



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

DBP LEASING CORPORATION

(A wholly-owned subsidiary of the Development Bank of the Philippines)

For the Years ended December 31, 2021 and 2020

EXECUTIVE SUMMARY

INTRODUCTION

The DBP Leasing Corporation (DBPLC), formerly named National Development Corporation – Maritime Leasing Corporation, was acquired by the Development Bank of the Philippines (DBP) from the National Development Corporation (NDC) on June 12, 2008. DBP then renamed the company DBP Maritime Leasing Corporation (DMLC). Its Securities and Exchange Commission (SEC) registration which included the increase in the capital stock was approved on May 11, 2009 under Registration No. 128538. DMLC changed its name to DBP Leasing Corporation on January 14, 2010 to reflect the change in the scope of its business.

In 2014, DBPLC introduced additional financial services such as amortized commercial loan and receivables discounting to expand its services.

On April 20, 2015, DBPLC amended its primary purpose to reflect the change in the scope of its business as follows:

- a. To engage, transact and deal in the business of leasing and financing in all its aspects and forms, including that of financial leases and operating leases, with the power to arrange, underwrite, manage, develop or administer leases of any and all types of rental and personal properties, any and all kinds of equipment, machineries, vehicles, vessels, airplanes, appliances, merchandise and facilities, limited to sale-lease back arrangements, hire-purchase agreements and other lease financing schemes;
- b. to extend credit facilities to single proprietorships, and to industrial, commercial or agricultural enterprises, whether public or private in character, by way of loans or direct lending, or discounting, rediscounting or factoring commercial papers or accounts receivables, or by buying or selling contracts, leases, chattel mortgages or other evidence of and powers of a financing company under the Financing Company Act, as amended, and to do any act or engage in any activity that may be directly or indirectly necessary, proper or convenient for the accomplishment of its primary purpose.

From a stockholders' equity of P6.250 million in 2004, the amount increased to P0.992 billion as at December 31, 2021.

Authorized capital stock is P1.5 billion of which P1 billion is common and P0.5 billion is preferred. Both shares have a par value per share of P100.00. DBP's subscribed and paid-up capital is P1 billion common shares and P132 million preferred shares.

DBPLC Chairman of the Board is Cyr C. Gonesto. As at December 31, 2021, the Corporation has 27 regular employees, three probationary, and four contractual personnel.

AUDIT METHODOLOGY AND SCOPE OF AUDIT

Our audit covered the examination, on a test basis, of transactions and accounts of DBPLC for the period January 1 to December 31, 2021 to enable us to express an opinion on the financial statements for the years ended December 31, 2021 and 2020 in accordance with the International Standards of Supreme Audit Institutions. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS

(In Philippine Peso)

I. Comparative Financial Position

	2021	2020	Decrease
Assets	2,804,949,311	3,552,888,344	(747,939,033)
Liabilities	1,812,917,614	2,466,170,353	(653,252,739)
Equity	992,031,697	1,086,717,991	(94,686,294)

II. Comparative Results of Operations

	2021	2020	Increase/ (Decrease)
Income	145,701,128	203,672,968	(57,971,840)
Expenses	227,147,483	187,200,977	39,946,506
Comprehensive (Loss)/Income	(81,446,355)	16,471,991	(97,918,346)

III. Comparative Budget and Actual Expenditures

	2021		2020	
	Budget	Actual	Budget	Actual
Personnel expenses	31,134,447	25,649,646	27,682,451	28,440,239
Maintenance and other operating expenses	45,554,721	25,626,816	36,825,831	35,911,962
Capital expenditures	6,595,000	4,684,394	9,782,000	797,860

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of DBPLC for the years ended December 31, 2021 and 2020.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

As of December 31, 2021, total disallowances amounted to P6,970,276.40. Audit disallowance issued during the year amounted to P3,647,129.04. There were no audit suspensions and charges as of year-end.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

There were no audit recommendations embodied in the CY 2020 Annual Audit Report.

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PART I

AUDITED FINANCIAL STATEMENTS



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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
DBP Leasing Corporation
Makati City

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of DBP Leasing Corporation (DBPLC), which comprise the statements of financial position as at December 31, 2021 and 2020, and the 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 DBPLC as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC), as described in Note 2 to the financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the DBPLC 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 Philippine, 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 to the financial statements, which states that the financial statements have been prepared in accordance with the PFRSs/Philippine Accounting

Standards (PAS), as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC in response to the COVID19 pandemic. The impact of the application of the financial reporting reliefs on the financial statements is discussed in detail in Note 2. Our opinion is not qualified 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 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 DBPLC'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 DBPLC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the DBPLC'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 DBPLC'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 DBPLC'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 DBPLC 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 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 Revised Securities Regulation Code (SRC) Rule 68 in Note 26 and Revenue Regulations 15-2010 in Note 27 to the 2021 financial statements are presented for purposes of filing with the Securities and Exchange Commission and the Bureau of Internal Revenue, 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


MARIE FRANCES HAZEL S. ACEBEDO
OIC - Supervising Auditor

February 28, 2022

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

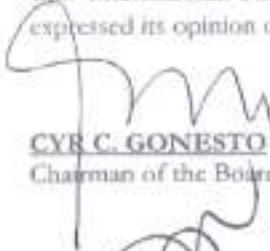
The management of **DBP LEASING CORPORATION** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year(s) ended December 31, 2021 and 2020 in accordance with the prescribed financial reporting framework indicated therein, 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 DBP Leasing Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the DBP Leasing Corporation or to cease operations, or has no realistic alternative to do so.

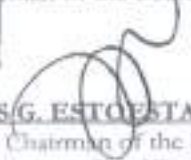
The Board of Directors is responsible for overseeing the DBP Leasing Corporation's financial reporting process.

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

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



CYR C. GONESTO
Chairman of the Board



JESS G. ESTROETA
Vice Chairman of the Board
President & Chief Executive Officer



AGNES Z. BENCO
Chief Financial Officer and VP for Finance

Signed this 28th day of February 2022.

DBP LEASING CORPORATION
(A wholly-owned subsidiary of the Development Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
ASSETS			
Current Assets			
Cash and cash equivalents	5	287,409,415	517,963,571
Lease receivables, net	6	495,394,826	625,436,157
Financial assets at amortized cost, net	7	738,533,344	665,015,253
Inventories	8	233,263	259,743
Other current assets	9	1,632,773	1,205,072
		1,523,203,621	1,809,879,796
Non-current Assets			
Lease receivables, net	6	774,742,809	938,856,604
Financial assets at amortized cost, net	7	401,524,593	714,212,894
Property and equipment	10	27,561,647	29,187,122
Intangible assets	11	230,250	347,508
Deferred tax assets	24	65,676,374	47,697,387
Non-current asset held for sale	12	2,903,571	2,903,571
Other non-current assets	9	9,106,446	9,803,462
		1,281,745,690	1,743,008,548
TOTAL ASSETS		2,804,949,311	3,552,888,344
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Payables	14	19,888,304	21,461,418
Inter-agency payables	15	676,152	5,225,469
Loans payable	16	1,162,740,013	1,476,832,334
Lease liability	17	5,154,442	4,126,546
Trust liabilities	18	98,342,106	166,763,895
		1,286,801,017	1,674,409,662
Non-current Liabilities			
Loans payable	16	250,088,235	514,688,726
Lease liability	17	15,466,161	20,280,082
Trust liabilities	18	260,562,201	256,791,883
		526,116,597	791,760,691
		1,812,917,614	2,466,170,353
Stockholder's Equity			
	19		
Share capital		1,132,000,000	1,132,000,000
Retained earnings (Deficit)		(139,968,303)	(45,282,009)
		992,031,697	1,086,717,991
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		2,804,949,311	3,552,888,344

The Notes on pages 9 to 60 form part of these financial statements.

DBP LEASING CORPORATION
(A wholly -owned subsidiary of Development Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
INCOME			
Interest income	20	59,551,970	106,672,347
Lease income	21	83,142,279	94,863,480
Miscellaneous income	22	3,006,879	2,137,141
		145,701,128	203,672,968
EXPENSES			
	23		
Personnel expenses		(25,649,646)	(28,440,329)
Maintenance and other operating expenses		(25,626,816)	(35,911,962)
		(51,276,462)	(64,352,291)
INCOME FROM OPERATIONS		94,424,666	139,320,677
Non-cash expenses	23	(114,388,955)	(8,507,210)
NET INCOME (LOSS) AFTER PROVISION, DEPRECIATION AND AMORTIZATION		(19,964,289)	130,813,467
FINANCIAL EXPENSES			
Interest expense	16,17	(79,221,998)	(107,116,276)
Bank charge		(1,209)	(871)
		(79,223,207)	(107,117,147)
NET INCOME (LOSS) BEFORE INCOME TAX		(99,187,496)	23,696,320
Income Tax (Expense) Benefit	24	17,837,850	(7,114,254)
Final Tax Expense	5	(96,709)	(110,075)
NET INCOME (LOSS) FOR THE YEAR		(81,446,355)	16,471,991
Other Comprehensive Income		0	0
TOTAL COMPREHENSIVE INCOME (LOSS)		(81,446,355)	16,471,991

The Notes on pages 9 to 60 form part of these financial statements.

DBP LEASING CORPORATION
 (A wholly-owned subsidiary of the Development Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
 For the years ended December 31, 2021 and 2020
 (In Philippine Pesos)

Particulars	Note	No. of Shares	Share Capital (Note 19)		Retained Earnings/ (Deficit)	TOTAL
			Common	Preferred		
Balance, January 01, 2020		11,320,000	1,000,000,000	132,000,000	(44,038,002)	1,087,961,998
Net income for the year					16,471,991	16,471,991
Cash dividends declared	19				(17,715,998)	(17,715,998)
Balance, December 31, 2020		11,320,000	1,000,000,000	132,000,000	(45,282,009)	1,086,717,991
Net loss for the year					(81,446,355)	(81,446,355)
Cash dividends declared	19				(13,239,939)	(13,239,939)
Balance, December 31, 2021		11,320,000	1,000,000,000	132,000,000	(139,968,303)	992,031,697

The Notes on pages 9 to 60 form part of these financial statements.

DBP LEASING CORPORATION
(A wholly-owned subsidiary of the Development Bank of the Philippines)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020
(In Philippine Peso)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of lease and interest		133,420,211	178,471,138
Collection of other income		3,490,424	2,687,515
Loan and financial lease releases		(139,940,334)	(405,698,472)
Collection of lease and loan principal		548,070,383	643,155,075
Collection of car/salary loan/advances		6,055,852	932,168
Collection of deposit on finance leases		65,450	306,750
Payment of operating expenses		(52,150,343)	(34,492,970)
Payment of interest on borrowings		(78,957,561)	(112,799,411)
Payment of interest on lease liability		(138,079)	0
Advances from lessees		0	29,366,432
Remittance of taxes		(11,833,434)	(38,406,939)
Remittance to Pag-IBIG/PhilHealth/SSS		(1,786,195)	(1,352,233)
Net cash provided by operating activities		406,296,374	262,169,053
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of office/IT equipment and IT software		(4,684,394)	(797,860)
Proceeds from sale of properties		12,260	91,636
Net cash used in investing activities		(4,672,134)	(706,224)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	16	710,000,000	1,180,000,000
Payments on borrowings		(1,325,152,432)	(1,010,160,950)
Payment of lease liability	17	(3,786,025)	(1,352,395)
Payment of cash dividend	19	(13,239,939)	(17,715,998)
Net cash provided by (used in) financing activities		(632,178,396)	150,770,657
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		(230,554,156)	412,233,486
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	5	517,963,571	105,730,085
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	287,409,415	517,963,571

The Notes on pages 9 to 60 form part of these financial statements.

