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

ANNUAL AUDIT REPORT

on the

UCPB LEASING AND FINANCE CORPORATION

For the years ended December 31, 2020 and 2019

EXECUTIVE SUMMARY

INTRODUCTION

UCPB Leasing and Finance Corporation (ULFC or the Company) is a domestic corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) under SEC Registration No. AS00158561 on January 2, 1989 as a finance company under Republic Act No. 8556, The Financing Company Act of 1998, (the Financing Company Act). The Company is presently engaged in providing services such as lease financing, check discounting and trade receivable financing.

The Company is a wholly owned subsidiary of United Coconut Planters Bank (UCPB or the Parent Bank), a universal bank incorporated and domiciled in the Philippines organized to provide expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange investment banking and trust services.

As of December 31, 2020 and 2019, the Company holds 100 per cent ownership interest in United Foreign Exchange Corporation (UFEC), a domestic company primarily engaged in dealing of foreign currencies and financial instruments.

In September 2010, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved the Company's application to engage in quasi-banking functions. In January 2012, however, the Company decided to cancel its quasi-banking license and the BSP approved its immediate revocation on April 26, 2012.

The powers and functions of the ULFC are exercised by the Board of Directors composed of seven directors and stockholders of the Company. The Board is headed by a Chairman who is the President and Chief Executive Officer of the UCPB.

On August 18, 2017, the SEC approved the change in the registered principal office of the Company from 14th Floor, UCPB Building, 7907 Makati Avenue, Makati City to 6th Floor, UCPB Corporate Offices, 7907 Makati Avenue, Makati City. On August 20, 2018, the Bureau of Internal Revenue approved such change in the registered principal office.

On November 20, 2020, the Government Commission for Government-Owned or Controlled Corporation (GCG) formally confirmed the classification of the company as Government-Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI) subject to its regulatory powers, as defined under RA 10149 or the *Governance Act of 2011.*

As at December 31, 2020, the Company had a total manpower of 37 consisting of 21 officers and 16 non-officers, which is headed by the Officer-in-Charge. All employees of the ULFC are seconded from the Parent Bank.

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts of ULFC for the period January 1 to December 31, 2020 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 year ended December 31, 2020. Also, we conducted our 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

Particulars	2020	2019	Increase /(Decrease)
Assets	2,618,502,544	3,201,017,173	(582,514,629)
Liabilities	1,194,634,764	1,787,120,988	(592,486,224)
Equity	1,423,867,780	1,413,896,185	9,971,595

II. Comparative Results of Operations

Particulars	2020	2019	Increase/ (Decrease)
Revenues	238,255,682	271,360,817	(33,105,135)
Interest expense	67,376,536	81,161,331	(13,784,795)
Operating expenses	152,326,772	119,090,693	33,236,079
Net income before tax	**18,552,374**	**71,108,793**	(52,556,419)
Tax expense	8,519,537	28,402,240	(19,882,703)
Net profit/(loss)	**10,032,837**	**42,706,553**	**(32,673,716)**
Other comprehensive income/(loss)	(17,000)	138,000	(155,000)
Total comprehensive income	**10,015,837**	**42,844,553**	**(32,828,716)**

III. Comparative Budget and Actual Expenditures

	2020		2019	
	Approved Budget	Expenditures	Approved Budget	Expenditures
Personal services	42,888,236	39,013,824	59,022,496	39,710,379
Operating expenses	59,645,382	60,175,676	83,549,614	62,777,431
Total	**102,533,618**	**99,189,500**	**142,572,110**	**102,487,810**

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of the presentation of the financial statements of the ULFC as at December 31, 2020 and 2019.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The balance of Accounts Payable amounting to P89.308 million includes long outstanding payables to customers totaling P14.752 million which do not satisfy the recognition criteria for liability under the PFRS Conceptual Framework, hence, overstating the account balance by P14.752 million as at December 31, 2020.

We recommended that Management:

a. Apply the long outstanding payables to customers amounting to P14.752 million to the proper accounts to faithfully represent the balance of Accounts Payable and other affected accounts in the financial statements as at December 31, 2020; and

b. Consider re-visiting the ULFC Manual to include specific timelines for the reversal and disposition of long outstanding payables.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of the eight audit recommendations embodied in the prior year's Annual Audit Report, six were fully implemented, one was partially implemented, and one was not implemented and reiterated in Part II of this Report.

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AUDITED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
UCPB Leasing and Finance Corporation
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **UCPB Leasing and Finance Corporation (ULFC)** which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the 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 ULFC as at December 31, 2020 and 2019, 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 2.1 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the ULFC in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees 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. 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 2.1 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 reliefs cover only current year transactions/events and do not impact the comparative periods. The impact of the application of the financial reporting reliefs on the financial statements are discussed in detail in Note 2.1. 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 the 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 2.1 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 ULFC'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 ULFC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the ULFC'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 ULFC's internal control.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in 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 2.1 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 24 and the Revised Securities Regulation Code Rule 68 in Note 25 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and the SEC, 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

LEONILA P. LITERAL
OIC, Supervising Auditor

July 29, 2021

UCPB
LEASING & FINANCE

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

6th Floor, UCPB Corporate Offices
7907 Makati Avenue, Makati City
Philippines 0728
tel: (632) 811-9000
fax: (632) 811-9613
e-mail: crc@ucpb.com
web: www.ucpb.com

The management of **UCPB LEASING AND FINANCE CORPORATION** (the Company) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, as of and for the years ended December 31, 2020 and 2019, 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Commission on Audit has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

LIDUVINO S. GERON
Chairman of the Board

MERCY K. CHUA
Officer-in-charge

IRMA E. JAPSON
Treasurer

Signed this 29th day of July 2021

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of United Coconut Planters Bank)
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Note	2020	2019
ASSETS			
Cash and cash equivalents	7	154,056,103	133,496,507
Loans and Receivables, net	8	2,207,177,946	2,775,689,688
Investment in a Subsidiary, net	9	5,831,009	5,687,456
Investment Properties	10	71,078,140	79,896,222
Deferred Tax Assets, net	19	120,957,828	129,423,212
Property and equipment, net	11	17,975,565	26,354,712
Other assets, net	12	41,425,953	50,469,376
TOTAL ASSETS		**2,618,502,544**	**3,201,017,173**
LIABILITIES AND EQUITY			
Bills payable	13, 22	652,083,333	1,227,083,333
Accounts payables and other liabilities	14	307,174,035	285,017,914
Deposit on lease contracts	8	235,377,396	275,019,741
TOTAL LIABILITIES		**1,194,634,764**	**1,787,120,988**
Capital Stock	16.2	775,000,000	775,000,000
Revaluation Reserves	9	184,000	201,000
Retained Earnings	16.3	648,683,780	638,695,185
EQUITY		**1,423,867,780**	**1,413,896,185**
TOTAL LIABILITIES AND EQUITY		**2,618,502,544**	**3,201,017,173**

The Notes on pages 10 to 64 form part of these financial statements

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of United Coconut Planters Bank)
STATEMENTS OF INCOME
For the years ended December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Note	2020	2019
REVENUES			
Interest income	8	131,998,125	159,895,836
Leasing income	8	83,139,898	89,758,127
Equity share in net earnings of a subsidiary	9	160,553	168,528
		215,298,576	249,822,491
Interest Expense	13	67,376,536	81,161,331
Net interest and leasing income		**147,922,040**	**168,661,160**
Other income, net	17.1	22,957,106	21,538,326
Other operating expenses	17.2	152,326,772	119,090,693
Profit before tax		**18,552,374**	**71,108,793**
Tax expense	19	8,519,537	28,402,240
Net profit		**10,032,837**	**42,706,553**

The Notes on pages 10 to 64 form part of these financial statements

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of United Coconut Planters Bank)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Note	2019	2018
NET INCOME		**10,032,837**	**42,706,553**
Other comprehensive income/(loss)	9	(17,000)	138,000
TOTAL COMPREHENSIVE INCOME		**10,015,837**	**42,844,553**

The Notes on pages 10 to 64 form part of these financial statements

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of United Coconut Planters Bank)
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Capital Stock (Note 16.2)	Revaluation Reserves (Note 9)	Retained earnings (Note 16.3)			TOTAL
			Retained earnings - Appropriated	Retained earnings - Unapropriated	Total Retained earnings	
Balance at January 1, 2020	**775,000,000**	**201,000**	**222,279,972**	**416,415,213**	**638,695,185**	**1,413,896,185**
Prior period adjustment				(44,242)	(44,242)	(44,242)
Total comprehensive income for the year		(17,000)		10,032,837	10,032,837	10,015,837
Balance at December 31, 2020	**775,000,000**	**184,000**	**222,279,972**	**426,403,808**	**648,683,780**	**1,423,867,780**
Balance at January 1, 2019	**775,000,000**	**63,000**	**219,601,433**	**374,060,020**	**593,661,453**	**1,368,724,453**
Prior period adjustment				2,327,179	2,327,179	2,327,179
General loan loss provisioning appropriation for the year			2,678,539	(2,678,539)	0	0
Total comprehensive income for the year		138,000		42,706,553	42,706,553	42,844,553
Balance at December 31, 2019	**775,000,000**	**201,000**	**222,279,972**	**416,415,213**	**638,695,185**	**1,413,896,185**

The Notes on pages 10 to 64 form part of these financial statements

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of United Coconut Planters Bank)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019
(Amounts in Philippine Peso)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Interest received		84,650,612	105,187,145
Collection of Receivables		1,213,784,504	3,077,098,205
Cash received from other revenues		16,520,848	15,507,617
Cash received from clients		12,571,264	232,136,433
Cash received from sale of receivables		327,859,004	253,090,431
Other cash receipts		174,046,700	15,527,466
Adjustments		2,008,601	2,373,166
Total Cash Inflows		**1,831,441,533**	**3,700,920,463**
Cash Outflows			
Cash paid to settle expenses		(821,662,703)	(115,547,868)
Grant of cash advance to employees		(34,550)	(370,225)
Prepayments		(2,800,020)	(123,423)
Payment of accounts payable		(33,794,586)	(511,806,877)
Payment for salaries, personel benefits and contributions		(41,326,336)	(45,933,547)
Release of loan proceeds		(131,081,859)	(2,884,911,368)
Remittance of taxes		(24,851,917)	(56,858,807)
Other disbursments		(184,752,410)	(153,826,250)
Adjustments		(1,736,119)	(4,095,945)
Total Cash Outflows		(1,242,040,499)	(3,773,474,309)
Net Cash Generated from / (Used in) Operating Activities		**589,401,034**	**(72,553,846)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflow			
Proceeds from disposal of property and equipment	11	0	786,489
Proceeds from disposal of Investment property		6,395,456	0
Cash Outflow			
Acquisitions of other assets	12	(20,843)	(1,336,748)
Acquisitions of Investment Property		(216,050)	
Net Cash Used in Investing Activities		**6,158,563**	**(550,259)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Inflow			
Proceeds from availments of bills payable	13, 22	2,200,000,000	2,690,000,000
Cash Outflow			
Repayments of bills payable	13, 22	(2,775,000,000)	(2,577,083,334)
Net Cash Generated from / (Used in) Financing activities		**(575,000,000)**	**112,916,666**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**20,559,596**	**39,812,562**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**133,496,507**	**93,683,945**
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**154,056,103**	**133,496,507**

The Notes on pages 10 to 64 form part of these financial statements

1. CORPORATE INFORMATION

1.1 General Information

UCPB Leasing and Finance Corporation (the Company) is a domestic corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) under SEC Registration No. AS00158561 on January 2, 1989 as a finance company under Republic Act (RA) No. 8556, *The Financing Company Act of 1998*, (the Financing Company Act). The Company is presently engaged in providing services such as lease financing, check discounting and trade receivable financing.

The Company is a wholly owned subsidiary of United Coconut Planters Bank (UCPB or the Parent Bank), a universal bank incorporated and domiciled in the Philippines organized to provide expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange investment banking and trust services.

As of December 31, 2020 and 2019, the Company holds 100 per cent ownership interest in United Foreign Exchange Corporation (UFEC), a domestic company primarily engaged in dealing of foreign currencies and financial instruments.

In September 2010, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved the Company's application to engage in quasi-banking functions. In January 2012, however, the Company decided to cancel its quasi-banking license and the BSP approved its immediate revocation on April 26, 2012.

On August 18, 2017, the SEC approved the change in the registered principal office of the Company from 14th Floor, UCPB Building, 7907 Makati Avenue, Makati City to 6th Floor, UCPB Corporate Offices, 7907 Makati Avenue, Makati City. On August 20, 2018, the Bureau of Internal Revenue (BIR) approved such change in the registered principal office.

On November 20, 2020, the Government Commission for Government-Owned or Controlled Corporation (GCG) formally confirmed the classification of the company as Government Financial Institution (GFI) subject to its regulatory powers, as defined under RA 10149 or the *Governance Act of 2011.*

1.2 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2020 (including the comparative financial statements as of and for the year ended

December 31, 2019) were authorized for issue by the Company's Board of Directors on July 29, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) Memorandum M-2020-08 Regulatory Relief for BSP Supervised Financial Institutions (BSFIs) Affected by Corona Virus Disease 2019 (COVID-19), dated March 14, 2020, and approved by the SEC in Memorandum Circular No. 32-2020 issued on November 17, 2020 in response to the COVID-19 pandemic.

