, reflected in the schedules provided by LBP

Auditors, disclosed a total variance of P29.372 million as at December 31, 2022. Details as follows:

	Receivable from LBP (LLFC books)	Payable to LLFC (LBP books)	Variance
Finance Lease Payable - LLFC		393,385,841.91	
AOEP		373,938,230.65	
Accounts Payable (HO and FAU)		12,000.00	
Finance Lease Receivable-LBP	456,020,090.69		
Due from Parent Bank	281,944,066.00		
<b>TOTAL</b>	<b>737,964,156.69</b>	<b>767,336,072.56</b>	<b>29,371,915.87</b>

1.7 Verification of records disclosed that the variance totaling P29.372 million pertains to the following:

a. The Finance Lease Payable in LBP's books and the Finance Lease Receivable in LLFC's books amounting to P393.386 million and P456.020 million, respectively, differs by P62.634 million. Out of the P62.634 million, P45.921 million of which pertains to unrecorded Finance Lease Payable in the books of LBP while the remaining P16.713 million is still for reconciliation by LLFC and LBP to establish as valid receivable of LLFC.

b. The balances of AOEP account in LBP's books and Due from Parent Bank account in LLFC's books amounting to P373.938 million and P281.944 million, respectively, has a variance of P91.994 million. The variance is a receivable of LLFC under the operating lease and Fleet Management Services with LBP is still for reconciliation between LLFC and LBP.

c. The amount of P12,000 recorded as Accounts Payable of LBP to LLFC pertains to checkbook requisition of LLFC which remains unrecorded in LLFC's books and for reconciliation with LBP.

1.8 On the other hand, comparison of the balance of payable to LBP in LLFC's books and the balance of receivable from LLFC in LBP's book, reflected in the schedules provided by LBP Auditors, disclosed a total variance of P41.520 million as at December 31, 2022. Details as follows:

Accounts	Payable to LBP (LLFC's Book)	Receivable from LLFC (LBP's Book)	Variance
Loans Receivable		1,040,944,231.00	
Miscellaneous Assets – Others		30,091,320.00	
Accrued Interest Receivable		5,383,120.31	
Account Receivable-Others (HO)		11,671,636.88	
Account Receivable-Others (FAU)		213,308.04	
Bills Payable	1,040,944,231.00		
Deposit on Lease Contract	72,852,930.00		
Accrued Interest Payable	5,205,715.00		
Accrued Expense Payable	10,820,247.96		
Accounts Payable – Others	0		
<b>TOTAL</b>	<b>1,129,823,123.96</b>	<b>1,088,303,616.23</b>	<b>41,519,507.73</b>

1.9 Verification of records further disclosed that the variance totaling P41.520 million pertains to the following:

- a. A deposit on lease contract amounting P42.762 million was recorded in LLFC books under Deposit on Lease Contract but not recorded in LBP books under Miscellaneous Assets – Others account hence a variance of same amount.
- b. The balances of Accrued Interest Receivable in LBP books and Accrued Interest Payable in LLFC books amounting to P5.383 million and P5.206 million, respectively, differs by P177,335. The variance pertains to the one day difference in the computation of accrued interest receivable of LBP and accrued interest payable of LLFC on the loans secured from LBP.
- c. The variance between the Account Receivable – Others (HO) in LBP books and Accrued Expense Payable in LLFC books amounting to P0.851 million refers to the salary of one LBP personnel on secondment to LLFC. The difference of P0.842 million, however, was recorded/adjusted in the books of LLFC on January and February 2023 after receiving the Statement of Account from LBP. The remaining P9,107 is still for reconciliation with LBP.
- d. The variance between the Account Receivable – Others (FAU) in LBP books and Accounts Payable - Others in LLFC books amounting to P213,308 refers to various vehicle emissions, maintenance and repair expenses paid by LBP to be reimbursed by LLFC. However, the documents to support these expenses have not yet been submitted by LBP and still for reconciliation, hence, not yet taken up in the LLFC books.

1.10 The Accounting Head of LLFC informed that a schedule with balances of the Finance Lease Receivable, Due from Parent Bank, Accounts Payable and other related party accounts were forwarded to LBP-Administrative Accounting Department (AAD) to check if the balances of both books tally. However, there was no advice or response received from LBP hence adjustment/s to the variances in the recognition of intragroup receivable and payable transactions with LBP was not made in the LLFC books as at reporting date.

1.11 Review further noted that there is no policy requiring the periodic reconciliation and confirmation of intra-group receivable and payable accounts with LBP.