DBP LEASING CORPORATION
(A wholly-owned subsidiary of the Development Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
December 31, 2021 and 2020
(Amounts in Philippine Peso unless otherwise stated)

1. GENERAL / CORPORATE INFORMATION

Formerly named National Development Corporation – Maritime Leasing Corporation, DBP Leasing Corporation was acquired by the Development Bank of the Philippines (DBP) from the National Development Corporation (NDC) on June 12, 2008. DBP then renamed the Corporation DBP Maritime Leasing Corporation. Its Securities and Exchange Commission registration which included the increase in the capital stock was approved on May 11, 2009 under Corporation Registration No. 128538. DBP Maritime Leasing Corporation (DMLC) changed its name to DBP Leasing Corporation (DBPLC) on January 14, 2010 and its scope of business to engage in the business of leasing in all aspects, and to arrange or underwrite or administer leases of all types of real or personal properties and all kinds of equipment, machines, vehicles and facilities, especially maritime vessels for the carriage of passengers, freight, cargo, vessels, goods and merchandise of every kind and description.

On April 20, 2015, DBPLC amended its primary purpose to reflect the change in the scope of its business as follows:

- a. To engage, transact and deal in the business of leasing and financing in all its aspects and forms, including that of financial leases and operating leases, with the power to arrange, underwrite, manage, develop or administer leases of any and all types of rental and personal properties, any and all kinds of equipment, machineries, vehicles, vessels, airplanes, appliances, merchandise and facilities, limited to sale-lease back arrangements, hire-purchase agreements and other lease financing schemes;
- b. to extend credit facilities to single proprietorships, and to industrial, commercial or agricultural enterprises, whether public or private in character, by way of loans or direct lending, or discounting, rediscounting or factoring commercial papers or accounts receivables, or by buying or selling contracts, leases, chattel mortgages or other evidence of and powers of a financing company under the Financing Company Act, as amended, and to do any act or engage in any activity that may be directly or indirectly necessary, proper or convenient for the accomplishment of its primary purpose.

From a stockholders' equity of P6.25 million in 2004, the amount increased to P0.992 billion as of December 31, 2021.

Authorized capital stock is P1.5 billion of which P1.0 billion is common and P0.5 billion is preferred. Both shares have a par value per share of P100.00. DBP's subscribed and paid-up capital is P1.0 billion common shares and P132.0 million preferred shares.

DBPLC's registered address is at 2/F Pacific Star Bldg., Sen Gil J. Puyat Ave. corner Makati Avenue, Makati City.

2. STATEMENT OF COMPLIANCE AND BASIS OF FINANCIAL STATEMENTS PRESENTATION

2.1 Statement of Compliance

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRSs/PASs), as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC) in response to the COVID-19 pandemic: 1) exclude exposure of affected borrowers from the computation of the past due loan ratios and the waiver of BSP documentary requirements for restructured loans as long as these loans were current as of March 08, 2020; 2) staggered booking of allowance for credit losses over a maximum period of five (5) years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of March 08, 2020.

Impact on the affected financial statement line items if the provision for credit losses was measured and recorded in accordance with PFRS 9 follows:

Affected financial line items	As Reported	Effect of Pandemic ¹	Inclusive of Effect ²
Balance Sheet accounts			
Lease receivables	1,270,137,635	(5,462,507)	1,264,675,128
Financial assets at amortised cost	1,140,057,937	(87,015,317)	1,053,042,620
Deferred tax assets	65,676,374	23,119,456	88,795,830
Retained earnings (deficit)	(139,968,303)	(69,358,368)	(209,326,671)
Income statement accounts			
Non-cash expenses	114,388,955	92,477,824	206,866,779
Provision for income tax (benefit)	(17,837,850)	(23,119,456)	(40,957,306)
Net income (loss)	(81,446,355)	(69,358,368)	(150,804,723)

¹ Effect of booking of provision for credit losses in accordance with PFRS 9

² Adjusted financial line items if the provision for credit losses was measured and recorded in accordance with PFRS 9

The amount of Allowance for credit losses (ACL) recognized for the year and the remaining balance as at December 31, 2021 as follows:

Impact of Relief Measure on the Booking of ACL	As of (Reporting Period)
Total ACL approved for staggered booking	115,597,280
Recognized (amortized) allowance	23,119,456
Remaining ACL for staggered booking	92,477,824

The Corporation received the BSP's approval for the staggered booking of ACL on December 29, 2020. Total allowance approved for staggered booking amounted to P140,423,764. The Corporation determined using the data as of December 31, 2021 that the total ACL subject for staggered booking would only be P115,597,280 due to changes in circumstances on the accounts affected by COVID-19 pandemic that was previously requested for staggered booking of allowance.

No allowance for provision for credit losses on the outstanding principal balance of lease and loan portfolio was recognized for the year 2020. The BSP allowed the booking of the first instalment for probable credit loss amounting to P28,084,753 on the first working day of 2021 which has been duly complied with by DBPLC. The amount was reduced to P23,119,456 due to changes in circumstances on the accounts affected by COVID-19 pandemic as of December 31, 2021. The next booking will be on January 2022 and June 2022 and every semi-annual thereafter until June 2025. Balance of unrecognized (unamortized) allowance on lease and loan portfolio amounted to P92,447,824 as of December 31, 2021.

2.2 Basis of financial statement preparation

These financial statements are prepared on the historical cost basis. The financial statements preparation in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies.

The Corporation adopts the accrual method of accounting. The financial statements are presented in Philippine Peso, the Corporation's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the presentation of the Financial Statements are set out below. These policies are consistently applied unless otherwise stated.

3.1. Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*.

The Corporation presents its statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liability within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 29 to the financial statements.

3.2. Changes in accounting policies and disclosures

a. Amendments issued and effective for annual periods beginning on or after January 1, 2021.

- **Amendments to PFRS 9 Financial Instruments, PAS 39 Financial Instruments: Recognition and Measurement, PFRS 7 Financial Instruments: Disclosures, PFRS 4 Insurance Contracts and PFRS 16 Leases – Interest Rate Benchmark Reform - Phase 2.** The International Accounting Standards Board (IASB) has published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The amendments relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying PFRS 7 to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** The IASB introduces a practical expedient for modifications required by the reform (modifications required as a direct consequence of the Inter-Bank Offered Rates (IBOR) reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current PFRS requirements. A similar practical expedient is proposed for lessee accounting applying PFRS 16.
- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the IBOR reform. Hedging relationships (and related documentation) must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.
- **Disclosures.** In order to allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition, the amendments require that an entity discloses information about: (1) how the transition from interest rate benchmarks to alternative benchmark rates is managed, the progress made at the reporting date, and the risks arising from the transition; (2) quantitative information about non-derivative financial assets, non-derivative financial liabilities and derivatives that continue to reference interest rate benchmarks subject to the reform, disaggregated by significant interest rate benchmark; and, (3) to the extent that the IBOR reform has resulted in changes to an entity's risk management

strategy, a description of these changes and how is the entity managing those risks.

The IASB also amended PFRS 4 to require insurers that apply the temporary exemption from PFRS 9 to apply the amendments in accounting for modifications directly required by IBOR reform.

The application of this amendment had no material impact on the Corporation's financial statements.

- **Amendment to PFRS 16 Leases – Covid-19-Related Rent Concessions.** The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The application of this amendment had no material impact on the Corporation's financial statements

b. New standards and amendments effective after the reporting period ended December 31, 2021.

Standards issued but not yet effective up to the date of the Corporation's financial statements are listed below. The Corporation intends to adopt these standards when they become effective.

- **Amendments to PFRS 3, Business Combination – Reference to the Conceptual Framework** (effective January 1, 2022). The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard as follows:

- update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, an acquirer applies PAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- add to PFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

Management is currently assessing the impact of this amendment in its financial statements.

- **Amendments to PAS 16 Property, Plant and Equipment — Proceeds before Intended Use** (effective for annual periods beginning on or after January 1, 2022 with early application permitted). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Management is currently assessing the impact of this amendment in its financial statements.

- **Amendments to PAS 37 Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts - Cost of Fulfilling a Contract** (effective for annual periods beginning on or after January 1, 2022 with early application permitted). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The application of this amendment had no impact on the Corporation's financial statements.

- **Annual Improvements to PFRS Standards 2018–2020** (effective January 1, 2022)
 - **PFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter.** The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.
 - **PFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.** The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
 - **PFRS 16 Leases – Lease incentives.** The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
 - **PAS 41 Agriculture – Taxation in fair value measurements.** The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements of PFRS 13.

Management is currently assessing the impact of these amendments in its financial statements.

- **PFRS 17 Insurance Contracts.** The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of the standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of the standard have on the entity's financial position, financial performance and cash flows. The standard is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted.

The new standard will not have an impact on the disclosures and amounts recognized on the Corporation's financial statements.

- **Amendments to PFRS 17 Insurance Contracts – Amendments to PFRS 17 and Extension of the Temporary Exemption from Applying PFRS 9 (Amendments to PFRS 4).** The amendment includes:

- Deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023 and change the fixed expiry date for the temporary exemption in PFRS 4 Insurance Contracts from applying PFRS 9 Financial Instruments, so that entities would be required to apply PFRS 9 for annual periods beginning on or after January 1, 2023.
- Additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk.
- Recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognised in a business acquired in a business combination.
- Clarification of the application of PFRS 17 in interim financial statements allowing an accounting policy choice at a reporting entity level.
- Clarification of the application of contractual service margin (CSM) attributable to investment-return service and investment-related service and changes to the corresponding disclosure requirements.
- Extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives.
- Amendments to require an entity that at initial recognition recognises losses on onerous insurance contracts issued to also recognise a gain on reinsurance contracts held.
- Simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts.
- Additional transition relief for business combinations and additional transition relief for the date of application of the risk mitigation option and the use of the fair value transition approach.
- Several small amendments regarding minor application issues.

The new standard will not have an impact on the disclosures and amounts recognized on the Corporation's financial statements.

- **Amendments to PFRS 17 Insurance Contracts – Initial Application of PFRS 17 and PFRS 9 – Comparative Information.** The amendment provides for transition requirements of PFRS 17 for entities that first apply PFRS 17 and PFRS 9 at the same time. The amendment regards financial assets for which comparative information is presented on initial application of PFRS 17 and PFRS 9, but where this information has not been restated for PFRS 9. Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of PFRS 9 had been applied to that financial asset before. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of PFRS 9.

There are no changes to the transition requirements in PFRS 9.

The new standard will not have an impact on the disclosures and amounts recognized on the Corporation's financial statements.

- **Amendments to PAS 1 Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current** (effective for annual periods beginning on or after January 1, 2022 deferred to January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Management is currently assessing the impact of this amendment in its financial statements.

- **Amendments to PAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction** (effective for annual periods beginning on or after January 1, 2023). The amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

Management is currently assessing the impact of this amendment in its financial statements.

3.3. Financial instruments

Initial recognition

A financial asset or financial liability is recognized in the statements of financial position when the Corporation becomes a party to the contractual provisions of the instrument.

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

Classification of financial instruments

Financial Assets

1. Financial assets at fair value through profit or loss (FVTPL)

Financial assets measured at FVTPL shall consist of the following:

- Financial assets held for trading (HFT), which include stand-alone and/or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments, as defined in PFRS 9; and
- Financial assets designated at FVTPL as defined in PFRS 9.

2. Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

A financial asset measured at FVTOCI shall meet both of the following conditions:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

3. Financial assets measured at amortised cost

A financial asset that is a debt instrument, other than those that are designated at FVTPL, which meet both of the following conditions:

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

The Corporation's short-term investments, Loans receivable – others, accounts receivable, accrued interest receivable and car loan receivable are under this category.

Financial Liabilities

Financial liabilities shall be classified and subsequently measured at amortised cost using the effective interest method, except for:

1. Financial liabilities measured at FVTPL. This shall consist of the following:

- a. Financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and
- b. Financial liabilities designated at FVTPL.