Pursuant to the BSP M-2020-08, the company availed the financial reporting relief for the staggered booking of some of its Allowance for Credit Losses (ACL). The Request for BSP relief was initially applied on March 4, 2021 and resubmitted to the BSP on May 19, 2021 due to other requirements of the BSP. Details of the relief are presented below:

	Amount	**Deferred Tax Asset related to recognized allowance for 2020**	**Unrecognized DTA related to Allowance for Staggered Booking**
Gross Amount of Loans and Receivables	715,082,897		
Deferred Leasing/Capitalized Interest	(43,511,394)		
Outstanding Loans	671,571,503		
Total Expected Credit Losses (ECL)	99,273,315		
Breakdown:			
Allowance recognized for the year 2020	55,912,214	15,375,859	
Allowance For Staggered Booking For Five(5) Years	43,361,101		10,840,275

The relief shall cover only current-year transactions/events and do not impact the comparative period

The BSP approved the request on the staggered booking of the company's ACL over a maximum period of five years on June 23, 2021 as per letter dated July 12, 2021.

The financial statements have been prepared using the measurement bases specified by PFRSs for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents the statement of comprehensive income separate from the statement of income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2020 that are Relevant to the Company

The Company adopted for the first time the following new PFRS, amendments, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

(i) *Revised Conceptual Framework for Financial Reporting*. The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key Changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on difference measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance of faithful representation of the financial statements.

The application of the revised conceptual framework had no significant impact on the company's financial statement.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements,* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*. The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

(iii) PFRS 3 (Amendments), *Business Combinations: Definition of a Business*. The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

This amendment may be applied by the Company in case of future business combination.

(iv) PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 9 (Amendments), *Financial Instruments-Interest Rate Benchmark Reform.* The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

The application of these amendments had no significant impact on the Company's financial statements.

(v) PFRS 16 (Amendments), *COVID-19 Rent Related Concessions.* The amendment provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account any change lease payments resulting from COVID-19 related rent concessions in the same way will account for any change that is not a lease modification-i.e., as variable lease payment

The application of these amendments had no significant impact on the Company's financial statements.

(b) Effective Subsequent to 2020 but not Adopted Early

There are new PFRS, amendments, interpretation and annual improvements to existing standards effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, this is not expected to have significant impact on the Company's financial statements:

(i) PAS 1 (Amendments*), Classification of Liabilities to Current or Non-current*.

The amendments clarify paragraph 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

(ii) PAS 16 (Amendments), *Plant and Equipment: Proceeds before Intended Use.* 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 recognizes the proceeds from such selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting period on or after January 1, 2022 and must be applied retrospectively to items of property plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

(iii) PAS 37 (Amendments), *Onerous Contracts-Cost of Fulfilling a Contract.* The amendments specify which cost an entity need to include when assessing whether a contract is onerous or loss-making. The amendment apply a “directly related approach”. The cost that relate directly to a contract to provide goods or services include both incremental cost and an allocation of cost directly related to contract activities. General Administrative cost do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

(iv) Annual Improvement to PFRSs 2018-2020 Cycle:

- PFRS 1 (Amendment), *First Time adoption of Philippine Financial Reporting Standards, Subsidiary as a first time adopter.* The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  The amendment is effective for annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

- PFRS 9 (Amendment), *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities.* The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting period on or after January 1, 2022 with earlier adoption permitted.

- PAS 41 (Amendment) *Agriculture, Taxation in Fair Value measurements.* The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  The amendment is effective for annual reporting period on or after January 1, 2022 with earlier adoption permitted

(v) PFRS 17 (Amendments), Insurance Contracts. PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, and presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts.*

PFRS 17 is effective for reporting periods on or after January 1, 2023 with comparative figures required. Early application is permitted.

2.3 Separate Financial Statements and Investment in a Subsidiary

These financial statements are prepared as the Company's separate financial statements. As allowed under existing financial reporting standards, the Company has not presented consolidated financial statements because it is itself a wholly owned subsidiary of UCPB, which presents consolidated financial statements available for public use that comply with PFRSs. Moreover, the Company's debt or equity securities are not traded in organized financial market and the Company is not in the process of filing its financial statements with securities commissions or other regulatory organization for the purpose of issuing any class of instruments in an organized financial market.

A subsidiary is an entity over which the Company has control. The Company controls an entity when (i) it has power over the entity; (ii) it is exposed, or has rights to, variable returns from its involvement with the entity; and, (iii) it has the ability to affect those returns through its power over the entity. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above.

The Company's investment in a subsidiary is accounted for in these separate financial statements using the equity method. Under the equity method, all subsequent changes to the ownership interest in the equity of the subsidiary are recognized in the Company's carrying amount of the investment. Changes resulting from the profit or loss generated and the changes in other comprehensive income by the subsidiary is credited or charged against the Equity Share in Net Earnings of a Subsidiary and Other Comprehensive Income (Loss) account in the statements of comprehensive income.

Impairment loss is provided when there is objective evidence that the investment in a subsidiary will not be recovered (see Note 2.13).

2.4 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. All of the Company's financial assets are currently categorized as financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

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

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Company's financial assets at amortized cost are presented in the statements of financial position as Cash and Cash Equivalents, Loans and Receivables and Refundable deposits under Other Assets account

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(b) Recognition of Interest and Leasing Income Using Effective Interest Rate Method

Interest income on financial assets measured at amortized cost is recognized using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Company recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

The interest income on finance lease receivables is allocated over the lease term on a systematic and rational basis. The recognition of interest income on finance lease is based on a pattern reflecting a constant periodic rate of return on the Company's net investment in the finance lease. Lease payments relating to the period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the Statements of Financial Position with an increase or reduction in interest income.

The Company calculates interest income by applying the EIR to the gross carrying amount of financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset subsequently improves.

(c) Impairment of Financial Assets Under PFRS 9

The Company assesses its expected credit losses (ECL) on a forward-looking basis associated with its financial assets at amortized cost. Recognition of credit losses is no longer dependent on Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as ‘Stage 1’ financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as ‘Stage 2’ financial instruments). ‘Stage 2’ financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from ‘Stage 3’. A lifetime ECL shall be recognized for ‘Stage 3’ financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired assets.

The Company’s definition of credit risk and information on how credit risk is mitigated by the Company are disclosed in Note 4.2.

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – It is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon.

- *Loss given default (LGD)* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral.

- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation. In case of a loan commitment, the Company shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The Company measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Company’s detailed ECL measurement as determined by the management is disclosed in Note 4.2.

(d) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.5 Property and Equipment

All items of property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Furniture, fixtures and office equipment	5 years
Transportation equipment	5 years

Leasehold improvements are amortized over the estimated useful lives of the assets of five years or the terms of the lease, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

The residual values estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation, amortization and impairment losses, 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 year the item is derecognized.

Right-of-use assets recognized under PFRS 16 were presented in the statements of financial position as part of Property, Plant and Equipment.

2.6 Investment Properties

Investment properties represent properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

The Company measures investment properties, which include land and building acquired by the Company from defaulting borrowers, under the cost model. The cost of an investment property comprises its purchase price and directly attributable costs incurred. Cost is initially recognized at fair value of the investment properties unless: (i) the exchange transaction lacks commercial substance; or, (ii) neither the fair value of the asset received nor the asset given up can be reliably measured. The difference between the fair value of the asset received, as determined by professional appraisers, and the carrying amount of the loan settled through foreclosure is recognized as Gain or loss on foreclosure under the Other Income account in the statements of income. Investment properties, except land, are depreciated using the straight-line basis over the estimated useful lives of the assets ranging from five to ten years.

Direct operating expenses, such as repairs and maintenance and real estate taxes are normally charged against current operations in the year in which these costs are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized as Gain or loss on sale of assets acquired under the Other Income account in the year of retirement or disposal.

2.7 Other Properties Acquired

Other properties acquired include chattel acquired in settlement of loan receivables. These are stated at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Company applies the cost model in accounting for other properties acquired.

Depreciation is computed on a straight-line basis over the estimated useful life of three to five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see Note 2.13).

2.8 Financial Liabilities

Financial liabilities, which include bills payable, deposit on lease contracts and accounts payables and other liabilities (except tax-related liabilities) are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss as part of Interest Expense in the statements of income.

Bills payable are raised to support the long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Accounts payable and other liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Company.

Financial liabilities are derecognized from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statements of financial position when the Company currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the statements of financial position.

Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the statements of financial position. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Revenue and Expense Recognition

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Company's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Company first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

To determine whether to recognize revenue, the Company follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,

(iii) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The Company also earns service fees related to the Company's factoring receivables which are supported by contracts and approved by the parties involved. These revenues are accounted for by the Company in accordance with PFRS 15.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company concluded that it is acting as a principal in all of its revenue arrangements.

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

(a) Revenues within the scope of PFRS 15

(i) Penalties and Service fees

Penalties and service fees are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

(ii) Gain (Loss) on Sale of Assets Acquired

Gain (loss) on sale of assets acquired arises from the disposals of investment properties and other properties acquired. Revenue is recognized when the risks and rewards of ownership of the assets is transferred to the buyer and when the collectability of the entire sales price is reasonably assured.

(iii) Miscellaneous Income

Income from the sale of services is recognized upon completion of service.

(b) Revenues outside the scope of PFRS 15

(i) Interest and Leasing Income

Interest and leasing income are recognized in profit or loss for all financial instruments measured at amortized cost using the EIR method of accounting.

(ii) Gain (Loss) on Foreclosures

Gain (loss) on foreclosed assets is recognized upon derecognition of existing receivables through foreclosure of assets used as collateral and is determined as the difference between the fair value of the foreclosed asset and the net carrying amount of the receivable settled.

(iii) *Gain (Loss) on Sale of Receivables*

Gain (loss) on sale of receivables is recognized upon sale of loans and receivables, without recourse, wherein the selling price is greater (less) than the carrying amount of loans and receivables sold.

Costs and expenses are recognized in the statements of income upon utilization of the resources and/or services or at the date they are incurred. All finance costs are reported on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.14).

2.12 Leases

The Company accounts for its leases as follows:

(a) Company as Lessee

(i) Accounting for Leases in Accordance with PFRS 16

The Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statements of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Right-of-use assets and lease liabilities were presented in the statements of financial position as part of Property, Plant and Equipment and Other Liabilities, respectively (see Note 11 and 14).

(b) Company as Lessor

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Company's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.13 Impairment of Non-financial Assets

The Company's investment in a subsidiary, property and equipment, investment properties and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.14 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.16 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.17 Equity

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

Revaluation reserves represent the accumulated share in other comprehensive income of a subsidiary.

Appropriated retained earnings pertain to the following:

(a) Accumulated amount set aside for stock dividend declaration purposes.

(b) Accumulated amount of appropriation from unappropriated retained earnings made by the Company arising from the excess of the one per cent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* over the computed allowance for ECL for Stage 1 financial instruments.

Unappropriated retained earnings represent all current and prior period results of operations as reported in the profit or loss section of the statements of comprehensive income, reduced by the amounts of dividends declared, if any.

2.18 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRSs requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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. Actual results may ultimately differ from these estimates.

a. Critical Management Judgments in Applying Accounting Policies

In the process of applying the Company'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:

(a) Evaluation of Business Model Applied in Managing Financial Instruments

Upon adoption of PFRS 9, the Company developed business models which reflect how it manages its portfolio of financial instruments. The Company's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Company) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Company evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Company (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Company's investment and trading strategies.

(b) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets under PFRS 9, the Company assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely for payment of Principal and Interest (SPPI) on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Company assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not Company modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Company considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, if any, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgement, the Company considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Company can explain the reasons for those sales and why those sales do not reflect a change in the Company's objective for the business model.

(c) Distinction Between Investment Properties and Owner-managed Properties

The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

(d) Classification of Acquired Properties

The Company classifies its acquired properties as Property and equipment under Other Assets account if used in operations, as Other properties acquired under Other Assets account if the Company expects that the properties will be recovered principally through sale rather than continuing use of the asset, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation.

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and disclosures on relevant provisions and contingencies are presented in Note 21.

b. Key Sources of Estimation Uncertainty

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

(a) Estimation of Allowance for ECL

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced significant increase in credit risk (SICR) since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Company would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behavior of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;
- criteria for assessing if there has been a SICR and when a financial asset will be transferred between the three stages;
- the Company's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on various groups of financial instruments is further discussed in Note 4.2.

(b) Impairment of Loans and Receivables

The Company reviews its loans and receivables portfolio to assess impairment at least on an annual basis. In determining whether an impairment loss should be recognized in profit or loss, the Company makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 8.

(c) Estimation of Useful Lives of Investment Properties and Property and Equipment

The Company estimates the useful lives of investment properties and property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and other assets 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.

