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, 2022 and 2021

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PART I

AUDITED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
UCPB Leasing and Finance Corporation
3rd Floor OFBank Building
Liwasang Bonifacio, Manila

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, 2022 and 2021, 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, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pllipinas (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 audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the ULFC in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2.1 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 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.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ULFC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the ULFC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2.1 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, the Revised Securities Regulation Code Rule 68 in Note 25.A and the BSP Circular No. 1075 in Note 25.B to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and the SEC, and complying with the BSP, respectively, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

MARIA LUZ G. VENTURA
OIC, Supervising Auditor

June 19, 2023

UCPB
LEASING AND FINANCE CORPORATION

3rd Floor, OFBank Building
Liwasang Bonifacio, Manila
Metro Manila, Philippines 1000

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **UCPB LEASING AND FINANCE CORPORATION**, is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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.

The Commission on Audit has audited the financial statements of the Company in accordance with the International Standards of Supreme Audit Institutions, and in its report to the Board of Directors, has expressed their opinion on the fairness of presentation upon completion of such audit.

Signature : ______________________
LIDUVINO S. GERON
Chairman of the Board of Directors

Signature : ______________________
KRISTINE MARIE G. CUEVAS
Officer-in-Charge

Signature : ______________________
IRMA E. JAPSON
Treasurer

Signed this 14 th day of June, 2023

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of Land bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Note	2022	2021 (As restated)	January 1 2021 (As restated)
ASSETS				
Cash and cash equivalents	7	302,044,673	161,078,923	154,056,103
Loans and Receivables, net	8	1,430,639,860	1,726,476,858	2,216,758,803
Investment in a Subsidiary, net	9	6,050,385	6,006,780	5,831,009
Investment Properties	10	59,369,605	63,912,235	71,078,140
Deferred Tax Assets, net	19	107,804,786	109,385,182	118,375,742
Property and equipment, net	11	113,214	8,200,354	18,009,497
Other assets, net	12	21,876,778	28,855,706	41,425,953
TOTAL ASSETS		**1,927,899,301**	**2,103,916,038**	**2,625,535,247**
LIABILITIES AND EQUITY				
Bills payable	13, 22	0	180,000,000	652,083,333
Accounts payables and other liabilities	14	261,917,414	279,395,789	307,174,035
Deposit on lease contracts	8	204,503,405	198,650,694	235,377,396
TOTAL LIABILITIES		**466,420,819**	**658,046,483**	**1,194,634,764**
Capital Stock	16.2	775,000,000	775,000,000	775,000,000
Revaluation Reserves	9	0	197,500	184,000
Retained Earnings		686,478,482	670,672,055	655,716,483
EQUITY		**1,461,478,482**	**1,445,869,555**	1,430,900,483
TOTAL LIABILITIES AND EQUITY		**1,927,899,301**	**2,103,916,038**	**2,625,535,247**

The Notes on pages 10 to 61 form part of these financial statements

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of Land bank of the Philippines)
STATEMENTS OF INCOME
For the years ended December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Note	2022	2021 (As restated)
REVENUES			
Interest income	8	79,839,462	94,672,182
Leasing income	8	31,005,826	49,528,870
Equity share in net earnings of a subsidiary	9	241,106	162,270
		111,086,394	144,363,322
Interest Expense	13	2,902,286	20,704,995
Net interest and leasing income		**108,184,108**	**123,658,327**
Other income, net	17.1	22,644,075	25,816,883
Other operating expenses	17.2	112,438,131	125,721,507
Profit before tax		**18,390,052**	**23,753,703**
Tax expense	19	2,583,625	8,798,131
Net profit		**15,806,427**	**14,955,572**

The Notes on pages 10 to 61 form part of these financial statements

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of Land bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Note	2022	2021 (As Restated)
NET INCOME		**15,806,427**	**14,955,572**
Other comprehensive income/(loss)	9	0	13,500
TOTAL COMPREHENSIVE INCOME		**15,806,427**	**14,969,072**

The Notes on pages 10 to 61 form part of these financial statements

UCPB Leasing and Finance Corporation
(A wholly owned subsidiary of Land bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2022 and 2021
(Amounts in Philippine Peso)

	Capital Stock (Note 16.2)	Revaluation Reserves (Note 9)	Retained Earnings (Note 16.3)			TOTAL
			Retained earnings - Apropriated	Retained earnings - Unapropriated	Total Retained earnings	
Balance at January 1, 2022	775,000,000	197,500	222,279,972	448,392,083	670,672,055	1,445,869,555
Revaluation reserves reversal		(197,500)				(197,500)
Total comprehensive income for the year				15,806,427	15,806,427	15,806,427
Balance at December 31, 2022	**775,000,000**	0	**222,279,972**	**464,198,510**	**686,478,482**	**1,461,478,482**
Balance at January 1, 2021	775,000,000	184,000	222,279,972	426,403,808	648,683,780	1,423,867,780
Prior period adjustment				7,032,703	7,032,703	7,032,703
Balance at January 1, 2021, as restated	775,000,000	184,000	222,279,972	433,436,511	655,716,483	1,430,900,483
Total comprehensive income for the year, as Restated		13,500		14,955,572	14,955,572	14,969,072
Balance at December 31, 2021, as restated	**775,000,000**	**197,500**	**222,279,972**	**448,392,083**	**670,672,055**	**1,445,869,555**

The Notes on pages 10 to 61 form part of these financial statements

UCPB LEASING AND FINANCE CORPORATION
(A wholly owned subsidiary of Land bank of the Philippines)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Amounts in Philippine Pesos)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows:			
Collection of Loan Receivables		691,678,854	1,104,944,451
Collection of Loan Facilitation Charges from Clients		6,211,760	9,926,302
Collection of Interest Income		57,311,160	98,073,141
Collection of Other Revenues		9,149,282	22,278,684
Other Receipts		275,654,910	110,249,390
Adjustments		1,257,563	9,625,563
Total Cash Inflows:		**1,041,263,529**	**1,355,097,531**
Cash Outflows:			
Payment of Expense		(55,485,020)	(86,109,523)
Grant of Cash Advances		(8,000)	(222,039)
Prepayments		0	(608,742)
Payment of Accounts Payable		(296,236)	(14,345,605)
Payment of Salaries Benefits and Contributions		(32,349,594)	(25,902,623)
Release of Loan Proceeds		(341,773,215)	(423,178,784)
Remittance of Taxes		(15,173,253)	(20,726,580)
Other Disbursements		(274,131,471)	(306,524,719)
Adjustments		(4,838,078)	(9,828,959)
Total Cash Outflows:		**(724,054,867)**	**(887,447,574)**
Net Cash Generated from Operating Activities		**317,208,662**	**467,649,957**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows:			
Proceeds from Sale/Disposal of Invesment Property	10	3,757,088	7,856,196
Proceeds from Sale of Other Assets	11	0	3,600,000
Net Cash Generated from Investing Activities		**3,757,088**	**11,456,196**
CASH FLOWS FROM FINANCING ACTIVITIES	21		
Cash Inflow:			
Proceeds from availments of bills payable		0	1,120,000,000
Cash Outflow:			
Repayments of bills payable		(180,000,000)	(1,592,083,333)
Net Cash Used in Financing Activities		**(180,000,000)**	**(472,083,333)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**140,965,750**	**7,022,820**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**161,078,923**	**154,056,103**
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**302,044,673**	**161,078,923**

The Notes on pages 10 to 61 form part of these financial statements

UCPB LEASING AND FINANCE CORPORATION
(A Wholly Owned Subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
(Amounts in Philippines Pesos)

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.