2. Financial liabilities which shall be subsequently measured in accordance with the provisions of PFRS 9, as follows:

- a. Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

- b. Financial guarantee contracts, as defined under PFRS 9;
- c. Commitments to provide a loan at a below-market interest rate; and
- d. Contingent consideration recognized by an acquirer in a business combination.

Derecognition of financial assets and liabilities

Financial assets

A financial asset or, where applicable, a part of financial or part of a group of similar financial assets, is derecognized when (1) contractual rights to the cash flows from the financial asset expire; or (2) transfers the contractual rights to receive the cash flows of the financial asset and either has transferred substantially all risks and rewards of ownership of the financial asset; or (3) retains the contractual rights to receive the cash flows of the financial asset, but has assumed a contractual obligation to pay the cash flows to one or more recipients in an arrangement; or (4) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but not retained control of the financial asset.

Financial liabilities

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

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

Impairment of financial assets

Impairment of assets carried at amortised cost

Loans and receivables that are measured at amortised cost.

DBPLC being a corporation with simple operations, as classified by the Bangko Sentral ng Pilipinas (BSP), followed the guidelines provided in BSP Circular 1011 in loan classification and setting up allowance for credit losses, specifically Appendix 18/Q10/N11 of the Manual of Regulations for Non-Bank Financial Intermediaries.

Loans and other credit exposures with unpaid principal and/or interest are classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments.

3.4. Property and Equipment

Property and equipment are initially recognized at cost. At the end of each financial reporting period, property and equipment are measured at cost less accumulated depreciation and accumulated impairment loss.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.

Major repairs and maintenance are capitalized. Items below the threshold of P15,000 and semi-expendable items are adjusted to conform with COA Circular No. 2016-006 dated December 29, 2016.

Depreciation is computed using the straight-line method over the estimated useful life of the depreciable assets. Amount subject for depreciation is net of 10 per cent residual value.

The estimated life of the Corporation's property and equipment and foreclosed property/assets are as follows:

IT equipment	5 years
Office equipment	5 years
Furniture and fixtures	5 years
Right-of-use asset	Lease term
Transportation equipment, motor vehicles	7 years
Building	30 years
Leasehold improvements	Lease term
Foreclosed properties/assets	10 years

An item of property and equipment, including the related accumulated depreciation and accumulated impairment loss, if any, is derecognized upon disposal or when no future economic benefit is expected to arise from continuing use of an asset. Any gain or loss arising from derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognized.

Fully depreciated assets are retained in the books until they are no longer in use and no further charge for depreciation is made.

3.5. Intangible Assets

Intangible assets are stated at cost and amortised on a straight-line method over the estimated useful life of the assets. The Corporation's intangible assets are assessed for impairment when there is indication that the intangible assets may be impaired.

The Corporation's intangible assets comprise of computer software and Document Management System (DMS). The estimated life of the Corporation's intangible assets are as follows:

Computer software	5 years
DMS	3 years

3.6. Non-current Asset Held-for-Sale

Non-current Assets Held-for-Sale (NCAHFS) include vessels or equipment acquired through repossession or foreclosure that the Corporation intends to sell and will be disposed of within 12 months from the date of classification as held-for-sale. In order for the properties acquired through foreclosure or repossession to be classified as NCAHFS, the Corporation included in its criteria that there should be an existence of a buyer and that the sale can be completed within 12 months.

The Corporation classifies a non-current asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond 12 months, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Corporation's control and as long as there is a ready buyer.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale, and their fair values less costs to sell.

The Corporation shall recognize an impairment loss for any initial or subsequent write-down of the asset at fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held-for-sale are not subject to depreciation. If the Corporation has classified an asset as held-for-sale, but the criteria for it to be recognized as held-for-sale are no longer satisfied, the Corporation shall cease to classify the asset as held-for-sale.

The gain or loss arising from the sale or remeasurement of held-for-sale assets is recognized in profit or loss and included as part of Other Income (Expenses) in the statement of comprehensive income.

3.7. Other Assets

Other assets pertain to other resources controlled by the Corporation as a result of past events. They are recognized in the financial statements when it is probable that future economic benefits will flow and the asset has a cost or value that can be measured reliably.

Other current assets comprise prepayments, deferred charges and deposits. Prepayments represent expenses not yet incurred but already paid. Prepayments are initially recorded as assets and measured at cost. Subsequently, these are charged as expense in the statement of comprehensive income as they are consumed in operations or expire in the passage of time. Deferred charges represent amount of excess Minimum Corporate Income Tax (MCIT) paid by the corporation over the computed Regular Corporate Income Tax (RCIT) computed using the current income tax rate. Deposits represent amount deposited/paid in advance for rentals of office equipment, office space and parking space. Deposits are initially recorded at cost and reversed upon receipt of refund from suppliers.

present value using a pretax rate that reflects market assessments and the risk specific to the obligation. The increase in the provisions 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 case where 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 financial statements. Similarly, possible inflows of economic benefits to the Corporation that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

3.11. Stockholders' Equity

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

Retained earnings (deficit) represent all current and prior period results as reported in the statement of comprehensive income, reduced/(increased) by the amount of dividends declared.

3.12. Revenue and cost and expenses recognition

Revenues comprise interest income on loans, receivable financed, deposits and placements, lease income from finance lease and operating lease contracts and other miscellaneous income.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the amount can be measured reliably. The following specific recognition criteria of income and expenses must also be met before revenue is recognized:

- a. Interest – Interest income and expenses are recognized in profit or loss for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over a relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

The income on financial lease receivable is allocated over the lease term on a systematic and rational basis. The excess of aggregate rentals over the cost of the leased property constitutes the "Deferred Lease Income".

- b. Lease income from operating lease – Revenue from operating lease contracts is recognized in the statement of comprehensive income on a straight line basis over the lease term.

Other non-current assets comprise of foreclosed properties/assets and Other Assets-Leasing and Financial Management System (LFMS). Foreclosed properties/assets are initially recorded at the carrying amount of the lease/loan (outstanding balance adjusted for any unamortized premium or discount less allowance for credit losses) plus booked accrued interest less allowance for credit losses plus transaction costs incurred upon acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the depreciable assets. Other Assets-LFMS comprised of cost of system development and enhancement but has not been in operation as of the balance sheet date.

3.8. Financial liabilities

Financial liabilities which comprise loans payable, accounts payable, accrued expenses payables, lease deposits and other liabilities other than tax-related and other inter-agency payables are recognized when the Corporation becomes a party to the contractual terms of the instrument. All interest-related charges are presented as part of Financial Expenses in the statement of comprehensive income.

Loans payable represents amount drawn from the Corporation's loan facilities. They are recognized at proceeds received, net of direct issue cost.

Payables and inter-agency payables are initially recognized at transaction price and subsequently measured at amortised cost less settlement payments.

Trust liabilities are recognized at contract price.

Dividends to the national government are recognized upon declaration of the Corporation.

3.9. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle liability, simultaneously.

3.10. 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 commitment that has been 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 obligation as a whole. When time value of money is material, long-term provisions are discounted to their

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

Operating cost and expenses are recognized in the statement of comprehensive income upon the utilization of assets or services or at the date they are incurred. All financial expenses are reported in profit or loss on an accrual basis, except capitalized borrowing cost which are included as part of the cost of related qualifying asset.

3.13. Leases

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

The Corporation is the lessor under 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 lease is recognized in the statement of comprehensive income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating lease are added to the carrying amount of the leased asset and recognized over the lease term. Contingent rents are recognized as revenue in the year they are earned.

The Corporation is both a lessor and lessee under the operating lease.

Operating lease, in which the Corporation is a lessee to the contract recognizes Right-of-use asset equivalent to the present value of lease rentals for the contract period, including advance payments.

The Corporation is a lessee of an office space reflected on the balance sheet as right-of-use asset and a lease liability equivalent to the present value of lease rentals for the contract period, including advances. Lease payment is allocated between a reduction of a lease liability and an interest expense. The Corporation classifies its right-of-use asset in a consistent manner to its property and equipment.

Lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Corporation is prohibited from selling or pledging the underlying leased assets as security and must keep the property in good state of repair and retain the property in their original condition at the end of the lease. Further, the Corporation must incur maintenance fees on such items in accordance with lease contract.

3.14. Residual Value of leased assets and deposit on lease contracts

The residual value of leased assets represents the estimated proceeds from the disposal of the leased asset at the end of the lease term in a finance lease, which approximates the amount of the lease deposit paid by the lessee at the inception of the lease. At the end of the lease term, the residual value of the leased asset is generally applied against the lease deposit of the lessee. The residual value of the leased asset is presented as part of the Finance lease receivables in the statement of financial position.

3.15. Borrowing Cost

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

3.16. Income Taxes

Current tax

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 income for the year. Taxable income differs from net income reported in the statement of comprehensive income because it excludes item of income and expense that are taxable or deductible in other years and it further exclude items that are never taxable or deductible. All changes to current tax assets or liabilities are recognized as component of income tax expense in statement of comprehensive income.

Deferred tax

Deferred tax is accounted for using liability method, on temporary difference at the end of the 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 taxable temporary differences can be utilized. Unrecognize 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 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 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 is probable that sufficient taxable profit will be available to allow 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 Corporation 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 Corporation 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.

3.17. Employee benefits

a. Retirement benefits

The Corporation provides retirement benefits to employees based on the provisions of The Labor Code of the Philippines. Accrued amount of retirement pay is presented under Payables account in the statement of financial position.

b. Compensated Absences

Compensated absences are recognized for the number of paid leave days remaining at the end of the reporting period. They are included in the Payables account in the statement of financial position at the undiscounted amount that the Corporation expects to pay as a result of the unused entitlement.

3.18. Related Party Transactions

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

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions.

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

3.19. Events After the End of the Reporting Period

Event after the reporting period pertains to an event/s which could be favorable or unfavorable, that occurs between the end of the reporting period and the date that the financial statements are authorized for issue. Post year end events up to date of the auditor's report that provide additional information about the Corporation's position at financial reporting date (adjusting events) are reflected in the financial statements. Post year end events that are not adjusting events are disclosed in the notes to financial statements, when material.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Corporation'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.

Estimates

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

Estimation of allowance Impairment of Lease Receivables and Financial Assets at Amortized Cost

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

Provision for probable credit losses recognized for the years 2021 and 2020 amounted to P107,085,316 and P4,222,349, respectively.

Estimation of useful lives of property and equipment and foreclosed assets/properties

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

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

The estimated useful lives of investment properties, property and equipment and foreclosed assets/properties are set out in Note 3.4.

Estimation of impairment of property and equipment, foreclosed assets/properties and non-current assets held for sale

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

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

The Corporation recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the assets' net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less cost to sell while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Allowance for impairment losses on Foreclosed assets/properties amounted to P7,089,711 as of December 31, 2021 (Note 9). There are no impairment losses recognised on foreclosed assets/properties for the year 2021 and P1,220,903 for the year 2020, and no impairment losses on property and equipment and Non-Current Assets Held for Sale for the years 2021 and 2020.

Realizability of deferred tax assets

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

Judgments

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

Determination of functional currency

Based on the economic substance of the underlying circumstances relevant to the Corporation, the functional currency is determined to be the Philippine Peso.

Classification of financial instruments

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

The Corporation's financial assets and liabilities are presented in Notes 29 and 30.

Determination of fair value of financial assets

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

Determination Whether an Arrangement Contains a Lease

The Corporation assesses whether an arrangement contains a lease based on PFRS 16, as disclosed in Note 3.13.

Classification of leases

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

Corporation as Lessor

Interest earned on finance lease arrangements amounted to P83,142,279 and P94,863,480 in 2021 and 2020, respectively, as disclosed in Note 21 to the financial statements.