The carrying amounts of investment properties and property and equipment are analyzed in Notes 10 and 11, respectively. Based on management's assessment as at December 31, 2020 and 2019, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Fair Value Measurements of Investment Properties and Other Properties Acquired

The Company's investment properties and other properties acquired consist of parcels of land and buildings and machineries and other equipment which are held for capital appreciation or held under operating lease agreements, and are measured using the cost model. The estimated fair values of investment properties and other properties acquired as disclosed in Note 6.3 are determined on the basis of appraisals conducted by in-house and independent professional appraisers applying the relevant valuation methodologies as discussed therein.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in an adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(e) Determination of Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period 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 asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2020 and 2019 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 19.

(f) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on Investment Properties and Property and Equipment are discussed in Notes 10 and 11, respectively.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which result from both its operating, investing and financing activities and the business in which it operates.

The Company's risk management is coordinated with its parent company, in close cooperation with the Board of Directors, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The significant financial risks to which the Company is exposed to are described below and in the succeeding pages.

4.1 Interest Rate Risk

Interest rate risk arises from the differences between the timing of the rate changes and the timing of cash flows (repricing risk). At December 31, 2020 and 2019, the Company is exposed to changes in market interest rates through its cash and cash equivalents, loans and receivables and bills payable. All other financial assets and financial liabilities are non-interest bearing.

The Company's cash and cash equivalents are subject to insignificant risk of changes in value. Loans and receivables and bills payable have fixed interest rates throughout their short term durations and are not sensitive to prevailing market rate fluctuations.

The Company carefully analyzes interest rate risk exposure based on the interest rate gap of its portfolio of cash and cash equivalents, loans and receivables and bills payable. The focus of the analysis is the impact of changes in interest rates of its interest sensitive liabilities relative to the fixed interest rate for its loans and receivables. The Company ensures that its loanable funds are offered to borrowers at a reasonable price and interest which would give favorable interest margin over the term of the instruments. In certain cases, the Company will reprice its loans and leases depending on the agreement with customers and/or market price.

The interest rate gap analyses as of December 31, 2020 and 2019 are presented below.

	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More Than Five Years**	**Total**
Assets:					
Cash and cash equivalents	154,056,103	0	0	0	154,056,103
Loans and receivables*	403,963,714	213,698,967	774,972,193	1,023,927,411	2,416,562,285
	558,019,817	213,698,967	774,972,193	1,023,927,411	2,570,618,388
Liability:					
Bills payable	652,083,333	0	0	0	652,083,333
Periodic gap	**(94,063,516)**	**213,698,967**	**774,972,193**	**1,023,927,411**	**1,918,535,055**
Cumulative gap	**(94,063,516)**	**119,635,451**	**894,607,644**	**1,918,535,055**	**1,918,535,055**

			2019		
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More Than Five Years**	**Total**
Assets:					
Cash and cash equivalents	133,496,507	0	0	0	133,496,507
Loans and receivables*	2,078,665,987	150,517,522	363,978,726	394,691,065	2,987,853,300
	2,212,162,494	150,517,522	363,978,726	394,691,065	3,121,349,807
Liability:					
Bills payable	636,250,000	588,750,000	2,083,333	0	1,227,083,333
Periodic gap	**1,575,912,494**	**(438,232,478)**	**361,895,393**	**394,691,065**	**1,894,266,474**
Cumulative gap	**1,575,912,494**	**1,137,680,016**	**1,499,575,409**	**1,894,266,474**	**1,894,266,474**

**Loans and receivables subjected to credit risk assessments exclude residual value, deferred leasing income, unearned finance income, capitalized interest and other charges, other receivables and allowance for credit and impairment losses.*

4.2 Credit Risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument may fail to meet its contractual obligations to the Company. Credit risk is found in all activities where success depends on counterparty, issuer or borrower performance. It arises any time when the Company funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the statements of financial position. Credit risk is not limited to the loan portfolio. The

Company uses risk asset acceptance criteria when initially considering a prospect. When the prospect does not meet these criteria, the Company normally does not further pursue the account. When the prospect passes the criteria, the Company performs qualitative and quantitative analyses to determine creditworthiness of the prospect. The qualitative analysis includes evaluation of the borrower's ownership, management, product, production/process, industry, security and collateral, suppliers, customers, etc. The quantitative analysis includes review of past and present financial condition and future expectations based on assumptions and projections.

The Company is also required to follow rules and regulations of the BSP on directors, officers, stockholders and related interests (DOSRI), single borrower's limit, account classification, general and specific loan reserve policy and others. With respect to bank deposits, the Company's BOD approves the banks with which the Company shall deal with.

(a) Credit Risk Assessment

The Company's credit risk assessment is performed based on the different segments of financial asset portfolio such as lease contract, loans and finance receivables. The Company also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Company's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions (or industry performance), expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

The Company uses its 10-grade internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts from a scale of one indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than seven demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. The model on risk ratings is assessed and updated regularly. Validation of the risk rating is performed by the Risk Management Division to maintain accurate and consistent risk ratings across the credit portfolio. Past due accounts and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Non-Bank Financial Institutions and under Section 4178Q, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Company to assign the individually assessed loan within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e., Stage 1, 2, 3).

In the process of applying the Company's ICRRS in determining indications of impairment on the loans and receivables, the Company analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Credit Quality	ICRR System Grade	Description
High grade	1	Excellent
	2	Strong
Standard grade	3	Good
	4	Satisfactory
	5	Acceptable
	6	Watchlist
Substandard grade	7	Especially mentioned
	8	Substandard
Impaired	9	Doubtful
	10	Loss

(1) *Excellent* – The rating is given to a borrower with a very low probability of going into default in the coming year. The borrower has a high degree of stability, substance and diversity and has access to public markets to raise substantial amounts of funds at any time; has a very strong debt service capacity and has conservative balance sheet leverage. The track record of the borrower in terms of profit is very good and exhibits highest quality under virtually all economic conditions.

(2) *Strong* – This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Borrower has a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative.

(3) *Good* – This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Probability of default is quite low and it bears some degree of stability and substance. However, borrower may be susceptible to cyclical changes and more concentration of business risk, by product or by market. Typical for this type of borrower is the combination of comfortable asset protection and an acceptable balance sheet structure.

The debt service capacity of the borrower is strong and has reported profits for the past three years and is expected to be profitable again in the current year.

(4) *Satisfactory* – This rating is given to a borrower where clear risk elements exist, the probability of default is somewhat greater and normally has limited access to public markets. The probability is reflected in volatility of earnings and overall performance. The borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. The borrower has the combination of reasonably sound asset and cash flow protection with adequate debt service capacity and has reported profits in the past year and is expected to report a profit in the current year.

(5) *Acceptable* – This rating is given to a borrower whose risk elements are sufficiently pronounced to withstand normal business cycles but any prolonged

unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. The risk to this borrower is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

(6) *Watchlist* – This rating is given to a borrower which incurs net losses and has salient financial weaknesses, specifically in profitability, reflected on its financial statements. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

(7) *Especially Mentioned* – This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. No immediate threat to the repayment of the loan exists through normal course of business but factors may exist that could adversely affect the credit worthiness of the borrower.

(8) *Substandard* – This rating is given to a borrower where repayment of the loan, through normal course of business, may be in jeopardy due to adverse events. There exists the possibility of future losses to the institution unless given closer supervision.

(9) *Doubtful* – This rating is given to a borrower who is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful. Existing facts, conditions, and values make full collection or liquidation highly improbable and in which substantial loss is probable.

(10) *Loss* – This rating is given to a borrower whose loans or portions thereof are considered uncollectible. The collectible amount, with no collateral or which collateral is of little value, is difficult to measure and more practical to write-off than to defer even though partial recovery may be obtained in the future.

(b) *Exposure to Credit Risk*

The amount of loans and receivables, net of any allowances for impairment and unearned discount and interest, cash and cash equivalents and refundable deposits recorded in the statements of financial position represent the Company's maximum exposure to credit risk without taking into account the value of any collateral obtained.

The Company's financial assets subject to credit risks are categorized under loans and receivables and are broken down as follows:

	Note	**2020**	**2019**
Cash and cash equivalents	7	154,056,103	133,496,507
Loans and receivables	8	2,207,177,946	2,775,689,688
Refundable deposits	12	918,451	918,451
		2,362,152,500	**2,910,104,646**

As part of Company policy, bank deposits are only maintained with reputable financial institutions. Cash in banks which are insured by the PDIC up to a maximum coverage of P0.50 million per depositor per banking institution, as provided for under R.A. No. 9576, *Amendment to Charter of PDIC*, are still subjected to credit risk.

The tables below show the credit quality per class of loans and receivables, based on the Company's rating system (gross of allowance for credit and impairment losses and unearned discounts) as of December 31, 2020.

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
High Grade	3,851,052			3,851,052
Standard Grade	706,007,601	257,528,667	52,305,490	1,015,841,758
Substandard Grade	165,194,742	400,233,244	321,602,732	887,030,718
Impaired	1,420,666	5,079,392	503,338,699	509,838,757
	876,474,061	**662,841,303**	**877,246,921**	**2,416,562,285**
Other receivables:				
High Grade				
Standard Grade	57,394,474	4,124,094	678,380	62,196,948
Substandard Grade				
	57,394,474	4,124,094	678,380	62,196,948
	933,868,535	**666,965,397**	**877,925,301**	**2,478,759,233**

Movements during 2020 for receivables from customers and other receivables follow:

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
Balance at January 1,2020	1,937,843,511	496,690,783	553,319,006	2,987,853,300
New assets originated or purchased	798,770,162	70,343,631		869,113,793
Assets derecognized or repaid	(1,263,753,911)	(134,226,595)	(42,424,302)	(1,440,404,808)
Transfer to/(from) Stage 1	(596,385,700)	0	0	(596,385,700)
Transfer to/(from) Stage 2	0	230,033,485	0	230,033,485
Transfer to/(from) Stage 3	0	0	366,352,215	366,352,215
	876,474,062	**662,841,304**	**877,246,919**	**2,416,562,285**
Other receivables:				
Balance at January 1,2019	15,166,763	4,669,155	588,559	20,424,477
New assets originated or purchased	109,682,724	1,915,150	0	111,597,874
Assets derecognized or repaid	(64,850,474)	(2,333,098)	(2,641,831)	(69,825,403)
Transfer to/(from) Stage 1	1,213,610	(127,113)	(1,086,497)	0
Transfer to/(from) Stage 2	0	0	0	0
Transfer to/(from) Stage 3	(3,818,149)	0	3,818,149	0
	57,394,474	**4,124,094**	**678,380**	**62,196,948**
	933,868,536	**666,965,398**	**877,925,299**	**2,478,759,233**

An analysis of changes in the ECL allowances in 2020 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
Balance at January 1, 2020	5,612	9,315,237	320,246,864	329,567,713
Provisions (reversals)	20,987,085	17,895,140	10,429,983	49,312,208
Reclassifications/reallocation	0	0	(2,258,404)	(2,258,404)
Transfer to/(from) Stage 1	7,072	0	0	7,072
Transfer to/(from) Stage 2	0	3,302,936	0	3,302,936
Transfer to/(from) Stage 3	0	0	(3,310,008)	(3,310,008)

	Stage 1	Stage 2	Stage 3	Total
	20,999,769	**30,513,313**	**325,108,435**	**376,621,517**
Other Receivables				
Balance at January 1, 2020		65,859	1,478,800	1,544,659
Provisions (reversals)			1,906,815	1,906,815
Reclassifications/reallocation			(1,003,778)	(1,003,778)
Transfer to/(from) Stage 1	36,997		(36,997)	0
Transfer to/(from) Stage 2		(65,859)	65,859	0
Transfer to/(from) Stage 3			0	0
	36,997	0	2,410,699	2,447,696
	21,036,766	**30,513,313**	**327,519,134**	**379,069,213**

The breakdown of provision (recovery) for impairment losses for the period December 31, 2020 is shown below.

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers	20,987,085	17,895,140	10,429,983	49,312,208
Other Receivables			1,906,815	1,906,815
	20,987,085	**17,895,140**	**12,336,798**	**51,219,023**

The amounts of “Transfers to (from)” include the changes in the ECL on the exposures transferred from one stage to another during the year.

In response to the impact of COVID-19 pandemic, the company granted its customers the mandatory reliefs provided by the government under the Republic Act No. 11469 or the “Bayanihan to Heal as One Act” (Bayanihan 1) and the Republic Act No. 11494 or the “Bayanihan to Recover as One Act” (Bayanihan 2).

The impact of the application of the thirty (30) and sixty (60) days mandatory grace periods provided under the above mentioned laws amounted to P1.2 billion uncollected principal amount of loan receivables with related interest of P22.8 million.

(c) Collateral Held as Security and Other Credit Enhancements

The Company holds collateral against loans and receivables in the form of mortgage interests over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated, except when a loan is individually assessed as impaired.

	2020	2019
For neither past due but not impaired		
Chattel mortgage	313,011,467	599,362,759
Real estate mortgage	6,577,747	13,969,872
Finance lease	323,430,929	640,834,138
For impaired		
Chattel mortgage	109,724,854	64,789,736
Real estate mortgage	9,149,760	1,067,400
Finance lease	106,380,690	18,886,179
For under litigation		
Chattel mortgage	1,339,125	0

	2020	2019
Real estate mortgage	1,067,400	0
Finance lease	6,528,438	0
	877,210,410	1,338,910,084

(d) Concentrations of Credit Risk

The Company monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below.