As of December 31, 2022 and 2021, 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 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.*

On June 25, 2021, Executive Order No. 142, s2021 titled *"Approving the Merger of Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB"* was signed by the President of the Republic of the Philippines, whereby the latter bank shall **emerge as the surviving entity,** subject to the requisite approvals from the SEC, and to the conditions and limitations under RA Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

UCPB shareholders approved the merger plan with LANDBANK during its stockholders' meeting on December 14, 2021. The shareholders representing 97.2 per cent of the UCPB's total outstanding capital stock voted in favor of the Plan of Merger and Articles of Merger between UCPB and LANDBANK.

As the operation of the Company is separate from UCPB, it shall not be affected by the merger and shall continuously operate its own business on a going concern basis throughout the merger process.

On October 1, 2022, ULFC transferred its principal office at 3rd floor OFBank Building, Liwasang Bonifacio, Manila.

As at December 31, 2022, the manpower of the company is composed of 14 officers, including the Officer In Charge, and eight associates. All employees of the ULFC are seconded from the LBP, its Parent Bank.

1.2 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2022 (including the comparative financial statements as of and for the year ended December 31, 2022 were authorized for issue by the Company's Board of Directors on June 16, 2023.

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 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**
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
Staggered Allowance recognized for the year 2021 and 2022	16,725,896	4,181,474
For Staggered Booking For the Next Three (3) Years	25,088,842	

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 BSP's letter dated July 12, 2021. The BSP, however, excluded 15 ineligible accounts for staggered booking with corresponding ACL of P48 thousand as of December 31, 2020, thus approving only the amount of allowance for staggered booking to P43.31 million from the originally applied of P43.36 million.

Allowance for credit losses booked in 2022 includes the amount of P8.36 million, which pertains to the 1/5 of the allowance for staggered booking, after excluding the allowance for fully paid accounts, from the original amount of BSP approved ACL for relief.

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 2022 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, 2022:

(i.) PFRS 3 (Amendments), Business Combination – Reference to the Conceptual Framework

(ii.) PAS 16 (Amendments), Property, Plant and Equipment – Proceeds Before Intended Use (iii.) PAS 37 (Amendments), Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract

(iv.) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Group:

- PFRS 9 (Amendments), Financial Instruments – Fees in the '10 percent' Test for Derecognition of Liabilities

- Illustrative Examples Accompanying PFRS 16, Leases – Lease Incentives

These amendments do not have any significant impact on the Company's CY 2022 financial statements.

(b) Effective Subsequent to 2022 but not Adopted Early

There are pronouncements effective for annual periods subsequent to 2022, which are adopted by the Financial Reporting Standards Council. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the company's financial statements:

(i.) PAS 1 (Amendments), Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (effective from January 1, 2024)

(ii.) PAS 1 (Amendments), Presentation of Financial Statements – Disclosure of Accounting Policies (effective from January 1, 2023)

(iii.) PAS 1 (Amendments), Presentation of Financial Statements – Definition of Accounting Estimates (effective from January 1, 2023)

(iv.) PAS 12 (Amendments), Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective from January 1, 2023)

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 LBP, 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 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 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 Assets and Financial Liabilities

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

For any new contracts entered into on or after January 1, 2020, 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 recognize as expense the payments for short-term leases and leases of low-value assets instead of recognizing a right-of-use asset and lease liability.

Right-of-use asset and lease liability were presented in the statements of financial position as part of Property 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.

3.1 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

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 Other Non-financial Assets account if used in operations, as Real and 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.

3.2 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, 2022 and 2021, 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, 2022 and 2021 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, 2022 and 2021, 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, 2022 and 2021 are presented below.

2022	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Total
Assets:					
Cash and cash equivalents	302,044,673	0	0	0	302,044,673
Loans and receivables*	897,376,740	182,595,585	373,470,414	211,395,595	1,664,838,334
	1,199,421,413	**182,595,585**	**373,470,414**	**211,395,595**	**1,966,883,007**
Liability:					
Bills payable	0	0	0	0	0
Periodic gap	**1,199,421,413**	**182,595,585**	**373,470,414**	**211,395,595**	**1,966,883,007**
Cumulative gap	**1,199,421,413**	**1,382,016,998**	**1,755,487,412**	**1,966,883,007**	**1,966,883,007**

2021	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Total (As restated)
Assets:					
Cash and cash equivalents	161,078,923	0	0	0	161,078,923
Loans and receivables*	120,749,694	141,158,209	1,130,124,950	555,781,558	1,947,814,411
	281,828,617	141,158,209	1,130,124,950	555,781,558	2,108,893,334
Liability:					
Bills payable	180,000,000	0	0	0	180,000,000
Periodic gap	**101,828,617**	**141,158,209**	**1,130,124,950**	**555,781,558**	**1,928,893,334**
Cumulative gap	**101,828,617**	**242,986,826**	**1,373,111,776**	**1,928,893,334**	**1,928,893,334**

**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 Board of Directors (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

Credit Quality	ICRR System Grade	Description
	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	**2022**	**2021 (As Restated)**
Cash and cash equivalents	7	302,044,673	161,078,923
Loans and receivables	8	1,430,639,860	1,726,476,858
Refundable deposits	12	981,923	998,369
		1,733,666,456	**1,888,554,150**

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 in the succeeding pages 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, 2022.