Corporation as Lessee

As a lessee, total rental expenses recognized under lease incurred from the leases amounted to P270,980 and P3,299,475 in 2021 and 2020, as disclosed in Note 23.

Evaluating Deferred Tax

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

Deferred tax assets recognized amounted to P65,676,374 and P47,697,387 as at December 31, 2021 and 2020, respectively, as disclosed in Note 24.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and in banks and short-term investments maturing not more than 91 days from date of purchase.

	2021	2020
Cash in bank	162,582,090	392,700,481
Short-term investments	124,687,325	125,123,090
Emergency Contingency Fund	100,000	100,000
Petty cash	40,000	40,000
	287,409,415	517,963,571

Cash in bank earns interest at rates based on bank deposit rates.

Short-term investments represent fixed term deposit with temporary short-term liquidity with 0.250 per cent to 0.375 per cent interest rate per annum.

Interest income from deposits in banks and placements reported in the statement of comprehensive income totaled P483,545 and P550,373 for the years ended December 31, 2021 and 2020, respectively.

Final tax expense recognized related to the interest income from deposits in banks and placements amounted to P96,709 and P110,075 for the years ended December 31, 2021 and 2020, respectively.

4. LEASE RECEIVABLES, NET

This account represents total amounts to be collected from the lessees which are due in installments on the lease agreement. The finance leases arising from conversion of repossessed vessels were also included.

	2021	2020
Finance lease receivables	1,144,927,747	1,387,980,722
Residual value of leased assets	357,674,650	422,391,571
Deferred finance lease receivable	(152,624,262)	(211,078,638)
Net investment in finance lease receivables	1,349,978,135	1,599,293,655
Operating lease receivable	912,365	912,365
	1,350,890,500	1,600,206,020
Allowance for impairment	(80,752,865)	(35,913,259)
Lease receivables, net	1,270,137,635	1,564,292,761

Current portion consists of:

	2021	2020
Finance lease receivables	553,205,169	649,736,894
Allowance for credit losses	(57,810,343)	(24,300,737)
	495,394,826	625,436,157
Operating lease receivable	912,365	912,365
Allowance for credit losses	(912,365)	(912,365)
	0	0
TOTAL	495,394,826	625,436,157

Non-current portion consists of:

	2021	2020
Finance lease receivables	796,772,966	949,556,761
Allowance for credit losses	(22,030,157)	(10,700,157)
TOTAL	774,742,809	938,856,604

An analysis of DBPLC's finance lease receivables as of December 31, 2021 and 2020 is shown below:

	2021	2020
Maturity of gross investment in:		
Within one year	540,014,424	583,101,343
Beyond one year but not beyond five years	595,615,921	636,435,403
Beyond five years	9,297,402	168,443,976
	1,144,927,747	1,387,980,722
Residual value of leased assets		
Within one year	92,139,149	160,437,039
Beyond one year but not beyond five years	251,481,445	226,948,248
Beyond five years	14,054,056	35,006,284
	357,674,650	422,391,571

Deferred finance lease revenue		
Within one year	78,948,404	93,801,488
Beyond one year but not beyond five years	73,022,822	113,647,881
Beyond five years	653,036	3,629,269
	152,624,262	211,078,638
Gross finance lease receivable	1,502,602,397	1,810,372,293
Deferred finance lease revenue	(152,624,262)	(211,078,638)
Net investment in finance lease receivables	1,349,978,135	1,599,293,655

The residual value of leased assets represents the estimated proceeds from the disposal of the leased asset at the end of the lease term, which approximates the amount of the lease deposit paid by the lessee at the inception of the lease. At the end of the lease term, the residual value of the leased asset is generally applied against the lease deposit of the lessee. The residual value of the leased asset is presented as part of the Finance Lease Receivables in the statement of financial position.

Summary analysis of DBPLC's net investment in finance lease receivables follows:

	2021	2020
Due within one year	553,205,169	649,736,894
Due beyond one year but not beyond five years	774,074,544	749,735,770
Beyond five years	22,698,422	199,820,991
	1,349,978,135	1,599,293,655

Impaired finance lease receivables amounted to P91,281,050 and P59,136,582 as of December 31, 2021 and 2020, respectively.

7. FINANCIAL ASSETS AT AMORTISED COST, NET

This account consists of the following:

	2021	2020
Loans receivable – others	1,453,383,353	1,673,804,982
Unearned revenue/income	(171,283,781)	(218,235,624)
	1,282,099,572	1,455,569,358
Allowance for credit losses	(150,541,651)	(92,073,230)
	1,131,557,921	1,363,496,128
Other receivables:		
Interest receivable	13,864,975	16,240,880
Accounts receivable	9,938,096	10,334,945
Inter-agency receivables	1,007,535	481,895
Car loan receivable	340,549	1,548,149
	25,151,155	28,605,869
Allowance for credit losses	(16,651,139)	(12,873,850)
	8,500,016	15,732,019
TOTAL	1,140,057,937	1,379,228,147

Current portion consists of:

	2021	2020
Loans receivable – others	858,706,802	731,933,930
Allowance for credit losses	(128,531,724)	(81,933,346)
	730,175,078	650,000,584
Interest receivable	13,864,975	16,240,880
Allowance for credit losses	(6,570,589)	(2,686,949)
	7,294,386	13,553,931
Inter-agency receivables	1,007,535	481,895
Allowance for credit losses	(227,820)	(227,820)
	779,715	254,075
Accounts receivables	9,938,096	10,334,945
Allowance for credit losses	(9,729,531)	(9,835,882)
	208,565	499,063
Car loan receivable	198,799	830,799
Allowance for credit losses	(123,199)	(123,199)
	75,600	707,600
TOTAL	738,533,344	665,015,253

Non-current portion consists of:

	2021	2020
Loans receivable – others	423,392,770	723,635,428
Allowance for credit losses	(22,009,927)	(10,139,884)
	401,382,843	713,495,544
Car loan receivable	141,750	717,350
TOTAL	401,524,593	714,212,894

The allowance for impairment is computed based on the Bangko Sentral ng Pilipinas (BSP) basic guidelines in setting up of Allowance for Credit Losses.

DBPLC, being a financial institution with simple operation applied the guidelines of BSP Circular 1011 in estimating its provision for credit losses.

Loans Receivables – Others

This account represents total amounts to be collected from the borrowers under Amortized Commercial Loan, Receivable Financing/Discounting and Short-Term Loan facility. The breakdown of loans receivable-others as of December 31, 2021 and 2020 are as follows:

	2021	2020
Loans receivable – others	1,453,383,353	1,673,804,982
Unearned revenue/income	(171,283,781)	(218,235,624)
Net investment in loans receivable - others	1,282,099,572	1,455,569,358
Allowance for impairment	(150,541,651)	(92,073,230)
Loans receivable – others, net	1,131,557,921	1,363,496,128

	2021	2020
Maturity of gross investment in:		
Within one year	991,381,718	863,326,912
Beyond one year but not beyond five years	460,536,850	706,539,575
Beyond five years	1,464,785	103,938,495
	1,453,383,353	1,673,804,982

	2021	2020
Unearned revenue/income		
Within one year	132,674,916	131,392,982
Beyond one year but not beyond five years	38,524,921	85,499,026
Beyond five years	83,944	1,343,616
	171,283,781	218,235,624

	2021	2020
Allowance for impairment		
Within one year	128,531,724	81,933,346
Beyond one year but not beyond five years	21,996,119	8,508,551
Beyond five years	13,808	1,631,333
	150,541,651	92,073,230

Summary analysis of DBPLC's net investment in loans receivables – others follows:

	2021	2020
Due within one year	858,706,802	731,933,930
Due beyond one year but not beyond five years	422,011,929	621,040,549
Beyond five years	1,380,841	102,594,879
	1,282,099,572	1,455,569,358

Impaired loans and receivables financed amounted to P161,692,256 as of December 31, 2021 and 2020.

Income on lease and loan receivables

Lease and interest income on finance lease receivables and loans receivable – others are presented in the statement of comprehensive income as follows:

	2021	2020
Interest Income on Loans (Note 20)	59,068,425	106,121,974
Lease Income (Note 21)	83,142,279	94,863,480
Total	142,210,704	200,985,454

BSP Reporting

Details of finance lease receivable and loans receivable – others as to industry sector and collateral type at December 31, 2021 and 2020 are as follows:

a) As to industry

	2021	2020
Services	1,027,045,680	1,319,358,208
Manufacturing	587,501,929	718,961,564
Real Estate	322,128,024	441,495,125
Public Sector	260,015,699	322,950,933
Wholesale and Retail Trade	136,385,213	40,855,567
Mining and Quarrying	68,619,011	84,167,492
Total	2,401,695,556	2,927,788,889

b) As to collateral

	2021	2020
Secured		
Property under finance lease	1,270,137,635	1,566,852,507
Chattel mortgage	685,980,942	853,248,415
Unsecured	445,576,979	507,687,967
Total	2,401,695,556	2,927,788,889

As of December 31, 2021, and 2020, the non-performing loans (NPLs) fully-covered by allowance for credit losses amounted to P1,404,000.

8. INVENTORIES

Inventories represent amount of office supplies on hand as of December 31, 2021 and 2020. Inventories recognized as expense for the years 2021 and 2020 amount to P297,570 and P315,160, respectively, as disclosed in Note 23.

9. OTHER ASSETS

This account consists of the following:

	2021	2020
Foreclosed property/assets	6,075,757	7,079,093
Other Assets - LFMS	1,814,000	1,520,000
Prepayments	1,632,773	1,205,072
Refundable deposits	1,216,689	1,204,369
	10,739,219	11,008,534
Current	1,632,773	1,205,072
Non-current	9,106,446	9,803,462
	10,739,219	11,008,534

Foreclosed Assets/Properties

Other non-current assets include chattel or personal properties acquired through repossession or foreclosure that are available for sale or re-lease or charter.

The movement of chattel or personal properties are as follows:

2021			
Particulars	MV Gloria 1	Various Heavy Equipment	Total
Cost			
Beginning balance	0	15,172,140	15,172,140
Adjustments/Reclassifications	0	0	0
Ending balance	0	15,172,140	15,172,140
Accumulated Depreciation			
Beginning balance	0	1,003,336	1,003,336
Depreciation	0	1,003,336	1,003,336
Adjustments/Reclassifications	0	0	0
Ending balance	0	2,006,672	2,006,672
Accumulated Impairment			
Beginning balance	0	7,089,711	7,089,711
Impairment	0	0	0
Adjustments/Reclassifications	0	0	0
Ending balance	0	7,089,711	7,089,711
Net Book Value	0	6,075,757	6,075,757
2020			
Particulars	MV Gloria 1	Various Heavy Equipment	Total
Cost			
Beginning balance	8,108,333	15,172,140	23,280,473
Adjustments/Reclassifications	(8,108,333)	0	(8,108,333)
Ending balance	0	15,172,140	15,172,140
Accumulated Depreciation			
Beginning balance	134,710	0	134,710
Depreciation	231,138	1,003,336	1,234,474
Adjustments/Reclassifications	(365,848)	0	(365,848)
Ending balance	0	1,003,336	1,003,336
Accumulated Impairment			
Beginning balance	3,618,011	7,089,711	10,707,722
Impairment	1,220,903	0	1,220,903
Adjustments/Reclassifications	(4,838,914)	0	(4,838,914)
Ending balance	0	7,089,711	7,089,711
Net Book Value	0	7,079,093	7,079,093

Depreciation charges were recognized for 2021 and 2020 amounting to P1,003,336 and P1,234,474, respectively, and were presented under Non-Cash Expenses in Note 23.

In 2020, impairment loss recognized on MV Gloria 1 amounted to P1,220,903. The Corporation classified and presented the foreclosed property with net carrying amount of P2,903,571 as Non-Current Asset Held-For-Sale (NCAHFS) for comparative periods December 31, 2021 and 2020.