1.12 Accordingly, due to the unreconciled variance of P29.372 million and P41.520 million of the intra-group receivable and payables accounts, respectively, between LLFC and LBP books, the faithful representation of the balances of intra-group receivable of P737.964 million and payable accounts of P1,129.824 million as at December 31, 2022 were not established. Moreover, the absence of policy on the periodic reconciliation and confirmation of intra-group accounts indicating internal control lapses leads to risk of accounting and reporting errors.

1.13 This is a reiteration of prior year audit observation.

**1.14 We recommended and Management agreed that LLFC:**

- a. **Reconcile with LBP-AAD the variances in the intra-group accounts in order to establish and faithfully represent the receivable and payable balances of LLFC as at December 31, 2022. Follow through meeting with LBP-AAD including written communications are necessary to remind LBP-AAD of their commitment to provide summary of transactions with the supporting documents; and**
- b. **Formulate policy on the periodic reconciliation of intragroup receivable and payable with LBP, to include the matter on the exchanges between LLFC and LBP-AAD of summary of transactions and supporting documents within specific timelines, to determine a common ground for the booking of the transactions, and, henceforth, ensure faithful compliance with said policy.**

**B. NON-FINANCIAL ISSUES**

**2. The LLFC's continued operation of the Retirement Benefit Plan after the implementation of the Compensation and Position Classification System (CPCS) without the recommendation of the GCG and approval of the President of the Philippines, is not in accordance with the Item VI(B)(4) of the CPCS under Executive Order (E.O.) No. 150, s 2021.**

2.1 Item VI(B)(4) of the CPCS states that *"upon application of the CPCS, all the allowances, benefits, and incentives (ABIs) of GOCC officers and employees, whether they are incumbents or new hires, shall be limited to those provided under the CPCS. All additional compensation outside of the CPCS shall be approved by the Board, endorsed by the Supervising Agency, recommended by the GCG, and approved by the President of the Philippines."*

2.2 Items VI to VII of the same CPCS and Index of Occupational Services, Position Titles And Job Grades for GOCCs (IOS-G) Framework limits the total compensation to include (a) basic salaries including step increments; (b) allowances, benefits, and incentives; and (c) variable pay (performance-based bonus) granted to officers and employees. The CPCS specified the standard and specific-purpose ABIs. It was noted, however, that the Employee Retirement Benefit Plan as benefit provision for retiring and separating permanent officials and employees was not included in the total compensation under the CPCS.

2.3 Chapter VI(B)(5) of same EO also provides that the authorized ABIs currently being received by incumbents of GOCCs that are implementing their own compensation framework shall be paid the three (3)-year present value of the authorized ABIs that will be removed under the CPCS. GCG CPCS Circular No. 2021-009 was issued to provide the implementing guidelines in the grant of three-year present value of authorized allowances, benefits, and incentives of GOCCs that will be discontinued under the CPCS.

2.4 In a letter dated March 23, 2022, Governance Commission for GOCC (GCG) authorized LLFC to implement the CPCS under E.O. No. 150, s. 2021. LLFC applied the



CPCS retroactively to October 5, 2021, as further authorized by GCG for having fully complied with the CPCS requirements upon approval of E.O. No. 150, s. 2021.

2.5 Before the implementation of the CPCS, the LLFC Board of Directors approved the creation of the Retirement Fund for its employees through Board Resolution Nos. 10-112 dated July 28, 2010 in accordance with the provisions of the Republic Act (R.A.) No. 7641, Retirement Law, prescribing corporations to provide retirement benefits for eligible retiring employees.

2.6 The LLFC Retirement Benefit Plan is a defined benefit plan and non-contributory that provides a retirement benefit equal to one-half month basic salary for every year of service which includes 15 days salary based on the latest salary rate, five days of service incentive leaves, and 1/12 of the 13<sup>th</sup> month pay and other benefit inclusions as may be agreed upon by the employer and employee.

2.7 Management did not grant the three-year present value of the retirement benefits of its employees and maintained the Retirement Fund which amounted to P24,782,205.16 as of December 31, 2022, currently placed with the LBP-Trust Banking Group as Trustee of the fund. For the CY 2022, there were no additional contributions to the fund while withdrawals amounted to P103,452.19 for the separation benefit of one employee.

2.8 The LLFC continued operation of the Retirement Benefit Plan after the implementation of the CPCS in October 5, 2021, without the recommendation of the GCG and approval of the President of the Philippines, contrary to Item VI(B)(4) of the CPCS under E.O. 150.