	Cash and Cash Equivalents		Loans and Receivables	
	2020	**2019**	**2020**	**2019**
Concentration by sector:				
Financial institutions	154,056,103	133,496,507		
Trading/Commercial			723,176,591	916,906,992
Manufacturing			344,164,360	504,461,975
Services			193,680,785	253,073,787
Others			1,155,540,549	1,313,410,546
	154,056,103	**133,496,507**	**2,416,562,285**	**2,987,853,300**

**Loans and receivables subjected to credit risk assessments exclude residual value, deferred leasing income, unearned finance income, capitalized interest and other charges, other receivables and allowance for credit and impairment losses.*

The Company maintains a general policy of avoiding excessive exposure in any particular sector of the Philippine economy. The Company actively seeks to increase its exposure in industry sectors, which it believes to possess attractive growth opportunities. Conversely, it actively seeks to reduce its exposure in industry sectors where growth potential is minimal.

4.3 Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations when they become due without incurring unacceptable losses. The Company manages this risk by widening its money market customer base, maintaining adequate credit facilities with banks, and following guidelines set by the BSP on statutory and liquidity reserve policy.

As at December 31, 2020 and 2019, the Company's financial liabilities (except tax-related liabilities) have contractual maturities which are presented below.

	2020			
	One to three months	**More than three months to one year**	**More than one year to three years**	**Total**
Bills payable	652,083,333	0	0	652,083,333
Accrued expenses and other liabilities	297,197,552	4,619,217	2,415,505	304,232,274
Deposit on lease contracts	17,344,585	41,441,204	176,591,607	235,377,396
	966,625,470	**46,060,421**	**179,007,112**	**1,191,693,003**

	2019			
	One to three months	**More than three months to one year**	**More than one year to three years**	**Total**
Bills payable	636,250,000	588,750,000	2,083,333	1,227,083,333
Accrued expenses and other liabilities	75,089,573	200,000,000		275,089,573
Deposit on lease contracts	8,825,740	48,937,101	217,256,900	275,019,741
	720,165,313	**837,687,101**	**219,340,233**	**1,777,192,647**

The contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting date.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIALLIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position, at amortized cost, are shown below.

		2020		2019	
Financial Assets	**Note**	**Carrying Amount**	**Fair Values**	**Carrying Amount**	**Fair Values**
Cash and cash equivalents	7	154,056,103	154,056,103	133,496,507	133,496,507
Loans and receivables	8	2,207,177,946	2,208,684,295	2,775,689,688	2,801,505,871
Refundable deposits	12	918,451	918,451	918,451	918,451
		2,362,152,500	**2,363,658,849**	**2,910,104,646**	**2,935,920,829**
Financial Liabilities					
Bills payable	13	652,083,333	652,083,333	1,227,083,333	1,227,083,333
Accounts payables and other liabilities	14	304,232,274	304,232,274	275,089,573	275,089,573
Deposit on lease contracts	8	235,377,396	235,377,396	275,019,741	275,019,741
		1,191,693,003	**1,191,693,003**	**1,777,192,647**	**1,777,192,647**

See Notes 2.4 and 2.8 for the description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting Financial Assets and Financial Liabilities

The Company has not set-off financial instruments in 2020 and 2019 and does not have relevant 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 Company's lease contract receivables from the lessees, net of deferred leasing income and allowance for impairment, amounting to P0.95 million and P1.24 billion as of December 31, 2020 and 2019, respectively, can be offset by the amount of deposits on lease contracts amounting to P235.38 million and P275.02 million as of December 31, 2020 and 2019, respectively. The balance of lease contract receivables net of deposits on lease contracts amounted to P0.72 billion and P0.96 billion as of December 31, 2020 and 2019, respectively.

6. FAIR VALUE MEASUREMENT AND DISCLOSURE

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset 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 within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

For financial assets which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Management considers that the carrying values of financial assets, such as cash and cash equivalents, loans and other receivables and refundable deposits, and financial liabilities such as accounts payables and other liabilities approximates the fair values either because these financial instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

6.2 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed as of December 31.

			2020	
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and cash equivalents	154,056,103			154,056,103
Loans and receivables			2,208,684,295	2,208,684,295
Refundable deposits			918,451	918,451
	154,056,103		**2,209,602,746**	**2,363,658,849**
Financial Liabilities				
Bills payable			652,083,333	652,083,333
Accounts payables and other liabilities			304,232,274	304,232,274
Deposit on lease contracts			235,377,396	235,377,396
			1,191,693,003	**1,191,693,003**

			2019	
Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	133,496,507			133,496,507
Loans and receivables			2,801,505,871	2,801,505,871
Refundable deposits			918,451	918,451
	133,496,507		**2,802,424,322**	**2,935,920,829**
Financial Liabilities				
Bills payable			1,227,083,333	1,227,083,333
Accounts payables and other liabilities			275,089,574	275,089,574
Deposit on lease contracts			275,019,741	275,019,741
			1,777,192,648	**1,777,192,648**

For financial asset with fair values included in Level 1, management considers that the carrying amounts of these instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

6.3 Fair Value Measurement of Non-financial Assets

The table below shows the Levels within the hierarchy of assets classified as investment properties and other properties acquired measured at fair value as at December 31.

			2020	
	Level 1	**Level 2**	**Level 3**	**Total**
Investment property:				
Land			51,714,200	51,714,200
Building			34,693,000	34,693,000
			86,407,200	86,407,200
Other properties acquired:				
Machineries and other equipment			25,650,500	25,650,500
			112,057,700	**112,057,700**

			2019	
	Level 1	**Level 2**	**Level 3**	**Total**
Investment property:				
Land			99,158,900	99,158,900
Building			42,078,000	42,078,000
			141,236,900	**141,236,900**
Other properties acquired:				
Machineries and other equipment			54,527,000	54,527,000
			195,763,900	**195,763,900**

The basis in determining the fair value of the Company’s land, and buildings and related improvements classified as Investment Properties and machineries and other equipment classified as Other properties acquired under Other Assets account are based on the appraisals performed by internal appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations (see Notes 10 and 12).

To some extent, the valuation process was conducted by the appraiser in discussion with the Company’s management with respect to the determination of the inputs such as the size, age, and condition of the land and building and improvements, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant’s ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Company’s non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

(a) Fair Value Measurement for Land

The fair value of land was derived using market data (direct sales comparison) approach where the value of the land is based on sales and listings of comparable properties registered within the vicinity. The market data approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property. The technique of this approach requires adjustments to sales and listings by considering the elements of comparison such as real property rights conveyed, conditions of sale, market conditions, location, physical condition and amenities.

(b) Fair Value Measurement of Machineries and Other Equipment

The fair value of the transportation and other equipment was determined based on the appraisal report of independent appraisers. Fair value was determined based on the replacement cost of an asset with an equally satisfactorily substitute asset which is normally derived from the current acquisition cost of a similar asset, new or used, or of an equivalent productive capacity or service potential.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2020	2019
Cash in banks	154,051,103	133,488,507
Cash on hand	5,000	8,000
	154,056,103	**133,496,507**

Cash in banks generally earn interest at rates based on daily bank deposit rates.

In 2020 and 2019, interest income recognized from cash and cash equivalents amounted to P270,766 and P278,026, respectively, and is presented as part of Interest Income in the statements of income.

8. LOANS AND RECEIVABLES

This account is composed of the following:

	2020	2019
Receivables from customers:		
Lease contracts receivables	885,270,552	1,155,493,975
Residual value of leased properties	230,753,280	268,358,919
Deferred leasing income	(106,586,000)	(149,387,358)
Less: Allowance for credit and impairment losses	(51,563,331)	(29,532,245)
General Loan Loss Provision	(9,333,711)	0
	948,540,790	1,244,933,291

	2020	2019
Loans receivable	903,154,793	1,009,670,704
Less: Allowance for credit and impairment losses	(39,200,785)	(53,999,740)
General Loan Loss Provision	(10,644,198)	
	853,309,810	955,670,964
Finance receivables:		
Check discounting	134,097,701	292,624,724
Invoice discounting	228,330,246	296,370,617
Rental discounting	0	1,984,161
Unearned finance income:		
Check discounting	(441,442)	(5,346,488)
Invoice discounting	(1,165,892)	(1,939,411)
Rental discounting	0	(19,275)
Less: Allowance for credit and impairment losses	(172,593,540)	(177,332,826)
General Loan Loss Provision	(1,021,860)	0
	187,205,213	406,341,502
Restructured receivables	265,708,993	231,709,118
Residual value of leased properties under restructured receivables	4,174,222	4,174,222
Capitalized interest and other charges	(19,246,242)	(17,316,327)
Less: Allowance for credit and impairment losses	(92,264,092)	(68,702,902)
	158,372,881	149,864,111
Other receivables:		
Sales contracts receivable	6,050,448	8,007,367
Less: General Loan Loss Provision	(36,997)	0
Accounts receivable	5,987,892	5,624,664
Accrued interest receivable	46,809,304	3,100,360
Others	3,349,304	3,692,088
Less: Allowance for credit and impairment losses	(2,410,699)	(1,544,659)
	59,749,252	18,879,820
	2,207,177,946	**2,775,689,688**

Lease contracts receivable are due in monthly installments with terms ranging from one to five years. These are broken down as follows:

	2020	2019
Lease contracts receivable:		
Due within one year	92,599,722	87,367,880
Due beyond one year but not beyond five years	792,670,830	1,068,126,095
	885,270,552	1,155,493,975
Residual value of leased properties:		
Due within one year	58,472,894	55,413,240
Due beyond one year but not beyond five years	172,280,386	212,945,679
	230,753,280	268,358,919
Gross investment in lease contract receivable	1,116,023,832	1,423,852,894
Less: Deferred leasing income	(106,586,000)	(149,387,358)
Net investment in lease contracts receivable	**1,009,437,832**	**1,274,465,536**

The net investment in lease contracts receivable by contractual maturity dates are analyzed as follows:

	2020	2019
Due within one year	144,663,268	139,011,981
Due beyond one year but not beyond five years	864,774,564	1,135,453,555
	1,009,437,832	**1,274,465,536**

As at December 31, 2020 and 2019, residual value of leased properties amounting to P234.93 million and P272.53 million, respectively, pertains to the estimated proceeds from the disposals of the leased asset at the end of the lease term, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease as presented in Deposit on Lease Contracts in the statements of financial position. At the end of the lease term, the lessee may apply this deposit as payment for the residual value of the property.

Lease contracts receivable earn annual interest at rates ranging from seven per cent to 18 per cent and seven per cent to 13.50 per cent in 2020 and 2019, respectively. The Company recognized interest income from lease contracts receivable amounting to P83.14 million and P89.76 million in 2020 and 2019, respectively, and is presented as Leasing Income under Revenues in the statements of income.

Loans receivable are secured commercial loans extended by the Company for financing acquisitions of properties and equipment. Loans receivable earn annual interest rates ranging from seven per cent to 16 per cent and seven per cent to 15 per cent in 2020 and 2019, respectively.

Loans receivable by contractual maturity dates is analyzed as follows:

	2020	2019
Due within one year	83,509,200	17,880,705
Due beyond one year but not beyond five years	819,645,593	991,789,999
	903,154,793	**1,009,670,704**

Restructured receivables earn annual interest at rates ranging from seven per cent to 18 per cent and seven per cent to 12 per cent in 2020 and 2019, respectively.

The breakdown of the Company's interest income follows:

	Note	2020	2019
Finance receivables		28,908,819	62,037,292
Loans receivable		93,931,603	81,528,879
Restructured receivables		8,173,916	14,949,853
Sales contract receivable		713,021	1,101,786
Cash in banks	7	270,766	278,026
		131,998,125	**159,895,836**

As at December 31, 2020 and 2019, non-performing loans (NPLs) not fully covered by allowance for credit losses amounted to P453.69 million and P493.34million, respectively.

As at December 31, 2020 and 2019, secured and unsecured NPLs follow:

	2020	2019
Secured	446,779,956	223,914,930
Unsecured	6,909,001	269,424,330
	453,688,957	**493,339,260**

Generally, NPLs refer to loans whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

Due to the impact of COVID-19 pandemic, Gross amount of loan receivables, classified as NPLs, amounting to P479.3 million were included in the relief approved by the BSP for five year staggered booking of its ECL. The related ECL for these accounts amounted to P25.2 million.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of receivables that are payable in weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches more than 10 per cent of the total receivable balance.

A loan which is restructured shall be considered non-performing except when as of restructuring date:

(1) with updated principal and interest payments; and,

(2) fully-secured by real estate with loan value of up to 60 per cent of the appraised value of the real estate security and the insured improvements thereon, and such other first-class collaterals as may be deemed appropriate by the Monetary Board. Provided, that a restructured loan, with or without capitalized interest, must be yielding a rate of interest equal to or greater than the Company's average cost of funds at the date of restructuring, otherwise, it shall be considered non-performing.

The restoration to a performing loan shall only be effective after a satisfactory track record of payments of the required amortizations of principal and/or interest has been established.