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
High Grade	197,798			197,798
Standard Grade	452,253,048	55,419,518	19,664,561	527,337,127
Substandard Grade		206,988,013	203,251,328	410,239,341
Impaired			727,064,068	727,064,068
	452,450,846	**262,407,531**	**949,979,957**	**1,664,838,334**
Other receivables:				
High Grade	2,653,324		3,290	2,656,614
Standard Grade	2,434,393	69,188	106,616	2,610,197
Substandard Grade	693,377	39,255,906	24,437,847	64,387,130
Impaired	10,100	235,791	5,003,003	5,248,894
	5,791,194	**39,560,885**	**29,550,756**	**74,902,835**
	458,242,040	**301,968,416**	**979,530,713**	**1,739,741,169**

Movements during 2022 for receivables from customers and other receivables follow:

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
Balance at January 1,2022	674,090,033	464,877,112	808,847,266	1,947,814,411
New assets originated or purchased	379,432,172			379,432,172
Assets derecognized or repaid	(550,290,804)	(89,183,153)	(25,789,440)	(665,263,397)
Amounts written off				
Transfer to/(from) Stage 1	(50,780,555)			(50,780,555)
Transfer to/(from) Stage 2		(113,286,428)		(113,286,428)
Transfer to/(from) Stage 3			166,922,131	166,922,131
	452,450,846	**262,407,531**	**949,979,957**	**1,664,838,334**
Other receivables:				
Balance at January 1,2022	13,251,736	48,797,551	9,482,157	71,531,444
New assets originated or purchased	42,322,785			42,322,785
Assets derecognized or repaid	(38,951,394)			(38,951,394)
Amounts written off				
Transfer to/(from) Stage 1				
Transfer to/(from) Stage 2				
Transfer to/(from) Stage 3				
	16,623,127	48,797,551	9,482,157	74,902,835
	469,073,973	**311,205,082**	**959,462,114**	**1,739,741,169**

An analysis of changes in the ECL allowances in 2022 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers:				
Balance at January 1, 2022	7,117,476	43,375,993	344,909,449	395,402,918
Provisions (reversals)			35,501,923	35,501,923
Reclassifications/reallocation				
Amounts written off			(3,978,328)	(3,978,328)
Transfer to/(from) Stage 1				
Transfer to/(from) Stage 2				
Transfer to/(from) Stage 3				
	7,117,476	**43,375,993**	**376,433,044**	**426,926,513**

	Stage 1	Stage 2	Stage 3	Total
Other Receivables				
Balance at January 1, 2021	116,204	3,771,391	4,213,812	8,101,407
Provisions (reversals)			212,881	212,881
Reclassifications/reallocation			4,882,964	4,882,964
Amounts written off				
Transfer to/(from) Stage 1				
Transfer to/(from) Stage 2				
Transfer to/(from) Stage 3				
	116,204	**3,771,391**	**9,309,657**	**13,197,252**
	7,233,680	**47,147,384**	**385,742,701**	**440,123,765**

The breakdown of provision (recovery) for impairment losses for the period December 31, 2022 is shown below.

	Stage 1	Stage 2	Stage 3	Total
Receivables from customers	2,902,796	(17,172,310)	43,770,383	29,500,869
Other Receivables	(4,806)	273,937	5,944,804	6,213,935
	2,897,990	**(16,898,373)**	**49,715,187**	**35,714,804**

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).

(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.

	2022	2021
For neither past due but not impaired		
Chattel mortgage	172,137,900	201,328,700
Real estate mortgage	0	0
Finance lease	152,707,531	164,515,360
For impaired		
Chattel mortgage	21,551,000	20,294,667
Real estate mortgage	0	0
Finance lease	0	43,786,000
For under litigation		
Chattel mortgage	4,170,000	0
Real estate mortgage	0	0
Finance lease	131,041,000	131,041,000
	481,607,431	560,965,727

(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**	
	2022	**2021**	**2022**	**2021**
Concentration by sector:				
Financial institutions	302,044,673	161,078,923		
Trading/Commercial			545,714,962	627,017,330
Manufacturing			253,181,707	293,256,272
Services			142,605,622	136,751,795
Others			723,336,043	890,789,014
	302,044,673	**161,078,923**	**1,664,838,334**	**1,947,814,411**

**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, 2022 and 2021, the Company's financial liabilities have contractual maturities which are presented below.

	2022			
	One to three months	**More than three months to one year**	**More than one year to three years**	**Total**
Bills payable	0	0	0	0
Accrued expenses and other liabilities	47,740,727	11,690,140	202,486,547	261,917,414
Deposit on lease contracts	45,249,086	35,753,931	123,500,388	204,503,405
	92,989,813	**47,444,071**	**325,986,935**	**466,420,819**

	2021			
	One to three months	**More than three months to one year**	**More than one year to three years**	**Total**
Bills payable	180,000,000	0	0	180,000,000
Accrued expenses and other liabilities	63,491,205	10,895,655	205,008,929	279,395,789
Deposit on lease contracts	26,254,391	45,632,826	126,763,477	198,650,694
	269,745,596	**56,528,481**	**331,772,406**	**658,046,483**

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 FINANCIAL LIABILITIES

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.

		2022		2021 (As Restated)	
Financial Assets	**Note**	**Carrying Amount**	**Fair Values**	**Carrying Amount**	**Fair Values**
Cash and cash equivalents	7	302,044,673	302,044,673	161,078,923	161,078,923
Loans and receivables	8	1,430,639,860	1,430,639,860	1,726,476,858	1,726,476,858
Refundable deposits	12	981,923	981,923	998,369	998,369
		1,733,666,456	**1,733,666,456**	**1,888,554,150**	**1,888,554,150**
Financial Liabilities					
Bills payable	13			180,000,000	180,000,000
Accounts payables and other liabilities	14	261,917,414	261,917,414	279,395,789	279,395,789
Deposit on lease contracts	8	204,503,405	204,503,405	198,650,694	198,650,694
		466,420,819	**466,420,819**	**658,046,483**	**658,046,483**

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 2022 and 2021 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 P576.93 million and P685.90 million as of December 31, 2022 and 2021, respectively, can be offset by the amount of deposits on lease contracts amounting to P204.50 million and P198.65 million as of December 31, 2022 and 2021, respectively. The balance of lease contract receivables, net of deposits on lease contracts, amounted to P372.43 million and P487.25 million as of December 31, 2022 and 2021, 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 in the succeeding page 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.

			2022	
Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	302,044,673			302,044,673
Loans and receivables			1,430,639,860	1,430,639,860
Refundable deposits			981,923	981,923
	302,044,673	**0**	**1,431,621,783**	**1,733,666,456**
Financial Liabilities				
Accounts payables and other liabilities			261,917,414	261,917,414
Deposit on lease contracts			204,503,405	204,503,405
			466,420,819	**466,420,819**

			2021 (As Restated)	
Financial Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	161,078,923			161,078,923
Loans and receivables			1,726,476,858	1,726,476,858
Refundable deposits			998,369	998,369
	161,078,923		**1,727,475,227**	**1,888,554,150**
Financial Liabilities				
Bills payable			180,000,000	180,000,000
Accounts payables and other liabilities			279,395,789	279,395,789
Deposit on lease contracts			198,650,694	198,650,694
			658,046,483	**658,046,483**

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 and in the succeeding page shows the Levels within the hierarchy of assets classified as investment properties and other properties acquired measured at fair value as at December 31.