Prepayments consist of prepaid insurance, prepaid taxes and other prepaid expenses. Excess income tax payment as of December 31, 2021 and 2020 amounted to P1,401,909 and P1,025,920, respectively.

Refundable deposits for the year 2021 and 2020 pertain to the three months security deposit on lease of office space refundable at the end of the lease term. Additional deposit of P12,320 was recognized in 2021 relative to the procurement of internet service for the new office.

Leasing and Financial Management System (LFMS) previously reported under Intangible Assets amounting to P1,520,000 was reclassified to Other Assets – LFMS for the comparative period December 31, 2021 and 2020 as the system has not been in operation as of December 31, 2021.

10. PROPERTY AND EQUIPMENT

The composition and movement in this account are as follows:

2021								
Particulars	Information Technology Equipment	Office Equipment	Furniture and Fixtures	Transportation Equipment	Building	Right-of-Use Asset	Leasehold Improvements	Total
Cost								
Beginning balance	3,377,746	685,933	2,631,881	1,947,850	2,100,000	25,759,023	0	36,502,433
Additions	1,335,962	242,360	0	0	0	0	3,073,382	4,654,594
Disposals/Adjustments	(32,727)	0	(27,450)	0	0	(121,426)	0	(181,603)
Ending balance	4,680,981	928,293	2,604,431	1,947,850	2,100,000	25,637,597	3,073,382	40,975,424
Accumulated Depreciation								
Beginning balance	2,431,251	504,603	2,333,710	885,622	329,189	830,936	0	7,315,311
Disposals/Adjustments	(27,329)	0	(27,450)	0	0	0	0	(54,779)
Depreciation	386,784	73,123	67,709	250,438	68,100	4,895,940	431,007	6,153,245
Ending balance	2,790,696	577,726	2,374,029	1,136,060	397,289	5,726,876	431,007	13,413,777
Net Book Value	1,913,285	350,567	230,402	811,790	1,702,711	19,910,721	2,642,375	27,561,647

2020								
Particulars	Information Technology Equipment	Office Equipment	Furniture and Fixtures	Transportation Equipment	Building	Right-of-Use Asset	Leasehold Improvements	Total
Cost								
Beginning balance	4,049,318	840,781	2,702,181	1,947,850	2,100,000	0	0	11,640,130
Additions	0	15,000	0	0	0	25,759,023	0	25,774,023
Disposals/Adjustments	(871,572)	(169,048)	(70,300)	0	0	0	0	(911,720)
Ending balance	3,377,746	685,933	2,631,881	1,947,850	2,100,000	25,759,023	0	36,602,433
Accumulated Depreciation								
Beginning balance	2,639,427	618,404	2,295,440	635,184	261,081	0	0	6,498,536
Disposals/Adjustments	(631,863)	(167,191)	(65,634)	0	0	0	0	(865,018)
Depreciation	393,717	55,390	118,201	250,438	68,100	830,936	0	1,681,790
Ending balance	2,431,251	504,603	2,333,710	885,622	329,189	830,936	0	7,315,311
Net Book Value	946,495	181,330	298,171	1,062,228	1,770,811	24,928,087	0	29,187,122

Depreciation charges were recognized for 2021 and 2020 amounting to P6,153,245 and P1,681,790, respectively and were presented under Non-cash expenses in Note 23.

In 2021, the Corporation sold IT equipment and furniture and fixture with net book value of P3,034 for P12,260 resulting to a gain of P9,197 presented under miscellaneous income account. Likewise, in 2020, the Corporation sold IT equipment, office equipment and furniture and fixture with net book value of P46,701 for P91,636 resulting to a gain of P44,935 presented under miscellaneous income account.

No property and equipment and any portion thereof is held as collateral.

Right of use asset is equivalent to the present value of lease payments over the period of five years.

11. INTANGIBLE ASSETS

The composition and movement of this account are as follows:

	2021	2020
Cost		
Beginning balance	761,238	681,238
Additions	29,800	80,000
Ending balance	791,038	761,238
Accumulated Amortization		
Beginning balance	413,730	266,036
Amortization for the year (Note 23)	147,058	147,694
Ending balance	560,788	413,730
Book Value	230,250	347,508

12. NON-CURRENT ASSET HELD FOR SALE

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

In 2020, the Board of Directors approved the disposal of a vessel with net book value of P2,903,571 on an "as is where is" basis sale.

The Corporation reclassified and presented the property from Other Non-Current Assets – Foreclosed Property/Assets to NCAHFS for the comparative periods December 31, 2021 and 2020.

The carrying amounts of NCAHFS in 2021 and 2020 are shown below:

	2021	2020
Cost	2,903,571	2,903,571
Accumulated impairment	0	0
Net carrying amount	2,903,571	2,903,571

A reconciliation of the carrying amounts of non-current held-for-sale at the beginning and end of 2021 is shown below:

Balance at January 1, net of accumulated impairment	2,903,571
Additions	0
Disposals	0
Reclassifications	0
Balance at December 31, net of accumulated impairment	2,903,571

13. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Reconciliation of the allowance for credit and impairment losses:

	2021	2020
Allowance for Credit Losses, January 1		
Financial assets at amortised cost	104,947,080	103,284,477
Lease receivables	35,913,259	33,353,513
Impairment Losses		
Other non-current assets	11,928,625	10,707,722
	152,788,964	147,345,712
Provisions for credit losses for the year	107,085,316	4,222,349
Impairment losses	0	1,220,903
At December 31	259,874,280	152,788,964

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

	2021	2020
Allowance for Credit Losses		
Financial assets at amortised cost	167,192,790	104,947,080
Lease receivables	80,752,865	35,913,259
Impairment Losses		
Other non-current assets	11,928,625	11,928,625
At December 31	259,874,280	152,788,964

An analysis of DBPLC's Allowance for Credit and Impairment Losses as of December 31, 2021 and 2020 is shown below:

	At January 1, 2021	Provision for the year	At December 31, 2021
Allowance for Credit Losses			
Financial assets at amortised cost	104,947,080	62,245,710	167,192,790
Lease receivables	35,913,259	44,839,606	80,752,865
Impairment Losses			
Other non-current assets	11,928,625	0	11,928,625
	152,788,964	107,085,316	259,874,280

	At January 1, 2020	Provision for the year	At December 31, 2020
Allowance for Credit Losses			
Financial assets at amortised cost	103,284,477	1,662,603	104,947,080
Lease receivables	33,353,513	2,559,746	35,913,259
Impairment Losses			
Other non-current assets	10,707,722	1,220,903	11,928,625
	147,345,712	5,443,252	152,788,964

Breakdown of Allowance for Credit Losses of Lease Receivables are as follows:

	2021	2020
Finance lease receivables	79,840,500	35,000,894
Operating lease receivable	912,365	912,365
	80,752,865	35,913,259

Breakdown of Allowance for Credit Losses of Financial assets at amortised cost are as follows:

	2021	2020
Loans receivable – others	150,541,651	92,073,230
Accounts receivable	9,729,531	9,835,882
Interest receivable	6,570,589	2,686,949
Inter-agency receivables	227,820	227,820
Car loan receivable	123,199	123,199
	167,192,790	104,947,080

14. PAYABLES

This account consists of the following:

	2021	2020
Accounts payable	11,556,408	10,953,786
Accrued expenses payable	4,740,483	7,184,393
Due to officers and employees	3,591,413	3,323,239
	19,888,304	21,461,418

Accounts payable pertains to advances made by clients for payment of chattel mortgage registration and other fees, payable to suppliers and unreleased checks as of year-end.

Due to officers and employees pertains to the monetary value of sick leave and vacation leave credits of employees remaining at the end of the reporting period.

Breakdown of Accounts payable as of December 31, 2021 and 2020 are as follows:

	2021	2020
Accounts payable – advances from clients	9,911,688	7,962,455
Accounts payable – unreleased checks	1,503,152	2,697,867
Accounts payable – supplier of goods and services	141,568	293,464
	11,556,408	10,953,786

Breakdown of Accrued expenses payable as of December 31, 2021 and 2020 are as follows:

	2021	2020
Audit fees	2,562,635	3,289,493
Accrued gross receipts tax	1,757,301	1,793,213
Retirement pay	286,838	469,687
Accrued operating expenses	133,709	1,632,000
	4,740,483	7,184,393

15. INTER-AGENCY PAYABLES

This account consists of payables to the following:

	2021	2020
BIR – Other Taxes	538,240	5,119,089
SSS & ECC	91,789	67,181
PHIC	29,845	23,073
PAG-IBIG	16,278	16,126
	676,152	5,225,469

All the above payables were remitted to the agencies concerned in January 2022.

16. LOANS PAYABLE

This account represents amount drawn from the Corporation's loan facilities with Bank of the Philippine Islands, Philippine National Bank, BDO Unibank, Inc., Eastwest Banking Corporation, Security Bank Corporation and Metropolitan Bank and Trust Company. The earliest loans were incurred in 2010-2012 to finance the acquisition of leased vessels. New borrowings in 2021 and 2020 amounted to P710 million and P1.18 billion, respectively, and were used principally to paydown more expensive loans.

Details of this account are as follows:

	2021	2020
Philippine National Bank	450,000,000	700,000,000
BDO Unibank, Inc.	304,313,726	426,039,216
Bank of the Philippine Islands	289,187,893	334,500,000
Eastwest Banking Corporation	267,750,000	325,864,834
Security Bank Corporation	100,000,000	100,000,000
Metropolitan Bank and Trust Company	0	100,000,000
	1,411,251,619	1,986,404,050
Accrued interest on borrowings	1,576,629	5,117,010
Total	1,412,828,248	1,991,521,060
Current	1,162,740,013	1,476,832,334
Non-current	250,088,235	514,688,726

Interest rates on loans payable range from 4.00 per cent to 4.50 percent and 4.40 per cent to 6.50 percent in 2021 and 2020, respectively.

Interest expense on borrowings is presented as financial expenses in the statements of comprehensive income amounting to P79,083,919 and P107,116,276 for the years ending December 31, 2021 and 2020, respectively.

17. LEASE LIABILITY

The movement of lease liability is as follows:

	2021	2020
At January 1	24,406,628	0
Additions/adjustments	(121,426)	25,759,023
Payments	(3,664,599)	(1,352,395)
At December 31	20,620,603	24,406,628
Current	5,154,442	4,126,546
Non-Current	15,466,161	20,280,082

	2021	2020
Maturity of lease liability in:		
Within one year	5,154,442	4,126,546
Beyond one year but not beyond five years	15,466,161	20,280,082
	20,620,603	24,406,628

Total cash outflow for lease liability in 2021 and 2020 amounted to P3,786,025 and P1,352,395, respectively. Payment in 2020 includes three months advance rent on office space and one month advance rent on parking and dues.

Interest expense on lease liability is presented as financial expenses in the statements of comprehensive income amounting to P138,079 for the year 2021. No interest expense on lease liability was recognized for the year 2020.

18. TRUST LIABILITIES

This account consists of the following:

	2021	2020
Customers' deposit payable	358,657,307	423,308,778
Guaranty/Security deposit payable	247,000	247,000
	358,904,307	423,555,778
Current	98,342,106	166,763,895
Non-Current	260,562,201	256,791,883

Customers' Deposit Payable

This account consists of guaranty deposits on finance leases ranging in amount from five per cent to twenty per cent of the cost attributable to each vessel/equipment.

The total project cost for each leased asset is based on the total purchase price, importation cost or appraised value.