For this purpose, a satisfactory track record of payments of principal and/or interest shall mean three consecutive payments of the required amortizations of principal and/or interest have been made.

However, in the case of a restructured loan with capitalized interest but not fully secured by real estate with loan value of up to 60 per cent of the appraised value of the real estate security and the insured improvements thereon or other first class collaterals, six consecutive payments of the required amortizations of principal and/or interest must have been made.

A restructured loan which has been restored to a performing loan status shall be immediately considered non-performing in case of default of any principal or interest payment.

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

	Lease Contract Receivables	Loans Receivables	Finance Receivables	Restructured Receivables	Other Receivables	Total
At January 1, 2020	29,532,245	53,999,740	177,332,826	68,702,902	1,544,659	331,112,372
Losses (reversals)				49,312,208	4,339,729	53,651,937
Reclassifications/ reallocation	31,364,797	(4,154,757)	(3,717,426)	(25,751,017)	(3,436,692)	(5,695,095)
Write-off	0	0	0	0	0	0
At December 31, 2020	**60,897,042**	**49,844,983**	**173,615,400**	**92,264,093**	**2,447,696**	**379,069,214**
At January 1, 2019	76,807,672	75,806,275	219,227,820	121,816,653	712,792	494,371,212
Losses (reversals)				16,520,113	442,931	16,963,044
Reclassifications/ reallocation	(17,766,417)	(5,971,517)	52,777,822	(25,086,837)	388,936	4,341,987
Write-off	(29,509,010)	(15,835,018)	(94,672,816)	(44,547,027)		(184,563,871)
At December 31, 2019	**29,532,245**	**53,999,740**	**177,332,826**	**68,702,902**	**1,544,659**	**331,112,372**

The Management reassessed the required allowance to cover significant losses as at December 31, 2020 and recognized the required ECL based on PFRS 9 at P478.3 million.

Relief for un-booked ECL were approved by the BSP for staggered booking for maximum of five years. (See Note 2.1)

9. INVESTMENT IN A SUBSIDIARY

Investment in a subsidiary pertains to investment in UFEC, a wholly owned subsidiary of the Company, with a carrying amount of P5.83 million and P5.69 million at December 31, 2020 and 2019, respectively, which is accounted for at equity method.

BSP has regulated the foreign exchange market which resulted to stringent regulations affecting the business operations of foreign exchange corporations that led to the suspension of the UFEC's commercial operations in 2004. UFEC had an initial plan to terminate its corporate life on December 31, 2016. However, UFEC has decided to put on hold its dissolution plans. The decision to resume UFEC's operation will depend largely on the policy direction the regulators would take in the succeeding years.

The movements in the carrying amount of investment in a subsidiary as of December 31, which is accounted for under the equity method, is shown the succeeding page.

	2020	2019
Cost	4,025,000	4,025,000
Accumulated share in net profit:		
Balance at beginning of the year	1,461,456	1,292,928
Share in net profit	160,553	168,528
Balance at end of the year	1,622,009	1,461,456
Accumulated share in other comprehensive income:		
Balance at beginning of the year	201,000	63,000
Share in other comprehensive income	(17,000)	138,000
Balance at end of the year	184,000	201,000
Carrying amount of investment	5,831,009	5,687,456

10. INVESTMENT PROPERTIES

The Company's investment properties include buildings and several parcels of land, which are held for investment purposes only and not for sale within 12 months from the end of the reporting period nor used in the Company's daily operations. Real estate tax on investment property for each year was recognized as a related expense in 2020 and 2019. There was no income recognized related to these assets in 2020 and 2019.

The carrying amounts of investment properties presented in the statements of financial position as at December 31, 2020 and 2019 are shown below.

	2020	2019
Cost	81,227,441	86,887,040
Accumulated depreciation	(5,618,802)	(3,594,102)
Accumulated impairment	(4,530,499)	(3,396,716)
Net carrying amount	**71,078,140**	**79,896,222**

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2020 and 2019 is shown below:

	2020	2019
Balance at beginning of the year	79,896,222	83,890,710
Additions	278,400	1,584,000
Adjustment on impairment	(1,382,522)	4,732,012
Depreciation	(2,024,700)	(2,024,700)
Disposals	(5,689,260)	(8,285,800)
Balance at end of the year	**71,078,140**	**79,896,222**

The aggregate appraised values of the investment properties as at December 31, 2020 and 2019 are P86.42 million and P141.24 million, respectively. Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 6.3.

Fair values which are market values for land and building and related improvements and reproduction cost for certain building and improvements have been determined based on valuations made by in-house and independent professional appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

Gain on sale of investment properties amounted to P0.68 million and P1.26 million in 2020 and 2019, respectively, and is presented as part of Gain on sale of assets acquired under the Other Income account in the statements of income (see Note 17.1).

11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2020 and 2019 are shown in the succeeding page.

	Furniture, Fixtures and Office Equipment	**Transportation Equipment**	**Leasehold Improvement**	**Right of Use Asset**	**Total**
December 31, 2020					
Cost	5,124,942	4,081,061	8,577,344	10,269,173	28,052,520
Accumulated Depreciation and amortization	(4,131,654)	(2,761,657)	(3,183,644)	0	(10,076,955)
Net Carrying Amount	**993,288**	**1,319,404**	**5,393,700**	**10,269,173**	**17,975,565**

	Furniture, Fixtures and Office Equipment	**Transportation Equipment**	**Leasehold Improvement**	**Right of Use Asset**	**Total**
December 31, 2019					
Cost	6,556,153	4,219,178	8,475,908	16,640,579	35,891,818
Accumulated Depreciation and amortization	(4,883,468)	(2,306,175)	(2,347,463)	0	(9,537,106)
Net Carrying Amount	**1,672,685**	**1,913,003**	**6,128,445**	**16,640,579**	**26,354,712**
January 1, 2019					
Cost	8,305,731	4,136,303	8,475,907	0	20,917,941
Accumulated Depreciation Accumulated Depreciation and amortization	(5,985,974)	(1,525,701)	(1,163,833)	0	(8,675,508)
Net Carrying Amount	**2,319,757**	**2,610,602**	**7,312,074**	**0**	**12,242,433**

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2020 and 2019 is shown below:

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvement	Right of Use Asset	Total
Balance at January 1, 2020 net of accumulated depreciation and amortization	1,672,685	1,913,003	6,128,445	16,640,579	26,354,712
Additions		90,439	76,922		167,361
Disposal	(38,740)	(16,704)			(55,444)
Reclassification	(4)	0	0		(4)
Depreciation and amortization charges for the year	(640,653)	(667,334)	(811,667)	(6,371,406)	(8,491,060)
Balance at December 31, 2020 net of accumulated depreciation and amortization	**993,288**	**1,319,404**	**5,393,700**	**10,269,173**	**17,975,565**
Balance at January 1, 2019 net of accumulated depreciation and amortization	2,319,757	2,610,602	7,312,074	23,011,986	35,254,419
Additions	535,346	928,065			1,463,411
Disposal		(1,039,846)			(1,039,846)
Reclassification	(403,455)	223,999			(179,457)
Depreciation and amortization charges for the year	(778,963)	(809,817)	(1,183,629)	(6,371,406)	(2,772,409)
Balance at December 31, 2019 net of accumulated depreciation and amortization	**1,672,685**	**1,913,003**	**6,128,445**	**16,640,579**	**26,354,712**

12. OTHER ASSETS

This account consists of:

	Note	2020	2019
Other properties acquired – net	12.1	27,193,086	33,938,803
Prepaid expenses		7,999,864	9,629,113
Refundable deposits		918,451	918,451
Others		5,314,552	5,983,009
		41,425,953	**50,469,376**

12.1 Other Properties Acquired

The movements of other properties acquired are presented below.

	Note	2020	2019
Cost			
Balance at beginning of year		68,786,220	61,156,220
Additions		3,819,000	10,730,000
Disposal		(7,372,500)	(3,100,000)
Balance at the end of year		**65,232,720**	**68,786,220**
Accumulated Depreciation			
Balance at the beginning of year		31,055,884	20,897,958
Depreciation during the year	17.2	12,479,549	11,186,592
Disposal		(7,372,499)	(1,028,666)
Balance at the end of year		**36,162,934**	**31,055,884**
Allowance for Impairment Losses			
Balance at the beginning of year		3,791,533	8,079,226
Reallocation		(1,914,833)	(4,287,693)
Impairment during the year	17.2	0	0
Disposal		0	0
Balance at the end of year		**1,876,700**	**3,791,533**
		27,193,086	**33,938,803**

In 2020 and 2019, the Company recognized net gain on foreclosure of other properties acquired amounting to P3.14 million and P5.13 million, respectively, and presented under Gain on foreclosure under the Other Income account in the statements of income (see Note 17.1).

In addition, the Company reported nil gain/loss on sale of other properties acquired in 2020 and incurred a loss on sale of other properties acquired amounting to P1.26 million in 2019 presented as part of Loss on sale of assets acquired under the Other Income account in the statements of income (see Note 17.1).

The aggregate appraised values of other properties acquired as of December 31, 2020 and 2019 are P47.70 million and P54.53 million, respectively. Other information about the fair value measurement and disclosures related to other properties acquired are presented in Note 6.3.

13. BILLS PAYABLE

This account consists of borrowings from various banks which are unsecured in nature, have contractual maturities ranging from one month to three years.

The Company pays annual interest rates ranging from 6.5 per cent to 7.37 per cent in 2020 and 5.85 per cent to 7.5 per cent in 2019. Interest expense from bills payable amounted to P66.34 million and P80.67 million in 2020 and 2019, respectively, and is presented as Interest Expense in the statements of income. Interest which remained unpaid as of December 31, 2020 and 2019 amounted to P3.52 million and P2.45 million, respectively, and is presented as Accrued interest on bills payable under the Accounts

Payables and Other Liabilities account in the statements of financial position (see Note 14).

14. ACCOUNTS PAYABLES AND OTHER LIABILITIES

This account consists of the following as of December 31:

	Note	2020	2019
Dividends payable	16.3	200,000,000	200,000,000
Accounts payable		89,308,310	60,019,039
Accrued taxes and licenses		2,570,822	3,719,735
Withholding tax payable		370,939	1,436,421
Accrued interest on bills payable	13	3,521,260	2,454,767
Accrued other expenses		2,629,904	1,500,495
Lease liability		8,772,800	15,887,457
		307,174,035	**285,017,914**

Accounts payable consists of unreleased checks to suppliers of properties leased by borrowers and advances from customers received upon availment of a loan or lease contract which are used for notarial fees, appraisal fees, registration fees and other related expenses.

Accrued other expenses include management and other professional fees, rent and other expenses.

Lease liability was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of January 1, 2019.The average incremental borrowing rate applied to the lease liability was seven per cent.

The undiscounted maturity analysis of lease liabilities as at December 31, 2020 is as follows:

	Within 1 year	Two to Five years	Total
Lease Payments	7,790,005	3,168,603	10,958,608
Finance Charges	(1,432,710)	(753,098)	(2,185,808)
Net Present Value	**6,357,295**	**2,415,505**	**8,772,800**

15. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

	2020			2019		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and cash equivalents	154,056,103	0	154,056,103	133,496,507	0	133,496,507
Loans and receivables – gross	675,391,805	1,910,855,355	2,586,247,160	762,232,338	2,344,569,722	3,106,802,060

	2020			2019		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Refundable deposits	0	918,451	918,451	0	918,451	918,451
	829,447,908	1,911,773,806	2,741,221,714	895,728,845	2,345,488,173	3,241,217,018
Allowance for credit and impairment losses	(221,020,161)	(158,049,052)	(379,069,213)	(204,880,332)	(126,232,040)	(331,112,372)
	608,427,747	1,753,724,754	2,362,152,501	690,848,513	2,219,256,133	2,910,104,646
Non-Financial Assets						
Investment in a subsidiary - net	0	5,831,009	5,831,009	0	5,687,456	5,687,456
Investment properties – net	0	71,078,140	71,078,140	0	79,896,222	79,896,222
Deferred tax assets – net	0	120,957,828	120,957,828	0	129,423,212	129,423,212
Property and equipment – net	0	17,975,565	17,975,565	0	26,354,712	26,354,712
Other assets - net	12,862,066	27,645,436	40,507,502	15,612,087	33,938,803	49,550,890
	12,862,066	243,487,978	256,350,044	15,612,087	275,300,405	290,912,492
	621,289,813	1,997,212,732	2,618,502,545	706,460,600	2,494,556,538	3,201,017,138
Financial Liabilities						
Bills Payable	652,083,333	0	652,083,333	1,225,000,000	2,083,333	1,227,083,333
Accounts payable and other liabilities	304,232,274	0	304,232,274	279,861,758	0	279,861,758
Deposits on lease contracts	58,785,790	176,591,606	235,377,396	57,762,842	217,256,899	275,019,741
	1,015,101,397	176,591,606	1,191,693,003	1,562,624,600	219,340,232	1,781,964,832
Non-Financial Liabilities						
Other Liabilities	2,941,761	0	2,941,761	5,156,156	0	5,156,156
	1,018,043,158	176,591,606	1,194,634,764	1,567,780,756	219,340,232	1,787,120,988

16. EQUITY

16.1 Capital Management Objectives, Policies and Procedures

The Company’s capital management objectives are to provide an adequate return to the stockholders and to ensure the Company’s ability to continue as a going concern by pricing products and services commensurately with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under review is summarized as follows:

	2020	2019
Total liabilities	1,194,634,764	1,787,120,988
Total equity	1,423,867,780	1,413,773,620
Debt-to-equity ratio	**0.84:1.00**	**1.26:1.00**

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company is subject to an externally imposed capital requirement of a minimum of P10 million paid-up capital [see Note 20.1(a)]. The Company's paid-up capital as of December 31, 2020 and 2019 amounted to P775 million, which amount is in excess of the externally imposed capital requirement (see Note 16.2).