			2022	
	Level 1	**Level 2**	**Level 3**	**Total**
Investment property:				
Land			39,639,400	39,639,400
Building			34,693,000	34,693,000
			74,332,400	**74,332,400**
Other properties acquired:				
Machineries and other equipment			40,952,720	40,952,720
			115,285,120	**115,285,120**

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment property:				
Land			118,692,116	118,692,116
Building			34,693,000	34,693,000
			153,385,116	**153,385,116**
Other properties acquired:				
Machineries and other equipment			22,767,500	22,767,500
			176,152,616	**176,152,616**

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:

	2022	2021
Cash in banks	302,039,673	161,073,923
Cash on hand	5,000	5,000
	302,044,673	**161,078,923**

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

In 2022 and 2021, interest income recognized from cash and cash equivalents amounted to P303,281 and P106,991, 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:

	2022	2021 (As Restated)
Receivables from customers:		
Lease contracts receivables	476,701,699	612,859,560
Residual value of leased properties	198,664,383	191,031,672
Deferred leasing income	(55,714,196)	(71,749,753)
Less: Allowance for credit and impairment losses	(36,646,749)	(44,307,156)
General Loan Loss Provision	(6,075,817)	(1,940,202)
	576,929,320	685,894,121
Loans receivable	521,487,229	649,178,060
Less: Allowance for credit and impairment losses	(52,032,807)	(46,918,232)
General Loan Loss Provision	(3,894,109)	(4,699,536)
	465,560,313	597,560,292
Finance receivables:		
Check discounting	28,280,236	80,095,781
Invoice discounting	251,708,373	210,101,005
Unearned finance income:		
Invoice discounting	(581,995)	(863,541)
Less: Allowance for credit and impairment losses	(176,480,246)	(166,589,093)
General Loan Loss Provision	(84,007)	(168,239)
	102,842,361	122,575,913
Restructured receivables	386,660,797	395,580,005
Residual value of leased properties under restructured receivables	5,839,022	7,619,022
Capitalized interest and other charges	(17,184,759)	(20,072,967)
Less: Allowance for credit and impairment losses	(151,712,774)	(130,470,963)
General Loan Loss Provision	0	(309,499)

	2022	2021 (As Restated)
	223,602,286	252,345,598
Other receivables:		
Sales contracts receivable	3,751,473	7,959,026
Accounts receivable	882,282	5,257,464
Accrued interest receivable	67,616,359	60,020,211
Others	2,652,721	2,965,639
Less: Allowance for credit and impairment losses	(13,159,604)	(7,985,086)
General Loan Loss Provision	(37,651)	(116,320)
	61,705,580	68,100,934
	1,430,639,860	**1,726,476,858**

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

	2022	2021
Lease contracts receivable:		
Due within one year	228,862,429	150,193,286
Due beyond one year but not beyond five years	247,839,270	462,666,274
	476,701,699	612,859,560
Residual value of leased properties:		
Due within one year	79,305,595	71,887,994
Due beyond one year but not beyond five years	119,358,788	121,438,678
	198,664,383	193,326,672
Gross investment in lease contract receivable	675,366,082	803,891,232
Less: Deferred leasing income	(55,714,196)	(71,749,753)
Net investment in lease contracts receivable	**619,651,886**	**732,141,479**

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

	2022	2021
Due within one year	280,940,838	204,857,571
Due beyond one year but not beyond five years	338,711,048	527,283,908
	619,651,886	**732,141,479**

As at December 31, 2022 and 2021, residual value of leased properties amounting to P204.50 million and P198.65 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 15 per cent and seven per cent to 18 per cent in 2022 and 2021, respectively. The Company recognized interest income from lease contracts receivable amounting to

P31.01 million and P49.53 million in 2022 and 2021, 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 15 per cent and seven per cent to 16 per cent in 2022 and 2021, respectively.

Loans receivable by contractual maturity dates is analyzed as follows:

	2022	2021
Due within one year	147,106,340	78,066,519
Due beyond one year but not beyond five years	374,380,889	571,111,541
	521,487,229	**649,178,060**

Restructured receivables earn annual interest at rates ranging from seven per cent to 15 per cent and seven per cent to 18 per cent in 2022 and 2021 respectively.

The breakdown of the Company's interest income follows:

	Note	2022	2021
Finance receivables		5,366,876	7,843,835
Loans receivable		57,216,694	69,796,284
Restructured receivables		16,253,979	16,470,607
Sales contract receivable		698,632	454,465
Cash in banks	5	303,281	106,991
		79,839,462	**94,672,182**

As at December 31, 2022 and 2021 non-performing loans (NPLs) not fully covered by allowance for credit losses amounted to P472.53 million and P647.28 million, respectively.

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

	2022	2021
Secured	579,566,819	555,886,233
Unsecured	261,844,729	245,344,975
	841,411,548	**801,231,808**

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 relief 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, 2022	**46,243,296**	**51,613,851**	**166,717,384**	**130,828,389**	**8,101,405**	**403,504,325**
Losses (reversals)						
Reclassifications/ reallocation	(3,520,728)	4,313,066	9,846,869	20,884,384	5,095,849	36,619,440
Write-off						
At December 31, 2022	**42,722,568**	**55,926,917**	**176,564,253**	**151,712,773**	**13,197,254**	**440,123,765**
At January 1, 2021	60,897,042	49,844,983	173,615,400	92,264,093	2,447,696	379,069,214
Losses (reversals)				24,892,167	136,792	25,028,959

	Lease Contract Receivables	Loans Receivables	Finance Receivables	Restructured Receivables	Other Receivables	Total
Reclassifications/ reallocation Write-off	(14,653,746)	1,768,868	(6,898,016)	13,672,129	5,516,917	(593,848)
At December 31, 2021, as restated	**46,243,296**	**51,613,851**	**166,717,384**	**130,828,389**	**8,101,405**	**403,504,325**

The management reassessed the required allowance to cover significant losses as at December 31, 2022 and recognized the required ECL based on PFRS 9 at P440.12 million.

Relief for unbooked 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 P6.05 million and P6.01 million at December 31, 2022 and 2021, 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. The dissolution of UFEC was approved on March 4, 2021 by amendment of its Articles of Incorporation by shortening its corporate life until December 31, 2023.

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 below.

	2022	2021
Cost	4,025,000	4,025,000
Accumulated share in net profit:		
Balance at beginning of the year	1,784,279	1,622,010
Share in net profit	241,106	162,270
Balance at end of the year	2,025,385	1,784,280
Accumulated share in other comprehensive income:		
Balance at beginning of the year	197,500	184,000
Reversal of revaluation reserve	(197,500)	
Share in other comprehensive income	-	13,500
Balance at end of the year	-	197,500
Carrying amount of investment	**6,050,385**	**6,006,780**

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 2022 and 2021. There was no income recognized related to these assets in 2022 and 2021.