Breakdown of deposit on finance leases by contractual settlement dates as of December 31, 2021 and 2020 is as follows:

	2021	2020
Due within one year	98,095,106	166,516,895
Due beyond one year	260,562,201	256,791,883
	358,657,307	423,308,778

Breakdown of deposit on finance leases as to industry as of December 31, 2021 and 2020 is as follows:

	2021	2020
Manufacturing Company	147,223,426	191,188,185
Construction Company	79,544,564	114,706,221
Maritime Industry	47,461,140	31,457,070
Transportation Company	28,207,069	27,180,907
Mining and Quarrying Company	23,309,682	23,835,102
Educational Institution	17,105,546	13,203,995
Trading and Commercial Company	8,425,880	11,430,698
Administrative and Support Services Company	7,380,000	10,306,600
	358,657,307	423,308,778

19. STOCKHOLDER'S EQUITY

Share Capital

DBP Leasing Corporation, a wholly-owned subsidiary of DBP, has an authorized capital stock of P1.5 billion, which is divided into 10 million common shares of stock and five million preferred shares of stock with total par values of P 1 billion and P 500 million, respectively. Out of the authorized capital stock of DBPLC, 10 million common shares and 1.32 million preferred shares with total par values P1.0 billion and P132 million, respectively, have been subscribed. The preferred shares, which are not convertible into common shares, were subscribed under the terms and conditions of the Subscription Agreement dated May 30, 2012, for purposes of funding DBPLC's acquisition of the Insular Life Building in Cebu City. The building was then leased to and used as office site of Region VII of the Department of Labor and Employment (DOLE).

Retained Earnings (Deficit)

Dividend Declaration

In compliance with Republic Act No. 7656 requiring the declaration of dividends by Government-Owned and/or Controlled Corporations, DBPLC is required to declare and remit at least 50 per cent of its annual net earnings.

For CY 2020, the Board of Directors (BOD) of DBPLC, in its April 29, 2021 regular meeting, approved the declaration of cash dividends amounting to P13.025 million and remitted to the Bureau of Treasury on May 03, 2021. In 2021, additional dividends were declared and remitted to the National Treasury amounting to P214,846 representing dividends due for the CY 2017 and 2018. Meantime, for CY 2019, the BOD, in its April 16, 2020 regular meeting, approved the declaration of cash dividends to the NG amounting to P17.716 million and remitted to the BTR on April 20, 2020.

20. INTEREST INCOME

Interest income consists of the following:

	2021	2020
Loans receivable – others	59,068,425	106,121,974
Cash and cash equivalents	483,545	550,373
	59,551,970	106,672,347

21. LEASE INCOME

Lease income consists of the following:

	2021	2020
Finance lease	83,142,279	93,812,804
Operating lease	0	1,050,676
	83,142,279	94,863,480

22. MISCELLANEOUS INCOME

Miscellaneous Income consists of the following:

	2021	2020
Processing/service fees and other charges	2,369,882	1,566,865
Other income	627,800	525,341
Gain on disposal of property	9,197	44,935
	3,006,879	2,137,141

Other income pertains to penalties, surcharge and interest. Processing/service fees and other charges consist of gross receipts tax on lease and interest income for the account of the client.

23. EXPENSES

This account represents Salaries and Other Personnel Expenses and other administrative expenses incurred for the years ended December 31, 2021 and 2020.

	2021	2020
Personnel Services		
Salaries and wages	17,363,788	18,408,435
Other compensation		
Mid-year and year-end bonus	2,495,495	2,997,456
Transportation Allowance (TA)	779,250	936,119
Representation Allowance (RA)	779,250	936,119
Personnel economic relief allowance	661,636	665,000
Clothing allowance	162,000	150,000
Cash gift	129,250	135,500
Other bonus and allowances	2,093,364	2,604,848
	7,100,245	8,425,042
Personnel benefit contributions		
SSS, ECC contributions	675,538	495,100
Philealth contributions	154,240	146,758
Pag-ibig contributions	33,500	31,400
	863,278	673,258
Other personnel benefits		
Retirement gratuity	322,335	933,594
	25,649,646	28,440,329

Maintenance and Other Operating Expenses

Taxes, duties and licenses	14,961,499	21,140,633
Directors' and committee members' fees	2,431,600	1,314,000
Litigation/Asset acquired expense	1,660,979	2,257,716
Insurance expenses	1,153,510	1,615,803
Auditing service	930,635	1,632,000
Communication expenses	829,942	1,013,193
General services	811,204	834,011
Other professional service	638,134	860,833
Travelling expenses- local	468,054	340,716
Office supplies expense	297,570	315,160
Rent/Lease expense	270,980	3,299,475
Repairs and maintenance	257,469	51,680
Training expenses	150,611	138,266
Subscription expenses	128,320	80,788
Representation expenses	65,869	156,818
Utility expenses	24,402	202,837
Internet subscription expenses	0	112,282
Advertising, promotional and marketing expense	0	112,000
Semi-expendable expenses	0	40,596
Fines, penalties and other charges	0	4,336
Miscellaneous expense	546,038	388,819
	25,626,816	35,911,962
	51,276,462	64,352,291

Other bonuses and allowances consists of Performance Enhancement Incentive (PEI), Service Recognition Incentive (SRI) and Sick Leave/Vacation Leave Earned Credits.

Miscellaneous expense composed of the following:

	2021	2020
Corporate give away	231,280	0
Membership fees and dues	104,774	135,041
GAD expenses	55,526	0
Notarial fees	37,100	27,150
Periodicals and magazines	6,569	0
Other expenses	110,790	226,628
	546,039	388,819

Other Expenses consists of Cost of Online Loandex Information System and Cost of Negative File Information System, reimbursement for Antigen Swab Tests of various employees, disinfection service, among others.

Non-Cash expenses composed of the following:

	2021	2020
Credit and impairment losses (Note 13)	107,085,316	5,443,252
Depreciation (Notes 9 and 10)	7,156,581	2,916,264
Amortization (Note 11)	147,058	147,694
	114,388,955	8,507,210

24. INCOME TAX EXPENSE/(BENEFIT)

The income tax expense consists of:

	2021	2020
Current tax expense	1,034,968	10,607,928
Deferred tax expense (income)	(17,978,986)	(3,493,674)
Income tax expense adjustment due to implementation of CREATE Law	(893,832)	0
	(17,837,850)	7,114,254

Details of current tax expense are as follows:

	2021	2020
Financial income (loss)	(99,187,496)	23,696,320
Add (Deduct): Reconciling items		
Non-deductible expenses	102,620,935	12,553,650
Advance rental/rental payment	(3,802,678)	(1,352,395)
Depreciation	4,895,946	830,936
Interest in arbitrage	96,709	181,623
Interest income subject to final tax	(483,545)	(550,373)
Taxable income	4,139,871	35,359,761
Tax rate	25%	30%
	1,034,968	10,607,928

Details of deferred tax expense (income) are as follows:

	2021	2020
Allowance for credit and impairment losses	26,771,329	(1,632,976)
Accrued expenses	(1,150,615)	(2,017,136)
Rental expense	307,837	156,438
Adjustment in DTA due to change in income tax rate	(7,949,565)	0
	17,978,986	(3,493,674)

In 2021, an amount of P893,832 was adjusted on the income tax expense of the current period due to the change in income tax rate from 30 per cent to 25 per cent in accordance with the CREATE Law which was implemented after the issuance of the Corporation's CY 2020 Audited Financial Statements.

Republic Act (RA) No. 11534 provides that an income tax of 25 per cent effective July 1, 2020 shall be imposed upon the taxable income derived during each taxable year from all sources within and without the Philippines by every corporation. Provided that corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million excluding land on which the particular business entity's office, plant and equipment are situated during the taxable year for which the tax is imposed, shall be taxed at 20 per cent.

Adjustment in the deferred tax asset due to the change in income tax rate as part of the implementation of the CREATE Law is computed as follows:

	2021
Allowance for credit and impairment losses	152,788,965
Accrued expenses	6,723,788
Rental expense	(521,459)
	158,991,294
Tax rate	5%
	7,949,565

Details of deferred taxes as of December 31, 2021 and 2020 follows:

	2021	2020
Credit and impairment losses	64,968,570	45,836,689
Accrued expenses	530,332	2,017,136
Rental expense	177,472	(156,438)
	65,676,374	47,697,387

Income tax credit in 2021 and 2020 amounts to P1,401,909 and P1,919,782, respectively and reported as Prepaid Income Tax under Other Assets.

The Corporation is subject to minimum corporate income tax (MCIT) which is computed at two per cent of gross income, as defined under the tax regulations, or to the RCIT, whichever is higher. No MCIT was reported in 2021 and 2020. As provided in RA No. 11534, effective July 1, 2020 until June 30, 2023, the MCIT rate shall be one per cent.

In 2021 and 2020, the Corporation claimed itemized deduction on computing for its income tax due.

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

25. CONTINGENCIES

Contingent Asset

In the ordinary course of business, there are pending litigations involving the Corporation which are not reflected in the accompanying financial statements.

As of 31 December 2021, the following are the on-going litigations involving the Corporation as a claimant:

1. A collection suit for recovery of sums of money in the amount of P13,044,249.68 was filed by the Corporation against a defaulted lessee. DBPLC prevailed in this case. The Supreme Court resolved to consider the case closed and terminated and a motion for the execution on the order shall soon be filed;
2. The Corporation has a claim in the amount of P17,010,718.23 against a client that filed a case for voluntary rehabilitation under Republic Act No. 10142 or the Financial Rehabilitation and Insolvency Act of 2010 (FRIA). In this case, the Court denied the confirmation of the Amended Rehabilitation Plan and the client intends to file a petition for certiorari before the Court of Appeals. Meanwhile, the stay order remains effective and is not automatically lifted via the court's disapproval of the Rehabilitation Plan;
3. The Corporation has a claim in the amount of P2,345,357.59 against a client that filed a case for voluntary rehabilitation under Republic Act No. 10142. In this case, the Corporation's counsel, the Office of the Government Corporate Counsel (OGCC), had already filed a pleading to register DBPLC's claim plus a supplementary Motion yet to be filed;
4. The Corporation has a claim in the amount of P14,500,000.00 against a client that filed a case for voluntary rehabilitation under Republic Act No. 10142. In this case, the OGCC is set to submit comments to the Rehabilitation Plan; and
5. The Corporation has a claim in the amount of P13,420,296.68 against a client that filed a case for voluntary rehabilitation under Republic Act No. 10142. In this case, the Corporation's counsel had filed a Compliance and Motion before the Court.

No income has been recognized during the financial year as the receipt of the claim is not virtually certain.

26. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some of the financial performance indicators of the Corporation:

	2021	2020
Current ratio	1.18:1	1.08:1
Debt-to-equity ratio	1.83:1	2.27:1
Return on equity	(7.84%)	1.51%
Return on assets	(2.90%)	0.46%
Loans-to-assets	0.86:1	0.83:1
EBITDA Rate	9.08%	12.81%

27. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION 15-2010

In compliance with the requirements set forth by RR No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

DBPLC as a non-VAT entity, is subject to percentage tax and other taxes as well as income taxes. Percentage and other taxes consist principally of Gross Receipts Tax (GRT) and Documentary Stamp Tax (DST). DBPLC pays the corresponding GRT on all items treated as gross income. DBPLC withheld corresponding taxes on payments of compensation of employees, fees to directors and cost of purchase price to contractors and suppliers of goods and services.