16.2 Capital Stock

Capital stock as of December 31, 2020 and 2019 consists of:

	Shares	Amount
Common shares – P100 par value Authorized – 10,000,000 shares		
Issued and outstanding	7,750,000	775,000,000

As of December 31, 2020 and 2019, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

16.3 Retained Earnings

On December 15, 2017, the BOD approved the declaration of cash dividends amounting to P200 million out of unappropriated retained earnings, which is payable to stockholder of record as of December 31, 2017 and to be paid on December 31, 2019 (see Note 14).

On December 15, 2017, the BOD approved the appropriation of P100 million from the Company's earnings for stock dividend declaration purposes, and to address the excess projected unappropriated retained earnings over paid up capital.

The details of the prior period adjustments presented in the Statement of Changes in Equity in 2020 are as follows:

Adjustment to depreciation (2019)	5,417
Adjustment to operating expenses (2019)	(21,445)
Payment made to leasehold improvement (2019)	(24,513)
Re-proposed adjustment related to Deferred Tax Asset (2019)	(3,701)
Prior period adjustments	**(44,242)**

17. OTHER INCOME AND OPERATING EXPENSES

17.1 Other Income

This account consists of:

	Note	2020	2019
Gain on sale of receivables	18.2	2,001,447	2,992,378
Service charges and penalties		6,803,444	6,470,568

	Note	2020	2019
Gain on foreclosure	12.1	3,144,412	5,131,432
Gain/ (Loss) on sale of assets acquired		678,396	(4,134)
Rental-Real Property and Equipment		1,808,960	1,255,775
Miscellaneous		8,520,447	5,692,307
		22,957,106	**21,538,326**

17.2 Other Operating Expenses

The details of other operating expenses are shown below.

	Note	2020	2019
Impairment and credit losses	8, 10, 12.1	53,098,561	16,963,044
Salaries and employee benefits		39,013,824	39,710,379
Taxes and licenses	24.e	23,883,852	25,958,299
Depreciation and amortization	10, 11, 12.1	23,050,686	22,355,108
Occupancy	18.3	2,527,391	1,836,403
Litigation and others legal expenses		3,086,505	4,903,633
Communication and utilities		3,617,400	3,055,261
Management and professional fees		60,095	449,255
Representation and entertainment		39,344	187,332
Miscellaneous expense		3,949,114	3,671,979
		152,326,772	**119,090,693**

The company granted COVID-19 hazard pay in CY 2020 to all its personnel who physically reported for work during the period of the Enhanced Community Quarantine from March 17, 2020 to May 15, 2020 and Modified Enhanced Community Quarantine on May 16 to 31, 2020 and August 4 to 18, 2020 in the total amount of P415,200.

18. RELATED PARTY TRANSACTIONS

The Company, in the normal course of business, has various transactions with the parent bank, and key management personnel which consist mainly of deposit arrangements, loans and advances, short-term borrowings, and management service agreements.

The amounts of these transactions and outstanding balances as of and for the years ended December 31, 2020 and 2019 are presented in the succeeding page.

		2020		2019	
Related Party Category	**Note**	**Amount of Transaction**	**Outstanding Balance**	**Amount of Transaction**	**Outstanding Balance**
Parent Bank					
Cash in bank	18.1	23,377,847	139,658,329	46,287,373	116,280,842
Sale of receivables	18.2	327,859,004		250,098,052	
Occupancy cost	18.3				
Key Management Personnel					
Compensation	18.4	17,392,810		12,396,440	

18.1 Cash in Bank

The Company's cash in banks include deposit account with the Parent Bank, which generally earn interest based on the daily bank deposit rates.

18.2 Sale of Receivables

In 2020 and 2019, the Company sold finance receivable and lease contract receivables and other loan receivables on a without recourse basis amounting to P327.86 million and P250.10 million, respectively, to the Parent Bank. The recognized gain on such sale amounted to P2.00 million and P3.00 million in 2020 and 2019, respectively, and is presented as Gain on sale of receivables under Other Income account in the statements of income (see Note 17.1).

18.3 Lease Agreement

The Company has existing agreement with the Parent Bank for the lease of its office space which are renewable every two to three years at the Company's option. Under the terms of the lease agreement, the Company is required to pay rentals equivalent to a fixed rate per square meter occupied.

Right-of-use assets and lease liabilities related to the lease agreement have been presented separately from property, plant and equipment and other liabilities, respectively.

18.4 Key Management Personnel Compensation

Salaries and other benefits received by key management personnel is broken down as follows:

	2020	**2019**
Salaries	14,253,809	12,396,440
Others short-term benefits	3,139,001	0
	17,392,810	**12,396,440**

19. TAXES

The components of tax expense as reported in the statements of income for the years ended December 31 are presented in the succeeding page.

	2020	**2019**
Current tax expense:		
Regular corporate income tax	0	0
Final tax at 20 per cent	54,153	50,087
	54,153	50,087
Deferred tax expense (income) relating temporary differences	8,465,384	28,352,153
	8,519,537	**28,402,240**

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss section of the statements of income follows:

	2020	2019
Tax on pretax profit at 27.5 per cent in 2020	5,101,903	
Tax on pretax profit at 30 per cent in 2019		21,332,638
Adjustment for income subjected to lower income tax rates	(20,308)	(33,320)
Tax effects of:		
Net operating loss carry-over (NOLCO)	(9,256,875)	(37,236,864)
Loss on sale of assets acquired	(68,404)	(1,465,772)
Non-deductible interest and other expenses	14,892	29,024
Net deferred tax adjustment	12,792,481	45,827,092
Non-taxable income	(44,152)	(50,558)
	8,519,537	**28,402,240**

The net deferred tax assets relate to the following as of December 31:

	Statement of Financial Position		Statement of Comprehensive Income	
	2020	2019	2020	2019
Deferred tax assets:				
Allowance for impairment	114,463,530	101,490,186	(12,973,344)	52,152,248
NOLCO	63,541,726	54,284,851	(9,256,875)	(37,236,864)
Accumulated depreciation on other properties acquired	12,356,227	10,394,996	(1,961,231)	(3,654,788)
Minimum Corporate Income Tax	5,029,552	4,696,849	(332,703)	0
Deferred tax liabilities:				
Lease income differential operating lease method	(73,440,208)	(39,904,240)	33,535,968	16,246,784
Unrealized gain on foreclosed assets	(992,999)	(1,539,430)	(546,431)	844,773
Deferred tax assets – net	**120,957,828**	**129,423,212**		
Deferred tax expense			**8,465,384**	**28,352,153**

The Company is subject to Minimum Corporate Income Tax (MCIT), which is computed at 1.5 per cent of gross income (previously at two per cent), as defined under tax regulations or 27.5 per cent (previously at 30 per cent) Regular Corporate Income Tax (RCIT), whichever is higher. The Company reported MCIT amounting to P332,703 and P2,486,695 in 2020 and 2019, respectively. Excess MCIT over RCIT can be applied as deduction to RCIT in future taxable years until 2023.

Details of outstanding excess MCIT as at December 31 are as follows:

Year Incurred	2020	2019
2018	2,210,154	2,210,154
2019	2,486,695	2,486,695
2020	332,703	0
Total	**5,029,552**	**4,696,849**

.On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations No. 25-2020, implementing Section 4 (bbbbb) of Republic Act (RA) No.11494 also known as "*Bayanihan to Recover As One Act",* which prescribes that the NOLCO incurred for the taxable years 2020 and 2021 can be carried over and claimed as deduction from gross income for the next five consecutive taxable years immediately following the year of such loss.

In 2020 and 2019, the Company claimed itemized deductions in computing for income tax due.The Company reported a taxable loss for the year ending December 31, 2020.

Details of the available Net Operating Loss Carry-Over as at December 31 is presented as follows:

Year Incurred	2020	2019	Year of Expiry
2018	56,826,623	56,826,623	2022
2019	124,122,880	124,122,880	2023
2020	38,099,748	0	2026
Total	**219,049,251**	**180,949,503**	

20. COMPLIANCE WITH REPUBLIC ACT NO. 8556, THE FINANCING COMPANY ACT OF 1998

The Company, which was organized for the purpose of extending credit facilities to consumers by direct lending, is governed by the RA No. 8556. Presented in the succeeding page are the significant provisions under RA No. 8556 that are applicable to the Company.

20.1 *Form of Organization*

Under Section 2 of R.A. No. 8556, financing companies shall be organized in a form of Stock Corporation in accordance with the provisions of the Code, subject to the following:

(a) As of December 31, 2020 and 2019, the Company is a wholly owned subsidiary of a universal bank incorporated and domiciled in the Philippines.

A minimum paid-up capital of P10 million for financing companies located in Metro Manila and other 1st class cities and additional capital of P1 million for branches established in Metro Manila, P500,000 for branches in other classes of cities and P250,000 for branches established in municipalities. The Company is in compliance with the minimum paid-up capital requirement as of December 31, 2020 and 2019 (see Note 16.2).

(b) The corporate name of financing companies shall contain the term “financing company” or other title or word(s) descriptive of its operations and activities as a financing company (see Note 1).

20.2 Licensing Fees

Under Section 8 of RA No. 8556, an annual fee amounting to P10,000 for offices in Metro Manila shall be charged and the same shall be paid not later than 45 days before the anniversary date of the Certificate of Authority to Operate as a Financing Company and for as long as its license to operate is in effect.

The Company’s licensing fees for the years ended December 31, 2020 and 2019 are presented as part of Taxes and licenses under the Other Operating Expenses account in the statements of income.

20.3 Loans and Investments

The following are the provisions under Section 9 of the RA No. 8556:

(a) The total investment of a financing company in real estate and in shares of stock in a real estate development corporation and other real estate based projects shall not at any time exceed 25 per cent of its net worth.

As of December 31, 2020 and 2019, the Company has no investment in real estate.

(b) More than 50 per cent of the funds of a financing company shall be used or invested in financing company activities; provided, that in the computation of the amount of funds used or invested in financing company activities, investments in government securities with maturity not more than one year and special savings deposits shall be taken into consideration.

For the years ended December 31, 2020 and 2019, the Company obtained loans for working capital purposes (see Note 13).

(c) The total credit that a financing company may extend to its directors, officers and stockholders shall not exceed 15 per cent of its net worth.

As of December 31, 2020 and 2019, the Company has no outstanding loans receivables from its directors, officers, stockholders and other related parties.

(d) The total credit that a financing company may extend to any person, company, corporation or firm shall not exceed 30 per cent of its net worth.

As of December 31, 2020 and 2019, the Company did not extend any credit that exceeded 30 per cent of its net worth.

(e) Unless collected, interest income shall not be recognized on loans receivables that remain outstanding beyond maturity dates.

The Company is in compliance of this provision as it recognizes interest income earned from loan date up to its maturity and the Company ceases to recognize interest in case when the loan becomes past due.

21. COMMITMENTS AND CONTINGENCIES

21.1 Legal Claims and Other Commitments

As of December 31, 2020 and 2019, there are pending claims and legal actions against or in favor of the Company arising from the normal course of business. In addition, there are other commitments and contingencies that arise in the normal course of the Company's operations which are not reflected in the accompanying financial statements. Management is of the opinion that, as of December 31, 2020 and 2019, losses, if any, that may arise from all of the above commitments and contingencies will not have a material effect on the Company's financial statements.

22. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Company's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Bills Payable (Note 13)	**Dividends Payable (Note 14)**	**Total**
Balance as of January 1, 2019	1,227,083,333	200,000,000	1,427,083,333
Cash flows from financing activities			
Proceeds from availment of bills payable	2,200,000,000	0	2,200,000,000
Repayment of bills payable	(2,775,000,000)	0	(2,775,000,000)
Dividends declared	0	0	0
Balance as of December 31, 2019	**652,083,333**	**200,000,000**	**852,083,333**

23. EVENTS AFTER REPORTING PERIOD

23.1 *Republic Act (RA) No. 11534 or Corporate Recovery and Tax Incentives for Enterprises (CREATE*)

On March 26, 2021, Republic Act (RA) No. 11534 or Corporate Recovery and Tax Incentives for Enterprises (CREATE) was signed into law.

The key amendments in the Tax Code under the CREATE Law which are applicable to ULFC shall include, but not limited to, the following:

a. Adoption of graduated Corporate Income Tax of 25 per cent effective July 1, 2020;

b. Reduction of Minimum Corporate Income Tax to one per cent from July 1, 2020 up to June 30, 2023;

c. Repeal of Improperly Accumulated Earnings Tax;

d. Vat exemption on the sale or importation of digital or electronic reading materials;

e. VAT exemption on the sale or importation of drugs, vaccines and medical devices specifically prescribed and directly used for the treatment of COVID-19 registered with and approved by the FDA.