The carrying amounts of investment properties presented in the statements of financial position as at December 31, 2022 and 2021 are shown below.

	2022	2021 (As Restated)
Cost	71,576,049	74,184,129
Accumulated depreciation	(9,668,203)	(7,643,502)
Accumulated impairment	(2,538,241)	(2,628,392)
Net carrying amount	**59,369,605**	**63,912,235**

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2022 and 2021 is shown below.

	2022	2021 (As Restated)
Balance at beginning of the year	63,912,235	71,078,140
Adjustment/ Reversal	(54,144)	0
Reallocation of impairment	0	(90,150)
Depreciation	(2,024,700)	(2,024,700)
Disposals	(2,463,786)	(5,051,055)
Balance at end of the year	**59,369,605**	**63,912,235**

The aggregate appraised values of the investment properties as at December 31, 2022 and 2021 are P74.33 million and P153.39 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 P1.62 million and P6.28 million in 2022 and 2021, 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 2022 and 2021 are shown below and in the succeeding page:

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvement	Right of Use Asset	Total
December 31, 2022					
Cost	1,934,682	0	0	0	1,934,682

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvement	Right of Use Asset	Total
Accumulated Depreciation and amortization	(1,821,468)			0	(1,821,468)
Net Carrying Amount	**113,214**	**0**	**0**	**0**	**113,214**

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvement	Right of Use Asset	Total
December 31, 2021, As Restated					
Cost	5,247,899	1,786,450	8,577,343	2,538,081	18,149,773
Accumulated Depreciation and amortization	(4,736,243)	(1,212,790)	(4,000,386)	0	(9,949,419)
Net Carrying Amount	**511,656**	**573,660**	**4,576,957**	**2,538,081**	**8,200,354**

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2022 and 2021 is shown below:

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvement	Right of Use Asset	Total
Balance at January 1, 2022 net of accumulated depreciation and amortization	**511,656**	**573,660**	**4,576,957**	**2,538,081**	**8,200,354**
Disposal/Reversal		(573,660)	(4,032,462)		(4,606,122)
Reclassification	7,104				7,104
Depreciation and amortization charges for the year	(405,546)	0	(544,495)	(2,538,081)	(3,488,122)
Balance at December 31, 2022 net of accumulated depreciation and amortization	**113,214**	**0**	**0**	**0**	**113,214**
Balance at January 1, 2021 net of accumulated depreciation and amortization	1,593,288	1,319,404	5,393,700	10,269,173	18,575,565
Disposal		(267,062)			(267,062)
Reclassification	(477,044)				(477,044)
Depreciation and amortization charges for the year	(604,588)	(478,682)	(816,743)	(7,731,092)	(9,631,105)

	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvement	Right of Use Asset	Total
Balance at December 31, 2021 net of accumulated depreciation and amortization, as restated	**511,656**	**573,660**	**4,576,957**	**2,538,081**	**8,200,354**

12. OTHER ASSETS

This account consists of:

	Note	2022	2021
Other properties acquired – net	12.1	7,653,634	13,477,013
Prepaid expenses		5,890,590	7,747,763
Refundable deposits		981,923	998,369
Others	12.2	7,350,631	6,632,561
		21,876,778	**28,855,706**

12.1 Other Properties Acquired

The movements of other properties acquired are presented below.

	Note	2022	2021
Cost			
Balance at beginning of year		40,952,720	65,232,720
Additions		0	470,000
Disposal		0	(24,750,000)
Balance at the end of year		**40,952,720**	**40,952,720**
Accumulated Depreciation			
Balance at the beginning of year		26,588,633	36,162,934
Depreciation during the year	17.2	6,637,866	10,300,698
Disposal		0	(19,874,999)
Balance at the end of year		**33,226,499**	**26,588,633**
Allowance for Impairment Losses			
Balance at the beginning of year		887,074	1,876,700
Reallocation		0	0
Impairment during the year	17.2	0	1,040,894
Disposal		(814,487)	(2,030,520)
Balance at the end of year		**72,587**	**887,074**
		7,653,634	**13,477,013**

The Company did not recognized net gain on foreclosure of other properties acquired in 2022 and P.070 million in 2021, 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 a P1.62 million gain on sale of other properties acquired in 2022 and reported a P3.91million gain on sale of other properties acquired in 2021. The amount of gain 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).

The aggregate appraised values of other properties acquired as of December 31, 2022 and 2021 are P211.9 million and P22.77 million, respectively. Other information about the fair value measurement and disclosures related to other properties acquired are presented in Note 6.3.

12.2 Others

Items of Asset classified as Others are the following:

	2022
Creditable Withholding Tax	6,801,456
Other Asset Software, net	367,602
Advance Rental	119,451
Intangible Assets	58,122
Other Investment	4,000
	7,350,631

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 of 5.5 per cent in 2022 and 2021. Interest expense from bills payable amounted to P2.47 million and P19.27 million in 2022 and 2021, respectively, and is presented as Interest Expense in the statements of income. Interest which remained unpaid as of December 31, 2022 and 2021 amounted P0.00 and P0.33 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	2022	2021
Dividends payable	16.3	200,000,000	200,000,000
Accounts payable		41,498,295	66,257,225
Accrued taxes and licenses		2,108,436	2,308,232
Withholding tax payable		176,760	257,758
Accrued interest on bills payable	13	0	334,583
Accrued other expenses		17,098,706	7,822,486
Lease liability		1,035,217	2,415,505
		261,917,414	**279,395,789**

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 December 31, 2022.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, 2022 is as follows:

	Within 1 year	Two to Five years	Total
Lease Payments	1,465,558	0	1,465,558
Finance Charges	430,341	0	430,341
Net Present Value	**1,035,217**	**0**	**1,035,217**

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.