**2.8 We recommended and Management agreed to seek the recommendation of the GCG and the approval of the President of the Philippines for the continued operation of the LLFC Retirement Benefit Plan, pursuant to Item VI(B)(4) of the CPCS of the E.O. No. 150, s. 2021.**

2.9 The Management informed that a meeting with GCG had been requested to discuss the best course of action for the handling of the existing Retirement Fund for which a number of LLFC employees have been entitled thereto even prior to the approval and/or adoption of the CPCS.

### ***Compliance with Tax Laws***

3. The taxes withheld in 2022 from the compensation and benefits of LLFC personnel and those withheld from suppliers amounting to P6.806 million and P51.339 million, respectively, as disclosed in Note 30 to the Financial Statements, were remitted to the Bureau of Internal Revenue within the reglementary period.

### ***SSS Contributions and Remittances***

4. In 2022, LLFC complied with R.A. No. 8282 on the collection and remittance of contributions to SSS as follows:

- a. mandatory monthly contribution of covered employees and employer in accordance with Section 18, and
- b. remittance of employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

### ***Philhealth and Pag-ibig Premiums***

5. In 2022, LLFC complied with Section 18, Title III, Rule III of the Implementing Rules and Regulations of R.A. No. 7875, as amended, in the payment of national health insurance premium contributions to the Philhealth.

5.1 LLFC also complied with Section 3, Rule VII of the Implementing Rules and Regulations of R.A. No. 9679 in the collection and remittance of contributions to the Pag-ibig Fund.

### **STATUS OF DISALLOWANCES, SUSPENSIONS AND CHARGES**

6. The balance of disallowance as at December 31, 2022 pertains to the Notice of Disallowance No. LBP-Subs. 2008-015 (2002-2003) dated August 11, 2008 amounting to P5,133,830.02, in which P756,000 pertains to LLFC Officers/Board of Directors, issued for the payment of additional allowances and benefits to LBP Officials acting as Officers/Board of Directors of LLFC. The disallowance was affirmed under COA Decision No. 2012-018 dated February 16, 2012.

A Motion for Reconsideration filed by LBP with COA on March 19, 2012 was denied by the Commission through its Resolution dated April 4, 2014 for lack of merit. Subsequently, the Legal Services Group, LBP, filed a Petition for Certiorari to the Supreme Court on August 4, 2014 on the subject COA Resolution.

On October 5, 2021, LBP received the Supreme Court Notice of Judgment with the Decision where the Petition for Certiorari filed by LBP and LIBI, LBRDC, LLFC, MSI and LCDFI (collectively referred to as the "Subsidiaries") was DISMISSED. Further, Supreme Court En Banc Resolution dated April 5, 2022 denied with finality Petitioners' Motion for Reconsideration of the SC Decision dated October 5, 2021 for Petitioners' failure to raise any substantial argument in support thereof. The said Decision affirmed with modification COA Decision No. 2012-018 dated February 16, 2012, thereby holding the members of the LBP Subsidiaries' Board of Directors (BODs) solidarily liable for the return of the disallowed amount under ND No. LBP-Subs. 2008-015 (2002-2003) dated August 11, 2008, relative to the payment of additional allowances and benefits to LBP (the Parent Company) officials acting as officers/members of the BODs of LBP Subsidiaries, amounting to P5,133,830.02, while the payees are individually liable to return of the disallowed amounts they respectively received.

## STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the seven audit recommendations embodied in the CY 2021 Annual Audit Report, six were fully implemented and one was partially implemented. The observation with partially implemented recommendation is presented below:

References	Audit		Status of Implementation
	Observations	Recommendations	
CY 2019 AAR AOM No. 1 Pages 79 to 82	Rentals and excess usage fees totaling P114.890 million as at December 31, 2019 for the Fleet Management and Chauffeuring Services rendered to LBP from 2015 to 2018 were not yet collected, contrary to the Master Lease Agreement and Memorandum of Agreement entered by and between LLFC and LBP, depriving LLFC of additional funds for its operations.	Collect the rentals and excess usage fees amounting to P114.890 million from LBP.	<p>Partially implemented.</p> <p>Of the P114.890 million rentals and excess usage fees reflected in the CY 2019 AAR, P99.281 million have been collected and P15.609 million remained unsettled as of December 31, 2022.</p> <p>The Accounting Unit is constantly following up dues from LBP, especially the long outstanding receivables. As of date, LLFC already submitted the required certification on the total unpaid prior years' billings to support LBP's additional budget request for its payment. The same is for deliberation and approval in LBP.</p> <p>Based on meeting with the LBP Financial Management Department (FMD) on September 27,</p>

References	Audit		Status of Implementation
	Observations	Recommendations	
			2022, LBP FMD is still preparing the proposal for the supplemental budget for deliberation and approval.