In transition to the new tax rates under the CREATE Law, the Bureau of Internal Revenue issued RR No.5-2021 to prescribe the income tax rates applicable for calendar year December 31, 2020, as follows:

- Regular Corporate Income Tax Rate 27.5 per cent
- Minimum Corporate Income Tax Rate 1.5 per cent

The foregoing transitory rates were applied by the company in its Annual Income Tax Return for the taxable year 2020.

23.2 Dissolution of UCPB Foreign Exchange Corporation.

On March 4, 2021, the dissolution of UFEC was approved by the board of ULFC and UFEC.

24. SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages is the supplementary information which is required by the Bureau of Internal Revenue (BIR) Revenue Regulation (RR) No. 15-2010 to disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented below and in the succeeding pages.

(a) Gross Receipts Tax

In lieu of the value-added tax, the Company is subject to the gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries performing quasi-banking functions pursuant to Section 121 of the Tax Code, as amended. Total GRT reported as a component of the Taxes and licenses under Other Operating Expenses account (see Note 24.e) is broken down as follows:

Taxable Transactions	Tax Base	GRT
Interest, commissions and discounts period of five years or less – 5%	191,707,626	9,585,381
Interest, commissions and discounts period of more than 5 years – 1%	21,328,975	213,290
All other items treated as gross income – 5%	15,778,842	788,942
	288,815,443	**10,587,613**

(b) Excise Tax

The Company did not pay excise tax in 2020 since it did not have any transactions which are subject to excise tax.

(c) Taxes on Importation

The Company did not pay any customs' duties and tariff fees to the Bureau of Customs since it did not have any importations during the year.

(d) Documentary Stamp Tax (DST)

For the year ended December 31, 2020, DST paid and accrued amounting to P8.82 million refers to original issue of debt instruments and shares of stocks. The amount of DST paid and recognized during the year is recorded as part of Taxes and licenses under Other Operating Expenses account in 2020 statement of income.

(e) Taxes and Licenses

The details of Taxes and licenses under Other Operating Expenses account in 2020 are as follows (see Note 17.2):

	Note	
GRT	24.a	10,587,613
Documentary stamps	24.d	8,818,382
Fringe benefit tax		3,582,515
Others		895,342
		23,883,852

(f) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2020 are shown below:

Expanded	129,455
Other percentage tax	221,001
Value-added tax	20,483
	370,939

The Company did not have any transaction subject to final and compensation withholding taxes for the year ended December 31, 2020.

(g) Deficiency Tax Assessment and Tax Cases

As of December 31, 2020, the Company does not have any final deficiency tax assessments from the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

25. OTHER SUPPLEMENTARY INFORMATION

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

	2020	2019
Current ratio	.60	.45
(Cash + Loans and receivables + Trading securities)	608,427,747	706,460,600
Total current liabilities	1,018,043,158	1,567,780,756
Debt-to-equity ratio	.84	1.26
Total liabilities	1,191,693,003	1,787,120,988
Total equity	1,423,867,780	1,413,896,185
Return on equity	0.01	0.03
Net profit	10,032,837	42,706,553
Total equity	1,423,867,780	1,413,896,185
Return on assets	0.003	0.01
Net profit	10,032,837	42,706,553
Total assets	2,618,502,544	3,201,017,173
Loans to Assets	0.84	0.87
Total loans and other receivables	2,207,177,946	2,775,689,688
Total assets	2,618,502,544	3,201,017,173

B. In compliance with the BSP Circular No. 1075, the following are basic quantitative indicators of financial performance of the Company in addition to the financial soundness indicators presented in the previous table:

	2020	2019
Net interest margin	6%	5%
CAR	41%	34%

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUES

1. The balance of Accounts Payable amounting to P89.308 million includes long outstanding payables to customers totaling P14.752 million which do not satisfy the recognition criteria for liability under the PFRS Conceptual Framework, hence, overstating the account balance by P14.752 million as at December 31, 2020.

1.1. The Philippine Financial Reporting Standards (PFRS) Conceptual Framework for Financial Reporting provides the following definition of a liability:

> *4.26 A liability is a present obligation of the entity to transfer an economic resource as a result of past events.*
>
> *4.27 For a liability to exist, three criteria must all be satisfied:*
>
> *a. The entity has an obligation*
> *b. The obligation is to transfer an economic resource; and*
> *c. The obligation is a present obligation that exists as a result of past events.*

1.2. Chapter 9 Policy Guidelines No. V of the ULFC Operations Manual states that:

> *Accounts Receivable (AR) and Accounts Payable (AP) shall be reviewed by the Operations Officer (OO) on a quarterly basis to identify long outstanding balances. Long outstanding AR and AP accounts shall be reported to the concerned Department/Unit Heads for proper disposition.*

1.3. As at December 31, 2020, the Accounts Payable and Other liabilities line item in the financial statements totaling P307.174 million includes Accounts Payable amounting to P89.308 million. The Management disclosed that Accounts Payable is used by the ULFC to book all loan related collections prior to the reversal to appropriate accounts.

1.4. The Accounts Payable balance of P89.308 million includes payables to customers amounting to P66.074 million. Validation of the Schedule of Aging of payables to customers revealed that P14.752 million out of the P66.074 million or 22.33 per cent are past due and has been outstanding over one year to more than three years. These past due accounts do not meet the criteria for recognition of liabilities considering these are collections related to loan accounts of the Company's clients. Details are as follows:

Particulars	**TOTAL**	Current	**Past due**			
			Over 1 year	**Over 2 years**	**Over 3 years**	**Total Past Due**
For application to Loans and Receivables	**23,020,225**	22,666,708	5,000	11,686	336,831	**353,517**
Refund/ Excess	**21,786,763**	13,376,636	4,317,771	1,677,055		**8,410,127**

Particulars	TOTAL	Current	Past due			
			Over 1 year	Over 2 years	Over 3 years	Total Past Due
collection					2,415,301	
Insurance	**4,312,711**	4,247,476	64,967	268		**65,235**
Registration fees	**4,330,408**	2,503,945	1,359,181	467,282		**1,826,463**
Notarial fees	**1,521,998**	1,273,715	188,235	54,748	5,300	**248,283**
Documentary Stamp Tax	**1,364,194**	1,004,988	359,206			**359,206**
Appraisal fees	**651,464**	530,466	77,256	39,812	3,930	**120,998**
Apply to Sold ROPA	**384,660**	377,340	7,320			**7,320**
Processing fees	**232,000**	209,000	23,000			**23,000**
Transfer fees	**248,181**	201,031	17,000	20,150	10,000	**47,150**
Others	**8,221,369**	4,931,114	1,833,413	309,391	1,147,451	**3,290,255**
Total	**66,073,973**	51,322,419	**8,252,349**	**2,580,393**	**3,918,813**	**14,751,554**

1.5. The ULFC Operations Manual states that long outstanding AP needs to be reviewed on a quarterly basis for proper disposition, however, as can be gleaned from the Schedule of Aging above, P14.752 million past due accounts for over one year to more than three years were not disposed or remain not applied to the appropriate accounts.

1.6. Further review of the existing manual and policies of ULFC revealed that there is no specific timeline for the disposition and reversal of long outstanding payables included. This is not consistent with Section 98 of Presidential Decree No. 1445 which provides the following:

> *Reversion of unliquidated balances of accounts payable. The Commission upon notice to the head of agency concerned may revert to the unappropriated surplus of the general fund of the national government, any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. This section shall not apply to unliquidated balances of accounts payable in trust funds as long as the purposes for which the funds were created have not been accomplished.*

1.7. The absence of specific timeline for the reversal and proper disposition of long outstanding payables in the ULFC Operation Manual contributed to the accumulation of long outstanding payables to costumers amounting to P14.752 million. These recognized payables do not satisfy the recognition criteria for liabilities considering that these are collections from the Company's clients which were not applied to their Loans and Receivable accounts. Hence, the Accounts Payable balance as at December 31, 2020 was overstated by P14.752 million.

1.8. **We recommended and Management agreed to:**

a. Apply the long outstanding payables to customers amounting to P14.752 million to the proper accounts to faithfully represent the balance

of Accounts Payable and other affected accounts in the financial statements as at December 31, 2020; and

b. Consider re-visiting the ULFC Manual to include specific timelines for the reversal and disposition of long outstanding payables.

B. OTHER ISSUES

2. Acquired assets totaling P65.233 million were not properly insured contrary to Republic Act No. 656 and COA Circular No. 2018-002.

2.1. Section 5 of Republic Act (RA) No. 656, otherwise known as *“Property Insurance Law”*, provides that:

> *Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which, however, shall not exceed the premiums charged by private insurance companies: Provided, however, That the System reserves the right to disapprove the whole or a portion of the amount of insurance applied for: Provided, further, That such property or part thereof as may not be insurable or acceptable for insurance may be insured with any private insurance company. A municipal government below first class may upon application insure its properties in the Fund under such rules and regulations as the System may prescribe.*

2.2. COA Circular No. 2018-002 dated May 31, 2018 defines insurable value as follows:

> *Insurable value refers to replacement cost or actual cash value of a building for which standard insurance policies provide indemnity cover. Insurable value is less than the appraised value or market value of the property because it excludes the value of land on which the building stands. The formula for computing the insurable value is usually stated in the valuation clause of a policy document.*

2.3. Acquired assets such as repossessed machineries and equipment are recognized by the Company under the ROPA-Other assets account. As at December 31, 2020, the account reported a balance of P65.233 million with Accumulated depreciation and Allowance for impairment amounting to P36.163 million and P1.877 million, respectively, or a net book value of P27.193 million.

2.4. The ULFC, while still under transition from a private entity to a government-owned or controlled corporation, is already covered by the Property Insurance Law. Per verification, the acquired assets per Inventory Report are not insured with the Government Service Insurance System (GSIS), however, these are insured with UCPB General Insurance Company, Inc. (COCOGEN) for the period October 14, 2020 to October 14, 2021. Further validation revealed the following:

Particulars	Cost	Net book value	Appraised value	Insured amount
Insured at appraised values	34,987,000	15,504,986	20,206,500	20,206,500
Others	30,245,720	11,688,100	16,489,000	10,152,000
Total	**65,232,720**	**27,193,086**	**36,695,500**	**30,358,500**

2.5. As can be gleaned from the above table, the total insured value of the properties amounting to P30.359 million is more than the total net book value of P27.193 million. It was noted that properties with net book value of P15.505 million were insured at the amount of their appraised value of P20.207 million. On the other hand, the insurance coverage of acquired assets with net book value of P11.688 million is below the net book value.

2.6. ULFC's Manual of Operations and Policy Guidelines (MOPG) for ROPA does not provide for guidelines on the insurance of acquired assets. As a result, there were inconsistencies in the basis used for the insurance coverage of acquired assets. This is contrary to COA Circular No. 2018-002 requiring insurable properties to be insured at replacement cost or actual cash value.

2.7. **We recommended and Management agreed to:**

a. Insure all acquired assets in accordance with the provisions of Republic Act No. 656 and COA Circular No. 2018-002; and

b. Include policy/guidelines on the insurance of acquired assets in the ULFC's Manual of Operations, aligned with Republic Act No. 656 and COA Circular No. 2018 – 002.

2.8. The Management committed to revise ULFC's MOPG for ROPA to include specific guidelines and basis for the insurance coverage of acquired assets not later than July 31, 2021.

3. Unserviceable properties costing P427,984 were not disposed contrary to Presidential Decree 1445.

3.1. Section 79 of Presidential Decree (PD) 1445 provides the following:

Destruction or sale of unserviceable property. When government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee an award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public *places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.*

3.2. Verification of accounts revealed that various properties and equipment costing P427,984 were considered unserviceable by Management as at December 31, 2020. However, these unserviceable assets remain undisposed by the Company as at year-end.

3.3. This is a reiteration of CY 2019 audit observation. The unserviceable properties were reclassified from Furniture, fixtures and equipment account to Other assets account at net book value, pending actual disposal.

3.4. The unserviceable properties which were not yet disposed are exposed to elements that contribute to further deterioration and decline in value. Also, the accumulation of these items requires additional storage space. The non-disposal of properties which are already unserviceable or no longer needed is not in accordance with Section 79 of PD 1445.

3.5. **We recommended and Management agreed to properly dispose the unserviceable assets and derecognize these from the books.**

4. The ULFC's Head of Agency and other accountable officers were not bonded contrary to the provisions of Presidential Decree No. 1445 and Treasury Circular No. 02-009, thus, the Company is exposed to possible risk of loss.

4.1. Section 101 of PD 1445 covering the bond requirement for every accountable officers states that:

Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.

Every accountable officer shall be properly bonded in accordance with law.