	2022			2021 (As Restated)		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and cash equivalents	302,044,673		302,044,673	161,078,923	0	161,078,923
Loans and receivables – gross	833,129,677	1,037,633,948	1,870,763,625	784,275,654	1,345,705,529	2,129,981,183
Refundable deposits		981,923	981,923	**0**	998,369	998,369
	1,135,174,350	1,038,615,871	2,173,790,221	945,354,577	1,346,703,898	2,292,058,475
Allowance for credit and impairment losses	(62,125,077)	(377,998,688)	(440,123,765)	(256,992,509)	(146,511,816)	(403,504,325)
	1,073,049,273	**660,617,184**	**1,733,666,457**	**688,362,068**	**1,200,192,082**	**1,888,554,150**
Non-Financial Assets						
Investment in a subsidiary - net		6,050,385	6,050,385	0	6,006,780	6,006,780
Investment properties – net		59,369,605	59,369,605	0	63,912,235	63,912,235
Deferred tax assets – net		107,804,786	107,804,786	0	109,385,182	109,385,182
Property and equipment – net		113,214	113,214	0	8,200,354	8,200,354
Other assets - net	5,890,590	15,004,265	20,894,855	7,845,456	20,011,881	27,857,337
	5,890,590	188,342,255	194,232,845	7,845,456	207,516,432	215,361,888
	1,078,939,863	**848,959,438**	**1,927,899,301**	**696,207,524**	**1,407,708,514**	**2,103,916,038**
Financial Liabilities						
Bills Payable			0	180,000,000		180,000,000
Accounts payable and other liabilities	260,882,197		260,882,197	276,980,284		276,980,284
Deposits on lease contracts	81,003,017	123,500,388	204,503,405	180,886,610	17,764,084	198,650,694

	2022			2021 (As Restated)		
	Within One Year	**Beyond One Year**	**Total**	**Within One Year**	**Beyond One Year**	**Total**
Financial Assets						
	341,885,214	123,500,388	465,385,602	637,866,894	17,764,084	655,630,978
Non-Financial Liabilities						
Other Liabilities		1,035,217	1,035,217	2,415,505	0	2,415,505
	341,885,214	**124,535,605**	**466,420,819**	**640,282,399**	**17,764,084**	**658,046,483**

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:

	2022	**2021**
Total liabilities	466,420,819	658,046,483
Total equity	1,461,478,482	1,445,869,555
Debt-to-equity ratio	**0.32:1.00**	**0.46:1.00**

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, 2022 and 2021 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, 2022 and 2021 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, 2022 and 2021, 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 or after December 31, 2018 (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.

Retained Earnings Appropriated as of December 31, 2022 consists of the following:

Retained Earnings Appropriated for Capital Expansion	100,000,000
Retained Earnings Appropriated for Dividend	100,000,000
Retained Earnings Reserves - PFRS 9	22,279,972
	222,279,972

The details of the prior period adjustments presented in the Statement of Changes in Equity balance on January 1, 2021 are as follows:

Net Deferred Tax Adjustment	(2,582,086)
Correction on Prior Year Expenses	731,313
Correction on Interest Accrual	4,695,776
Adjustment in Furniture and Fixture	33,932
Adjustment in Allowance	4,153,768
	7,032,703

17. OTHER INCOME AND OPERATING EXPENSES

17.1 Other Income

This account consists of:

	Note	**2022**	**2021**
Service charges and penalties		4,177,328	6,883,120
Gain on foreclosure	12.1	0	70,172
Gain/ (Loss) on sale of assets acquired	10	1,621,808	6,277,668
Rental-Real Property and Equipment		0	225,110
Miscellaneous		16,844,939	12,360,813
		22,644,075	**25,816,883**

Miscellaneous Income earned for the year 2022 is composed of the following:

Miscellaneous Income from Bancassurance	324,328
Gain on pretermination	472,405
Recovery on Charged-off Asset	550,000
Other Miscellaneous Income	15,498,206
	16,844,939

17.2 Other Operating Expenses

The details of other operating expenses are shown below.

	Note	2022	2021 (as restated)
Impairment and credit losses	8, 10, 12.1	35,714,804	25,979,703
Salaries and employee benefits		35,481,631	42,226,469
Depreciation and amortization	10, 11, 12.1	12,190,192	21,960,091
Taxes and licenses	24.e	8,844,854	15,543,383
Occupancy	18.3	7,708,319	3,338,149
Communication and utilities		1,364,349	3,706,556
Litigation and others legal expenses		626,553	7,823,832
Management and professional fees		617,088	415,057
Representation and entertainment		23,858	4,226
Miscellaneous expense		9,866,483	4,724,041
		112,438,131	**125,721,507**

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, 2022 and 2021 are presented below.

		2022		2021	
Related Party Category	**Note**	**Amount of Transaction**	**Outstanding Balance**	**Amount of Transaction**	**Outstanding Balance**
Parent Bank					
Cash in bank	18.1	151,670,009	302,044,673	10,716,335	150,374,664
Occupancy cost	18.3	0	0	5,280,994	3,168,603
Key Management Personnel					
Compensation	18.4	35,481,631		15,219,337	

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 (see Note 7).

18.2 Lease Agreement

The Company has existing agreement with the former 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. The lease was terminated on March 1, 2022.

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.

18.3 Key Management Personnel Compensation

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

	2022	2021
Salaries	29,010,788	12,255,340
Others short-term benefits	6,470,843	2,963,997
	35,481,631	**15,219,337**

19. TAXES

The components of tax expense as reported in the statements of income for the years ended December 31 are as follows:

	2022	2021
Current tax expense:		
Minimum corporate income tax (MCIT)	740,649	0
Final tax at 20 per cent	60,652	21,505
	801,301	21,505
Deferred tax expense (income) relating temporary differences	1,782,324	8,776,626
	2,583,625	**8,798,131**

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:

	2022	2021
Tax on pretax profit at 25 per cent	5,907,155	5,939,409
Adjustment for income subjected to lower income tax rates		(5,243)
Tax effects of:		
Net operating loss carry-over (NOLCO)	(7,631,159)	9,199,601
Loss on sale of assets acquired		(5,745,456)
Non-deductible expenses	(48,488,329)	5,350
Net deferred tax effect	2,522,972	(550,906)
Non-taxable income	50,272,986	(44,624)
	2,583,625	**8,798,131**

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

	Statement of Financial Position		Statements of Income	
	2022	**2021 (As Restated)**	**2022**	**2021**
Deferred tax assets:				
Allowance for impairment	135,140,098	120,887,815	(2,575,835)	(6,424,286)
NOLCO	44,343,249	53,756,260	2,785,181	9,199,601
Accumulated depreciation on other properties acquired	11,440,580	10,468,827	(2,251,627)	1,887,400
Minimum Corporate Income Tax	3,268,156	3,874,602	(163,882)	(1,055,204)
Deferred tax liabilities:				
Lease income differential operating lease method	(86,387,297)	(79,377,883)	3,988,487	5,937,675
Unrealized gain on foreclosed assets		(224,439)		(768,560)
Deferred tax assets – net	**107,804,786**	**109,385,182**		
Deferred tax expense			**1,782,324**	**8,776,626**

The Company is subject to MCIT, which is computed at one per cent of gross income (previously at two per cent), as defined under tax regulations or 25 per cent (previously at 30 per cent) Regular Corporate Income Tax (RCIT), whichever is higher. The Company reported MCIT amounting to P.7 million and P1.0 million in 2022 and 2021, 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	2022	2021
2019	2,486,695	2,486,695
2020	332,703	332,703
2021	1,055,204	1,055,204
2022	759,691	
Total	**4,634,293**	**3,874,602**

On April 5, 2021, Revenue Regulation No. 5-2021 was issued by the Bureau of Internal Revenue to Implement the new Income Tax rates on regular income of corporations, on certain passive income, including the additional allowable deductions from Gross Income of persons engaged in business or practice of profession pursuant to Republic Act (RA) No. 11534 or Corporate Recovery and Tax Incentives for Enterprises or CREATE Act, which further amended the National Internal Revenue Code (NIRC) of 1997.