Below is the additional information required under the Revenue Regulations 15-2010:

- | | |
|--|----------------|
| a. Amount of VAT output tax | Not Applicable |
| b. Amount of VAT input tax | |
| 1. Beginning of the year | |
| i. VAT input tax | Not Applicable |
| ii. Deferred VAT input tax | Not Applicable |
| 2. Current year's domestic purchases/payments for: | |
| i. Goods for resale/manufacture or further processing | Not Applicable |
| ii. Goods other than for resale of manufacture | Not Applicable |
| iii. Capital goods subject to amortization | Not Applicable |
| iv. Capital goods not subject to amortization | Not Applicable |
| v. Services lodged under cost of goods | Not Applicable |
| vi. Services lodged under other accounts | Not Applicable |
| 3. Claims for tax credit/refund and other adjustments; and | Not Applicable |
| 4. Balance at the end of the year | |
| i. VAT input tax | Not Applicable |
| ii. Deferred VAT input tax | Not Applicable |
| c. The landed cost of imports and the amount of customs duties and tariff fees paid or accrued thereon; | Not Applicable |
| d. The amount of excise tax/es, classified per major product category, i.e. tobacco products, alcohol products, automobiles, minerals, oil and petroleum, etc. paid on | |
| 1. Locally produced excisable items, and | Not Applicable |
| 2. Imported excisable items. | Not Applicable |

e.	Documentary stamp tax (DST) on loan instruments, shares of stock and other transactions subject thereto;	
i.	DST on Finance Lease, Amortized Commercial Loan and Rediscounting Facility	1,252,655
ii.	DST on Loans Payable	7,530,176
	Total	8,782,831
f.	All other taxes, local and national, including license and permit fees lodged under the Taxes, duties and licenses account both under the Maintenance and other operating expenses;	
i.	Gross Receipts Tax	6,962,254
ii.	Business permit	432,313
iii.	Real property tax	19,071
iv.	License fee	12,625
vi.	Miscellaneous taxes	5,059
	Total	7,431,322
g.	The amount of withholding taxes categorized into	
i.	Tax on compensation and benefits	2,641,916
ii.	Creditable withholding tax/es	2,312,044
iii.	Final withholding tax/es	5,544,450
h.	Amount/s of deficiency tax assessments, whether protested or not Period covered	0

Taxes paid in 2021 composed of:

Final withholding taxes	6,438,293
Documentary stamp tax	1,252,655
Gross receipts tax	8,494,445
Expanded withholding taxes	2,575,718
Compensation and benefits	2,819,424
	21,580,535

Accrued GRT at the end of 2021 amounted to P1,757,301.

28. RELATED PARTY TRANSACTIONS

DBPLC's related parties include Development Bank of the Philippines (DBP), key management personnel and the retirement benefit fund as described in the succeeding paragraphs.

The summary of the Corporation's transactions with its related parties in 2021 and 2020 and the related outstanding balances as of December 31, 2021 and 2020 are as follows:

- a. The Corporation maintains current, zero savings and option savings account with DBP. As of December 31, 2021 and 2020, current, zero savings and option savings account maintained with DBP are included under Cash and Cash Equivalents account in the statements of financial position (see Note 5). These deposits generally earn interest at annual rates of 0.250 per cent to 0.375 per cent in 2021 and 2020. Interest income earned on these deposits in 2021 and 2020 are included as part of Interest Income under Income in the statements of comprehensive income.

	2021	2020
Cash in bank – local currency, current account	162,582,090	392,700,481
Time deposits – local currency	124,687,326	125,123,090
	287,269,416	517,823,571

- b. In 2021, prior to transferring to the new office, the Corporation leases its office premises and warehouse from DBP. The term of the lease is one year, renewable for such period under such terms and conditions as may be agreed upon with DBP. Related rent expense, power, light and water expenses, training and travelling expenses incurred in 2021 and 2020 is presented as part of Maintenance and Other Operating Expenses account under Expenses in the statements of comprehensive income.

	2021	2020
Rental Expenses		
Office premises	269,940	3,239,280
Warehouse	1,040	12,480
Electricity	0	128,195
	270,980	3,379,955

	2021	2020
Accrued Expenses Payable		
Telephone line	2,456	2,456
Electricity	0	41,105
	2,456	43,561

- c. Compensation of key management personnel (covering officer positions starting from Vice president and up) is included as part of Salaries and other personnel-related expenses under Expenses in the Statements of Comprehensive Income.

Remuneration of key management personnel for the years 2021 and 2020 are as follows:

	2021	2020
Short term benefits	6,575,002	9,715,758
Post-employment benefits	66,610	867,756
	6,641,612	10,583,514

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has established the Risk and Governance Committee, which is responsible for developing and monitoring the Corporation's risk management policies.

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

In addition, the Management Committee (ManCom) meets at least twice a month to review performance, business plans, deliberate and act on matters requiring approvals or resolutions under its authority, including credit/lease proposals. The ManCom consists of the President and Chief Executive Officer (CEO), Vice President (VP) for Finance, VP for Accounts Management Group, Assistant Vice President (AVP)/OIC – Operations Group, AVP for Accounts Management Group – Team 1, Manager for Accounts Management Group – Team 2, Legal Officer IV, Head of Credit Review and Evaluation Group (CREG) and Compliance/Risk Officer. DBPLC is exposed to various forms of risks. These risks can be grouped into credit, liquidity, operational, market and legal risks. In managing these risks, the approach is not always risk minimization but managing risks to make an optional contribution to company revenues. DBPLC, in accordance with DBP Risk Management, submits monthly reports and said risks are evaluated and consolidated with those of parent.

Market and credit risks management are carried out through policies approved by the ManCom, the Credit Committee (Crecom) and other board committee level such as the Risk and Governance Committee, Audit Committee, Nominations and Remunerations Committee Meeting, Anti-Money Laundering Committee Meeting among others and the Board of Directors.

The Corporations' risk management policies are summarized below:

Impact of COVID-19

DBPLC has considered the possible effects that may result from the pandemic relating to COVID-19 on the carrying amounts of financial and non-financial assets. In developing the assumptions relating to the possible future uncertainties in the global economic conditions because of this pandemic, DBPLC, as at the date of approval of these financial statements has used internal and external sources of information and related information, and economic forecasts. The Corporation expects to recover the carrying amount of these assets and will continue to closely monitor any material changes to future economic conditions.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

DBPLC is naturally exposed to credit risk due to the nature of its business. Credit exposures arise principally when default in lease or loan occurs. A counterparty default risk has to be evaluated thoroughly in order to avoid financial loss.

a) *Credit Risk Management*

DBPLC's credit evaluation reports and proposals are prepared independently by the CREG and are endorsed by Senior Management to the approving bodies. The Corporation has three levels of authority for the approval of credit applications to obtain financing products from DBPLC depending on the threshold principal amount. The Subcredit Committee (Subcrecom) - composed of the President and CEO, the Head of the CREG and the Head of the appropriate team (Team 1 or Team 2) of the AMG is empowered to approve applications with net amount of P25 Million and below subject to Board notation. On the other hand, the Crecom (a board level committee) has authority to approve application with amounts above P25 Million to P100 Million, subject to Board notation. Thirdly, the Governing Board holds the authority to approve a credit application for a principal amount of more than P100 Million.

Credit evaluation and background checking as well as financial evaluation and projection are thoroughly conducted before a prospective account is recommended for approval. Credit and business track records, ownership and financial capacity are vital factors in evaluating the viability of an account.

b) *Collateral*

The amount and type of collateral required depends on an assessment of the credit risk of the obligor.

Collateral comes in the form of financial and non-financial assets. The main types of collaterals are real estate properties, chattel/movable assets and evidence of receivable from customers.

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

	2021	2020
Secured		
Property under finance lease	1,270,137,635	1,566,852,507
Chattel mortgage	685,980,942	853,248,415
Unsecured	445,576,979	507,687,967
Total	2,401,695,556	2,927,788,889

c) *Impairment assessment*

The Corporation recognizes provision for probable losses based on the Bangko Sentral ng Pilipinas (BSP) guidelines in setting up of allowances applicable for financial institutions with simple operations as provided in BSP Circular 1011.

d) *Maximum exposure credit risk before collateral held or other credit enhancements*

	2021		2020	
	Carrying Amount	Maximum Exposure	Carrying Amount	Maximum Exposure
Financial assets:				
Cash	287,409,415	287,409,415	517,963,571	517,963,571
Finance Lease Receivables	1,349,978,135	1,349,978,135	1,599,293,655	1,599,293,655
Loans Receivables – Others	1,282,099,572	1,282,099,572	1,455,569,358	1,455,569,358
Total	2,919,487,122	2,919,487,122	3,572,826,584	3,572,826,594

e) *Concentration of risks of financial assets with credit risk exposure*

As of December 31, 2021

	Cash	Finance Lease Receivables	Loans Receivable- Others
Bank and Other financial institutions	287,409,415	0	0
Services	0	399,044,822	722,888,212
Manufacturing	0	441,390,168	172,129,784
Real Estate	0	265,620,765	149,833,135
Public Sector	0	64,191,144	198,452,491
Wholesale and Retail Trade	0	129,477,569	19,910,268
Mining and Quarrying	0	50,253,667	18,885,682
Total	287,409,415	1,349,978,135	1,282,099,572

As of December 31, 2020

	Cash	Finance Lease Receivables	Loans Receivable- Others
Bank and Other financial institutions	517,823,571	0	0
Services	0	493,262,074	845,738,677
Manufacturing	0	551,832,274	172,460,334
Real Estate	0	367,784,890	163,556,316
Public Sector	0	71,726,060	254,488,790
Wholesale and Retail Trade	0	37,271,798	11,964,890
Mining and Quarrying	0	77,416,559	7,360,351
Total	517,823,571	1,599,293,655	1,455,569,358

f) *Credit Quality of Financial Assets*

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

As of December 31, 2021

	Cash	Finance Lease Receivables	Loans Receivable- Others
Neither past due nor impaired	287,409,415	1,267,700,529	1,125,260,696
Past due but not impaired	0	0	0
Impaired	0	82,277,606	156,838,876
Total	287,409,415	1,349,978,135	1,282,099,572

As of December 31, 2020

	Cash	Finance Lease Receivables	Loans Receivable- Others
Neither past due nor impaired	517,963,571	1,543,770,502	1,298,730,482
Past due but not impaired	0	0	0
Impaired	0	55,523,153	156,838,876
Total	517,963,571	1,599,293,655	1,455,569,358

Neither past due nor impaired

Lease and loan receivables that are neither past due nor impaired are due from accounts that have appropriate and strong credit history, with minimal account defaults and whose receivable are fully recoverable based on past experiences.

Past due but not impaired

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

Impaired

Impaired lease and loans receivables include accounts which are individually and collectively assessed for impairment. The total impairment provision of lease and loan receivables represented provision for individually and collectively impaired lease and loan receivables. Further information on impairment of lease and loan receivable is provided in Notes 6, 7 and 13.