4.2. In addition to PD 1445, Treasury Circular No. 02-2009 dated August 6, 2009 was issued and provides guidelines and information on the following areas:

a. General provision regarding Public Officers covered; Accountability for public property and public funds; and Extent of liability and condition of bond among others;

b. Duties and responsibilities of the Heads of Agencies/Office or persons primarily accountable; and

c. Procedures for application, renewal and cancellation of bond

4.3. Further, Item 4.3 of the Treasury Circular provides that the following are covered by the fidelity bonding:

> *4.3.1 Accountable public officers discharging their duties in a foreign country.*
>
> *4.3.2 Public officers accountable to others who are primarily accountable.*
>
> *4.3.3 Public officers designated as authorized signatories and counter signatories in the issuance of checks and approval of disbursement vouchers.*
>
> *4.3.4 Heads of departments, bureaus, agencies and instrumentalities of the Government.*

4.4. The fidelity bond is necessary to assure that bondable public officers will faithfully perform all duties imposed by the law upon him/her and to account for all funds and public property coming into his possession, custody or control.

4.5. The Treasury Circular also provides that unjustified failure of an accountable public officer to comply with the requirements to apply with the Fidelity Bond shall subject the responsible official/employee to applicable criminal, and/or administrative liability under the Revised Penal Code and PD No. 1445

4.6. On January 4, 2021, the Management received through electronic mail a letter dated November 20, 2020 from the Governance Commission of GOCCs (GCG). The letter pertains to the formal turnover of the ULFC to the GCG as a government-owned or controlled corporation/government financial institution.

4.7. All ULFC regular employees are seconded from the UCPB, its Parent Bank. Currently, the accountable officers of the UCPB are not covered by fidelity bond and are still in the process of complying with Treasury Circular No. 02-2009.

4.8. Verification of the ULFC's compliance on the bond requirements under the above law and Bureau of Treasury regulation was made and it was noted that the accountable officers for money and property, check signatories, including the head of the Company, were not covered with the required bond. The accountable officers of the ULFC include the following:

a. Company President
b. 10 authorized check signatories, aside from the President
c. Collection officers
d. Special Disbursing Officer/s
e. Petty cash custodian
f. Property custodians for Company properties and acquired assets

4.9. The non-compliance with the fidelity bonding of accountable officers is contrary to PD 1445 and Treasury Circular No. 02-2009; and also exposes ULFC to risk of loss in case an accountable officer commits fraudulent acts such as embezzlement of funds, theft and forgery.

4.10. **We recommended and Management agreed to:**

a. **Identify all accountable officers and determine amounts of their money and property accountabilities; and**

b. **Prospectively, apply for the Fidelity Bond of all ULFC accountable officers in accordance with Treasury Circular No. 02-2009 and PD 1445.**

4.11. ULFC is coordinating with the UCPB and committed that they will align their policies with the Parent Bank. Upon establishment of their guidelines, they will apply for fidelity bond for all accountable officers with the Bureau of Treasury.

Gender and Development

5. ULFC does not have a GAD database on gender analysis and has not yet created its GAD Focal Point System, hence, GAD Plans, Programs and Budget for CY 2020 was not prepared contrary to RA No. 9710 or the "Magna Carta for Women" and the Philippine Plan for Gender Responsive Development (PPGD) 1995-2025.

5.1. The ULFC, a wholly owned subsidiary of the UCPB which is a government-owned or –controlled corporation, while still in transition period from a private entity to a government entity, is mandated to comply with RA No. 9710.

5.2. As defined in the Primer for Gender Mainstreaming and Institutionalization in the Budgeting Process, Gender and Development (GAD) is an approach to or a development that focuses on how social, economic, political and cultural forces determine how differently women and men participate in, benefit from, and control resources and activities for development. It is a framework of analysis that seeks to understand the role and gender in the attainment of developmental goals.

5.3. The Primer also describes GAD policy as the concrete translation of the government's commitment to the Constitutional provision on gender equality. The 1987 Philippine Constitution affirms the fundamental equality of women and men before the law. To pursue this commitment, the government adopted the GAD framework as one of its policies to define the direction of development that it wants to undertake, refocus its strategies, priorities and resource allocation, and enhance its plans and programs.

5.4. In addition, Section 37 A.1 of the Implementing Rules and Regulations (IRR) of R.A. 9710, provides for the development and budgeting of GAD Plans and Programs.

5.5. The DBM and the Philippine Commission for Women (PCW, formerly NCRFW), encourages GOCCs with no government support to seek the endorsement of the PCW for their GAD Plans. Self-sustaining GOCCs shall submit their GAD Plan together with their Corporate Operating Budgets (COBs) to the DBM at the beginning of year. This shall be the basis of the DBM's review of proposed corporate GAD Budgets.

5.6. Inquiry with Management disclosed that ULFC has not yet established its long term plan to ensure effective development and implementation of GAD Plans, Programs and Activities. Also, it has not created its GAD Focal Point System and has not yet established and maintained the required GAD Database which includes a conduct of gender analysis and sex disaggregated data of the Company.

5.7. In view of the above, the Company has not complied with the preparation and submission of its GAD Plans, Programs and Budget for CY 2020, contrary to RA 9710. As such, it has no framework for responding to gender issues and encourage stronger accountability in pursuit of gender equality goals.

5.8. **We recommended and Management agreed to:**

a. **Conduct gender analysis and establish and maintain its GAD database;**

b. **Create GAD Focal Point System;**

c. **Request guidance from the PCW on the preparation and submission of GAD Plans, Programs and Budget; and**

d. **Formulate a long term plan of actions on how Management can effectively be fully compliant with RA 9710 and Philippine Plan for Gender Responsive Development (PPGD) 1995-2025.**

5.9. The Management will coordinate with the UCPB Human Resources Department (HRD) considering that all employees of the ULFC are seconded from the Parent Bank. Also, they have appointed one ULFC officer to attend relevant trainings on GAD in coordination with UCPB HRD.

5.10. Moreover, ULFC committed to conduct gender analysis in preparation for the establishment of GAD plans, programs and budget through their Policies and Procedures Department.

Corona Virus Disease 2019 (COVID – 19) Related Programs/Projects/Activities

Grant of mandatory grace period for payment of loans

6. On March 11, 2020, the Director General of the World Health Organization declared the COVID - 19 a global pandemic. In line with this, the President of the Philippines issued Proclamation No. 929, s. 20202 dated March 16, 2020, declaring a State of Calamity throughout the Philippines due to COVID – 19. Further, Republic Act (RA) No. 11469, otherwise known as *"Bayanihan to Heal as One Act",* was enacted on March 24, 2020, authorizing the President of the Philippines for a limited period to exercise powers that are necessary and proper to carry out the declared national policy and to implement various temporary emergency measures to respond to crisis brought by the pandemic. Subsequently, RA No. 11494, the *"Bayanihan to Recover as One Act",* was enacted on September 11, 2020 in view of the sustained COVID – 19 response and recovery interventions by the government

6.1. Under Section 4 (aa) of RA No. 11469, the President was given power to:

> *Direct all banks, quasi-banks, financing companies, x x x, to implement a minimum of a thirty (30)-day grace period for the payment of all loans including but not limited to salary, personal, housing and motor vehicle loans, as well as credit card payments, falling due within the period of the Enhanced Community Quarantine without incurring interests, penalties, fees, or other charges. X x x.*

6.2. Pursuant thereto, the Department of Finance (DOF) issued the Implementing Rules and Regulation (IRR) of Section 4(aa) of RA No. 11469 dated April 1, 2020, and Rule III thereof states:

> *Section 3.01 Mandatory Grace Period. All Covered Institutions shall implement a 30-day grace period for all loans with principal and/or interest falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. The initial 30-day grace period shall automatically be extended if the ECQ period is extended by the President of the Republic of the Philippines pursuant to his emergency powers under the Bayanihan to Heal as One Act.*
>
> *Section 3.02 Non-application of interests, fees and charges to future payments. All Covered Institutions shall not charge or apply interest on interest, fees and charges during the 30-day grace period to future payments/amortizations of the individuals, households, micro, small and medium enterprises (MSMEs), and corporate borrowers.*
>
> *Section 3.03 Prohibition on waivers. Covered Institutions are prohibited from requiring their clients to waive the application of the provisions of the "Bayanihan to Heal as One Act", including among others, the mandatory 30-day grace period. No waiver previously executed by borrowers covering payments falling due during the ECQ Period shall be valid. Nonetheless, the grant of grace period by the above-mentioned Covered Institutions, shall not preclude the borrowers from paying their obligations as they fall due during the period of ECQ should they so desire.*

6.3. As a continuing COVID – 19 response and recovery intervention, Section 4 (uu) of RA No. 11494, authorized the President to exercise the same powers on granting of mandatory grace period for all loan payments, emphasizing additional conditions and incentives, to wit:

> *Directing all banks, quasi-banks, financing companies, x x x, to implement a one-time sixty (60)-day grace period to be granted for payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, x x x without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity the said loans: Provided, That all loans may be settled on staggered basis*

without interest on interests, penalties and other charges until December 31, 2020 or as may be agreed upon by the parties: Provided, further, That nothing shall stop the parties from mutually agreeing for a grace period longer than sixty (60) days: Provided, furthermore, That the banks and other non-bank financial institutions (NBFIs) that agree to further loan term extensions or restructuring pursuant to this subsection shall be entities to regulatory relief, as may be determined by the BSP, x x x: Provided, finally, That the loan term extensions or restructuring pursuant to this subsection shall be exempt from documentary stamp taxes.

6.4. Rule III of the IRR of Section 4(uu) of RA No. 11494, issued by the Bangko Sentral ng Pilipinas (BSP) through its Memorandum No. 2020-074 dated September 8, 2020, basically reiterated those of the IRR of Section 4(aa) of RA No. 11469 issued by the DOF, thus:

Section 3.01 Mandatory Grace Period. All Covered Institutions shall implement a non-extendible, mandatory one-time sixty (60)-day grace period for all existing, current and outstanding loans with principal and/or interest, including amortizations, falling due on or before December 31, 2020 without incurring interest on interests, penalties, fees, or other charges. The parties are not precluded from mutually agreeing to a grace period longer than 60 days.

Section 3.02 Non-application of interests, fees and charges to future payments. Covered institutions shall not charge or apply the foregone interest on interests, penalties, fees and other charges during the mandatory one-time 60-day period to future payments/amortizations of the borrowers.

Section 3.03 Prohibition on waivers. Covered institutions are prohibited from requiring their clients to waive the application of the mandatory one time 60-day grace period under Section 4(uu) of the "Bayanihan to Recover as One Act". No waiver previously executed by borrowers covering payments falling due on or before December 31, 2020 shall be valid. Nonetheless, the grant of the grace period by Covered Institutions under Section 4(uu) of the "Bayanihan to Recover as One Act" shall not preclude the borrowers from choosing not to avail of the said grace period and paying their obligations as they fall due.

6.5. In line with the above provisions of law, the ULFC implemented the 30-day and 60-day mandatory grace periods in the payment of loans, details shown below:

30-day mandatory grace period		
Type of Loan	**No. of Accounts**	**No. of Borrowers**
Lease Contract Receivable	115	26
Other Loans Receivables	57	31
Restructured Loans/ Lease Receivable	2	2
Finance Lease Receivable	27	8
Sales Contract Receivable	0	0
Sub-total	**201**	**67**

60-day mandatory grace period		
Type of Loan	**No. of Accounts**	**No. of Borrowers**
Lease Contract Receivable	69	19
Other Loans Receivables	16	13
Restructured Loans/ Lease Receivable	1	1
Finance Lease Receivable	21	3
Sales Contract Receivable	1	1
Sub-total	**108**	**37**
Total	**309**	**104**

6.6. Based on the examination conducted, the audit team found that the granting of the mandatory grace period to qualified clients of the ULFC is in accordance with the IRRs of RA Nos. 11469 and 114694.

Compliance with Tax Laws

7. Information on taxes, duties and license fees paid or accrued during the taxable year 2020 were disclosed in Note 24 Supplementary Information Required by the Bureau of Internal Revenue to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P370,939 were remitted to the Bureau of Internal Revenue in accordance with the deadlines on payment/remittance of taxes prescribed under the National Internal Revenue Code.

SSS, Philhealth and Pag-IBIG Premiums

8. In 2020, the Company complied with Republic Act 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.

9. ULFC also complied with Section 18, Rule III, Title III, of the implementing Rules and Regulations of RA No. 7875, as amended, in the payment of national health insurance premium contributions to the PhilHealth. The Company also complied with Sections 2 and 3, Rule VII, of the Implementing Rules and Regulations of RA No. 9679 in the collection and remittance to the Pag-IBIG Fund.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of the eight audit recommendations embodied in the prior year's Annual Audit Report, six were fully implemented, one was partially implemented, and one was not implemented and reiterated in Part II of this Report. The audit observation with the corresponding partially implemented audit recommendation is presented below:

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
2019	
1. The ULFC reported P472.937 million or 15.77 percent past due loans and receivables which is beyond the approved past due target of 12 percent for CY 2019 and may impact on the fund support programs, activities and projects of company.	
Strictly implement the Company's strategies and action plans to intensify collection efforts in order to improve its credit quality.	Partially Implemented The implementation of efforts to improve the credit quality of loans and receivables of the company is affected by the Covid-19 pandemic. ULFC has been exerting efforts to collect and restructure accounts.