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 2022 and 2021, the Company claimed itemized deductions in computing for income tax due.

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

Year Incurred	2022	Utilized	2021	Year of Expiry
2019	0	(124,122,880)	124,122,880	2022
2020	38,099,748		38,099,748	2025
Total	**38,099,748**	**(124,122,880)**	**162,222,628**	

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 below and 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 RA 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, 2022 and 2021, 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, 2022 and 2021 (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, 2022 and 2021 are presented as part of Taxes and licenses under the Other Operating Expenses account in the statements of income (see Note 17.2).

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, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, 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, 2022 and 2021, 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, 2022	180,000,000	200,000,000	380,000,000
Cash flows from financing activities			
Proceeds from availment of bills payable			
Repayment of bills payable	(180,000,000)		(180,000,000)
Dividends declared			
Balance as of December 31, 2022	**0**	**200,000,000**	**200,000,000**

23. EVENT AFTER THE REPORTING PERIOD

Beginning January 13, 2023, weekly meetings spearheaded by Land Bank Project Working Team (LB-PWT), are held between LBP Leasing and Finance Corp. (LLFC) and ULFC to prepare for the merger of the two subsidiaries. Timeline for the merger to be implemented in August 2023.

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 PFRSs.

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 17.2) is broken down as follows:

Taxable Transactions	Tax Base	GRT
Interest, commissions and discounts period of five years or less – 5%	109,141,206	5,457,060
Interest, commissions and discounts period of more than 5 years – 1%	1,400,801	14,008
All other items treated as gross income – 5%	25,474,250	1,273,713
	136,016,257	**6,744,781**

(b) Excise Tax

The Company did not pay excise tax in 2022 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, 2022, DST paid and accrued amounting to P1.2 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 2022 statement of income.

(e) Taxes and Licenses

The details of Taxes and licenses under Other Operating Expenses account in 2022 are as follows (see Note 17.2):

	Note	
GRT	24.a	6,744,781
Documentary stamps	24.d	1,197,123
Fringe benefit tax		533,336
Others		369,614
		8,844,854

(f) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2022 are shown below:

Expanded	161,542
Other percentage tax	689
Value-added tax	14,528
	176,759

The Company did not have any transaction subject to final and compensation withholding taxes for the year ended December 31, 2022.

(g) Deficiency Tax Assessment and Tax Cases

As of December 31, 2022, 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:

	2022	2021 (As Restated)
Current ratio	6.62	6.76
(Cash + Loans and receivables + Trading securities)	1,732,684,533	1,887,555,781
Total current liabilities	261,917,414	279,395,789
Debt-to-equity ratio	.32	.46
Total liabilities	466,420,819	658,046,483
Total equity	1,461,478,482	1,445,869,555
Return on equity	.01	0.01
Net profit	15,806,426	14,955,571
Average equity	1,453,674,019	1,434,868,66
Return on assets	.01	0.01
Net profit	15,806,426	14,955,571
Average assets	2,015,907,670	2,361,209,291
Loans to Assets	.74	0.82
Total loans and other receivables	1,430,639,860	1,726,476,858
Total assets	1,927,899,301	2,103,916,038

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:

	2022	2021
Net interest margin	5%	5%
CAR	64%	57%

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUE

1. **The faithful representation of the balance of investment properties account amounting to P59.370 million and its related accounts as at December 31, 2022 were not established in the absence of an updated appraisal of the properties, contrary to the provisions of PAS 36 and Section 3 (c) 5 of Bangko Sentral ng Pilipinas (BSP) Circular No. 520.**

1.1 Paragraphs 9, 59 and 114 of Philippine Accounting Standard (PAS) 36 states:

> *9 An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset.*
>
> *59 If, and only if, the recoverable amount of an asset is less than the carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.*
>
> *114 An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, xxx, be increased to its recoverable amount. That increase is a reversal of an impairment loss.*

1.2 Section 3 (c) 5 of Bangko Sentral ng Pilipinas (BSP) Circular No. 520 dated March 20, 2006 provides:

> *Appraisal of Properties. Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the BSP. An in-house appraisal of all ROPAs shall be made at least every other year: Provided, That immediate re-appraisal shall be conducted on ROPAs which materially decline in value.*

1.3 Item II.B.3 of the ULFC Manual on Procedures and Guidelines (MOPG) of Real and Other Properties Acquired (ROPA) specifically on appraisal of properties acquired provides:

> *II.B.3. An in-house and/or external appraisal, as the case may be, of the acquired property shall be made by CAID at least once every two years, upon request of AMDD Department.*
>
> *Immediate re-appraisal shall be conducted on ROPA accounts which materially declined in value.*

1.4 ULFC's investment properties included a building and several parcels of land acquired in settlement of credits and/or for other reasons, 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. These investment properties are measured under the cost model.

1.5 As at December 31, 2022, the investment properties account consisting of 49 properties, has a carrying amount of P59.370 million, net of accumulated depreciation of P9.668 million and accumulated impairment of P2.538 million.

1.6 Review of the support documents disclosed that the recognized accumulated impairment of 48 investment properties was based on the appraisals in 2020, 2019 and 2018. The latest appraisal was made only in one investment property in calendar year 2021. Details are as follows:

Latest Year of Appraisal	Location	Type	Number of Lot/Unit	Cost	Accumulated Depreciation	Book Value	(Impairment)/ Recovery	Net Book Value
2018	Laguna	Land	1	1,584,000.00	-	1,584,000.00	39,462.00	1,623,462.00
2019	Laguna, Lucena, QC and Manila	Land	46	29,219,649.01	-	29,219,649.01	(2,577,703.48)	26,641,945.53
2020	Ortigas	Bldg.	1	40,494,000.00	(9,668,202.47)	30,825,797.53	-	30,825,797.53
			48	**71,297,649.01**	**(9,668,202.47)**	**61,629,446.54**	**(2,538,241.48)**	**59,091,205.06**
2021	**Lucena City**	Land	**1**	**278,400.00**	**0**	**278,400.00**	**0**	**278,400.00**
TOTAL			**49**	**71,576,049.01**	**(9,668,202.47)**	**61,907,846.54**	**(2,538,241.48)**	**59,369,605.06**

1.7 Inquiry with the Management confirmed that there was no appraisal made on 49 investment properties in calendar year (CY) 2022.