Detailed Credit Quality Analysis on Amortized Cost – Loans and Receivables

In view of PFRS 9 compliance, presented below are the Corporation's credit exposure of receivable from borrowers and its corresponding staging analysis:

Finance Lease Receivables

	Gross Carrying Amount			Total
	Stage 1	Stage 2	Stage 3	
Large Enterprises (L)	903,029,891	55,683,223	182,122,403	1,140,835,517
Medium Enterprises (M)	118,754,018	0	17,702,987	136,457,005
Small Enterprises (S)	8,494,469	0	0	8,494,469
Micro Enterprises (Mi)	0	0	0	0
National Government Units	64,191,144	0	0	64,191,144
Gross Lease Receivables	1,094,469,522	55,683,223	199,825,390	1,349,978,135

Movements in Gross Carrying Amounts:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2021	1,543,770,502	0	55,523,153	1,599,293,655
New assets originated or purchased	126,679,351	0	0	126,679,351
Assets derecognized or repaid (excluding write-offs)	(375,994,871)	0	0	(375,994,871)
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	(55,683,223)	55,683,223	0	0
Transfer to Stage 3	(144,302,237)	0	144,302,237	0
Amounts written-off	0	0	0	0
December 31, 2021	1,094,469,522	55,683,223	199,825,390	1,349,978,135

Movements in the Allowance for Expected Credit Losses:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2021	11,219,610	0	23,781,284	35,000,894
New assets originated or purchased	795,345	0	0	795,345
Assets derecognized or repaid (excluding write-offs)	5,026,933	0	3,980,295	9,007,228
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	0	4,423,981	0	4,423,981
Transfer to Stage 3	0	0	30,613,052	30,613,052
Amounts written-off	0	0	0	0
December 31, 2021	17,041,888	4,423,981	58,374,631	79,840,500

Loans Receivables – others

	Gross Carrying Amount			Total
	Stage 1	Stage 2	Stage 3	
Large Enterprises (L)	174,116,810	178,035,063	519,445,563	871,597,436
Medium Enterprises (M)	17,661,786	0	153,110,388	170,772,174
Small Enterprises (S)	7,340,262	0	26,531,503	33,871,765
Micro Enterprises (Mi)	3,024,574	0	4,381,132	7,405,706
National Government Units	198,452,491	0	0	198,452,491
Gross Loans Receivables	400,595,923	178,035,063	703,468,586	1,282,099,572

	Interest Receivables			Total
	Stage 1	Stage 2	Stage 3	
Large Enterprises (L)	1,884,682	650,772	10,657,564	13,193,018
Medium Enterprises (M)	132,150	0	428,989	561,139
Small Enterprises (S)	15,833	0	94,985	110,818
Micro Enterprises (Mi)	0	0	0	0
National Government Units	0	0	0	0
Interest Receivables	2,032,665	650,772	11,181,538	13,864,975

Movements in Gross Carrying Amounts:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2021	1,298,730,482	0	156,838,876	1,455,569,358
New assets originated or purchased	31,188,949	0	0	31,188,949
Assets derecognized or repaid (excluding write-offs)	(204,636,735)	0	(22,000)	(204,658,735)
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	(178,035,063)	178,035,063	0	0
Transfer to Stage 3	(546,651,709)	0	546,651,709	0
Amounts written-off	0	0	0	0
December 31, 2021	400,595,924	178,035,063	703,468,585	1,282,099,572

Movements in the Allowance for Expected Credit Losses:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2021	12,987,305	0	79,085,925	92,073,230
New assets originated or purchased	311,889	0	0	311,889
Assets derecognized or repaid (excluding write-offs)	58,167,532	0	(11,000)	58,156,532
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	(17,803,506)	17,803,506	0	0
Transfer to Stage 3	(49,657,260)	0	49,657,260	0
Amounts written-off	0	0	0	0
December 31, 2021	4,005,960	17,803,506	128,732,185	150,541,651

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its existing or future obligations when they fall due under normal and stress circumstances. To limit this risk, management monitors future cash flows and liquidity on a weekly basis. This incorporates an assessment of expected cash flows, available credit lines from banks and short-term investments.

In order to strengthen the availability of its funding sources, DBPLC has opened credit facilities with Bank of the Philippine Islands, BDO Unibank, Inc., East West Banking Corporation, Security Bank, Metropolitan Bank and Trust Company and Philippine National Bank.

Collection of lease rentals and loan amortizations is closely monitored to assure promptness. Expenditures including liquidation of advances, are likewise well monitored.

All funds of DBPLC are deposited only with DBP. Only a minimal amount is maintained under its current account while the rest of the funds are in higher yielding deposits to maximize earnings.

The DBPLC Board, in its October 01, 2019 meeting, approved the prescribed limit on Maximum Cumulative Outflow (MCO) and Interest Rate (IR) Gap in order to properly monitor the cash inflows and outflows of the Corporation.

Analysis of financial liabilities by remaining contractual maturities.

As of December 31, 2021

	Due within 1 year	Over 1 year to 3 years	Over 3 years	Total
Financial liabilities				
Loans payable	1,162,740,013	250,088,235	0	1,412,828,248
Payables	19,888,304	0	0	19,888,304
Lease liability	5,154,442	10,098,072	5,368,089	20,620,603
Trust liabilities	98,342,106	129,020,455	131,541,746	358,904,307
	1,286,124,865	389,206,762	135,993,651	1,812,241,462

As of December 31, 2020

	Due within 1 year	Over 1 year to 3 years	Over 3 years	Total
Financial liabilities				
Loans payable	1,476,832,334	420,700,980	93,987,746	1,991,521,060
Payables	21,461,418	0	0	21,461,418
Lease Liability	4,126,546	10,252,189	10,027,893	24,406,628
Trust liabilities	166,763,895	175,998,719	80,793,164	423,555,778
	1,669,184,193	606,951,888	184,808,803	2,460,944,844

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

Operational Risk

This risk covers the risk of loss arising from fraud, inadequate or failed processes, unauthorized activities, error, omission, inefficiency, systems failure or external event.

This risk may arise from loss or damage on the leased assets and loan collaterals as well as third parties due to human error or natural/fortuitous events that will temporarily or permanently disable the earning potential/capacity of the assets. Insurance on leased assets and collaterals is required to assure recovery of loss.

Market Risk

Interest rates as basis for determining lease rentals and loan amortizations are closely monitored and are determined in accordance with the Corporation's Pricing Policy and based on prevailing market rates in order to minimize the gap between cost of funds and lending rates due to market volatility.

31. APPROVAL FOR THE RELEASE OF THE FINANCIAL STATEMENTS

The Board of Directors of the DBP Leasing Corporation (DBPLC) has reviewed and approved the release of the accompanying comparative financial statements and accompanying notes to financial statements on January 26, 2022.

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

NON-FINANCIAL ISSUES

Corona Virus Disease 2019 (COVID-19)

Grant of Hazard Pay

1.1. Administrative Order (AO) No. 26 dated March 23, 2020 authorizes the grant of Hazard Pay to government personnel who physically report for work during the period of implementation of an Enhanced Community Quarantine (ECQ) relative to the COVID-19 Outbreak. The AO entitles authorized government personnel who occupy regular, contractual or casual positions, or are engaged through Contract of Service, Job Order (JO) or other similar schemes in the national government agencies, including state universities and colleges and government-owned and controlled corporations (GOCCs), and local government units, a hazard pay of not exceeding P500 a day per person.

1.2. In 2021, DBPLC disbursed P223,000 representing hazard pay benefit to its employees who were authorized to physically report to work station during the implementation of Modified ECQ in Metro Manila. The grant were in accordance with the AO No. 26.

Provision for shuttle services for employees reporting for work

1.3. On April 30, 2020, the DOLE and the Department of Trade and Industry (DTI) issued Interim Guidelines on Workplace Prevention and Control of COVID-19. Item 5, Section V thereof requires employers, where applicable, to provide shuttle services and/or decent accommodation on near-site location to lessen travel and people movement.

1.4. In compliance with the guidelines, DBPLC continued providing shuttle services to its employees who were required to report for work on a skeletal work force during the implementation of community quarantine in CY 2021. The total transportation and maintenance expenses incurred for the period ending December 31, 2021 amounted to P682,553.36. The expenses incurred were in accordance with item 5, Section V of the DOLE and DTI Interim Guidelines.

Reverse Transcription Polymerase Chain Reaction (RT-PCR) tests for employees, disinfection services and purchase of supplies and protective equipment

1.5. On May 16, 2020, the Department of Labor and Employment (DOLE) issued Labor Advisory No. 18 series of 2020 *Guidelines on the Cost of COVID-19 Prevention and Control Measures*, which provides, under Section 2 of the Advisory, that all employers shall shoulder the cost of COVID-19 prevention and control measures such as but not limited to the following: testing, disinfection facilities, hand sanitizers, personal protective equipment (PPEs i.e., face mask), signages, proper orientation and training of workers including information, education and communication materials on COVID-19 prevention and control.

1.6. For CY 2021, DBPLC paid a total of P4,500.00 for RT-PCR test of its employees exposed to COVID-19 and procured disinfection service, supplies such as alcohol, face masks and disinfectant spray and air purifiers totaling P219,504.30. The expenses incurred were in accordance with the DOLE Labor Advisory No. 18 series of 2020.

Compliance with Tax Laws

2. DBPLC complied with tax laws and regulations, particularly, on the requirements of Revenue Memorandum Circular No. 17-2011 and Revenue Regulation No. 15-2010.

2.1. Information on taxes and licenses paid or accrued during the taxable year 2021 are disclosed in Part I of the report, under Note 27 to the Financial Statements for CY 2021. The taxes withheld on compensation, benefits and other sources amounting to P21.580 million were remitted to the Bureau of Internal Revenue within the deadline prescribed under the National Internal Revenue Code.

Gender and Development (GAD)

3. As a continuing effort to adhere to the mandate of RA No. 9710, the DBPLC has adopted gender mainstreaming as a strategy to promote women's human rights and eliminate gender discrimination in their systems, structures, policies, programs, processes, and procedures.

3.1 For CY 2021 audit of the GAD funds and activities, the following were observed:

- a. GAD Focal Point System (GFPS) was created in accordance with MCW thru the issuance of Office Order No. 10-19 dated August 15, 2019 and updated on October 22, 2021 under Office Order No. 11-21;
- b. The DBPLC partially prepared its GAD Agenda for CY 2019-2023 by organizing the planning team, partially conducting its gender analysis, setting its GAD Vision and Mission, formulating its GAD Goals, and identifying its GAD program, projects and activities. GAD Strategic Framework template was prepared, however, GAD Strategic Plan template is yet to be finalized.
- c. GAD Plan and Budget (GPB) for CY 2021 was prepared, approved by the Head of Agency, submitted to and endorsed by the Philippine Commission for Women (PCW) and submitted to the auditor during the audit period;
- d. GAD budget of P3.390 million or Seven (7%) per cent of the total corporate operating budget of P45.518 million or P3.390 was appropriated.
- e. GAD Accomplishment Report and evaluation of the GPB utilization is being prepared by the Agency, pending submission to PCW on or before March 18, 2022 in accordance with PCW Memorandum Circular 2021-06.
- f. Sex-disaggregated data was on file, and
- g. GAD monitoring and evaluation system (MES) was partially implemented.

3.1. We acknowledged Management's continued effort to adopt gender mainstreaming in their systems, structures, policies, programs, processes, and procedures.

Dividends to the National Government

4. Section 5 of the 2016 Implementing Rules and Regulations of Republic Act (RA) No. 7656 issued by the Department of Finance requires Government-Owned and/or Controlled Corporations to declare and pay dividends to the National Government of at least 50 per cent of their annual net earnings.

4.1. The Board of Directors of DBPLC, in its April 29, 2021 meeting, approved the declaration of cash dividends for CY 2020 amounting to P13.025 million. Payment of dividends was made to the Bureau of Treasury on May 3, 2021. DBPLC complied with the declaration and payment of dividends of at least 50% of its earnings in 2021.

SSS, Philhealth and Pag-IBIG Premiums

5. In 2021, DBPLC complied with RA 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 prescribed period pursuant to Section 19.

5.1. DBPLC also complied on the payment of national health insurance premium contributions to the Philhealth under Section 18 of Title III, Rule III of the Implementing Rules and Regulations of RA No. 7875 as amended, as well as with the collection and remittance of contributions to the Pag-IBIG Fund under Section 3 of Rule VII of the Implementing Rules and Regulations of RA No. 9679.

5.2. The outstanding payables as of December 31, 2021 to SSS, Philhealth and Pag-IBIG amounting to P91,789, P29,845, and P16,278, respectively, were all remitted to the agencies concerned in January 2022.

Status of Audit Suspensions, Disallowances and Charges

6. As of December 31, 2021, the balance of audit disallowances was P6,970,276.40. Audit disallowance issued during the year amounted to P3,647,129.04. There were no audit suspensions and charges as of year-end.

PART III

**STATUS OF IMPLEMENTATION OF PRIOR
YEAR'S AUDIT RECOMMENDATIONS**

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

There were no audit recommendations embodied in CY 2020 AAR for implementation.