1.8 Management informed that the appraisal of the investment properties was requested from the Land Bank of the Philippines, its parent bank, but no appraisers were available.

1.9 Due to the absence of an updated appraisal of the investment properties in CY2022, the faithful representation of the balance of investment properties account amounting to P59.370 million and its related accounts as at December 31, 2022 were not established. The absence of CY2022 appraisal of investment properties further contravened Section 3 (c) 5 of BSP Circular No. 520 dated March 20, 2006, and Item II.B.3 of the ULFC MOPG of ROPA.

1.10 We recommended and Management agreed to:

- **a. Conduct appraisal of the investment properties for its impairment assessment as at end of reporting period; and**

- **b. Prepare necessary adjusting entries to recognize any impairment loss or reversal of impairment loss of the investment properties to faithfully represent the investment properties account and its related account balances.**

1.11 Management informed that the appraisal services was awarded to a third party on May 12, 2023. It also sought the assistance of Landbank Leasing and Finance Corporation (LLFC) for the appraisal of some ROPA. It plans to use the appraisal services of LLFC on the remaining assets. The target timeline to complete the appraisal of the investment properties is September 30, 2023.

B. NON-FINANCIAL ISSUE

2. Cash dividends declared in 2017 by ULFC in favor of then UCPB amounting to P200 million was not settled, hence among the long outstanding payables of ULFC as at December 31, 2022.

2.1 The ULFC Board of Directors (BOD) approved the cash dividend declaration during a meeting held on December 15, 2017. Accordingly, Board Resolution No. 243-2017 dated December 18, 2017, was issued stating:

> *RESOLVE TO APPROVE Management's request for the declaration of cash dividends amounting to P200.0M to be paid on or after December 31, 2018.*

2.2 ULFC was formerly a wholly owned subsidiary of United Coconut Planters Bank (UCPB). With the merger of Land Bank of the Philippines (LBP) and UCPB effective March 1, 2022, the latter being the surviving entity, is now liable to LBP for the payment of the cash dividends declared in 2017.

2.3 Management informed that the payment of cash dividends was discussed in the LBP-UCPB pre-merger meeting. Management recommended and the ULFC BOD approved the deferment of the payment of cash dividends to December 31, 2022. However, no payment of cash dividends was made as at December 31, 2022.

2.4 Review further noted that the ULFC BOD's approval of the declaration of cash dividends amounting to P200 million was deducted from ULFC's Unappropriated Retained Earnings and Dividends Payable was recognized in 2017.

2.5 As at December 31, 2022, the P200 million dividend payable was recognized under the Account Payables and Other Liabilities accounts and presented as a current liability in the Statement of Financial Position.

2.6 Due to continuous non-settlement of the cash dividends declared in 2017 amounting to P200 million, the same amount forms part of the long outstanding payables of ULFC as at December 31, 2022.

2.7 We recommended and Management agreed to coordinate with Land Bank of the Philippines for the settlement of dividends payable.

2.8 Management informed to seek guidance from the ULFC BOD on the settlement of the dividend payable to LBP, its parent Bank, in view of the proposed ULFC and LLFC merger by July 2023.

Compliance with Tax Laws

3. Information on taxes, duties and license fees paid or accrued during the taxable year 2022 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 P176,759 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, GSIS, Philhealth and Pag-IBIG Premiums

4. From January to February 2022, the Company complied with Republic Act (R.A.) No. 8282 on the collection and remittance of contributions to SSS as follows:

a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and

b. Remittance of employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

5. Due to the merger of LBP and UCPB, starting March 2022, the Company complied with Rule III Sections 13 and 14 of the Implementing Rules and Regulations of R.A. No. 8291 (The Government Service Insurance System Act of 1997) on the collection and remittance of contributions to GSIS.

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

Status of Audit Suspensions, Disallowances and Charges

7. There were no balances of audit suspensions, disallowances and charges as at year end.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 20 audit recommendations embodied in the previous years' Annual Audit Report, 16 were fully implemented, and two were partially implemented and two were not implemented. The audit observations with the corresponding partially implemented and not implemented audit recommendations are presented below:

Reference	Audit Observations	Audit Recommendations	Status of Implementation
CY 2021 AAR Observation No. 3 Pages 67 to 70	Past due loans and receivables amounting to P754.133 million exceeded ULFC's CY 2021 target by 12.35 per cent which exposes the Company to higher risk of loss.	Strictly implement strategies and action plans such as:	
		a. intensify collection efforts to facilitate restructuring of accounts;	Partially Implemented This is a continuing effort. Since 2021 up to date of writing, there were several accounts that were successfully restructured and implemented which include five major accounts amounting to P85.629 million.
		b. file legal cases as the last resort;	Partially Implemented There were four court action filed against non-cooperative clients. One account is due for court filing this June 2023.
		c. hire additional personnel; and	Not Implemented Hiring was not implemented due to merger of ULFC and LLFC. Timeline for the merger to be implemented in August 2023
		d. intensify marketing efforts for new loan bookings to improve credit portfolio and quality.	Not Implemented Marketing Department, with only one Accountable Officer left, focused in the restructuring of defaulting and past due accounts. Due to manpower constraint,

Reference	Audit		Status of Implementation
	Observations	Recommendations	
			solicitation of new loan accounts did not take off in CY2022. There were additional loans generated but mostly from existing clients.

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

June 23, 2023

THE BOARD OF DIRECTORS
UCPB Leasing and Finance Corporation
3rd floor OFBank Building
Liwasang Bonifacio, Manila

Gentlemen:

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

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

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

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

1. The faithful representation of the balance of investment properties account amounting to P59.370 million and its related accounts as at December 31, 2022 were not established in the absence of an updated appraisal of the properties, contrary to the provisions of Philippine Accounting Standard 36 and Section 3 (c) 5 of Bangko Sentral ng Pilipinas Circular No. 520.

We recommended and Management agreed to:

a. Conduct appraisal of the investment properties for its impairment assessment as at end of reporting period; and

b. Prepare necessary adjusting entries to recognize any impairment loss or reversal of impairment loss of the investment properties to faithfully represent the investment properties account and its related account balances.

The audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on May 24, 2023, are presented in detail in Part II of the report.

In a letter of even date, we requested the Officer-in-Charge of ULFC to take appropriate actions on the recommendations contained in Parts II and III of the report and that this Commission be informed of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from date of receipt.

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

Very truly yours,

COMMISSION ON AUDIT

By:

ADELA L. DONDONILLA
Director IV
Cluster Director

Copy Furnished:

The President of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission of Government-Owned or Controlled Corporation
The National Library
The UP Law Center