

	2023	2022
Maturity of lease liability		
Within one year	5,021,114	5,076,958
Beyond one year but not beyond five years	5,368,089	10,389,203
	10,389,203	15,466,161

Total cash outflow for lease liability in 2023 and 2022 amounted to P5,076,958 and P5,154,442, respectively.

Interest expense on lease liability is presented as financial expenses in the statements of comprehensive income amounting to P804,512 in 2023 and P469,274 in 2022.

18. TRUST LIABILITIES

This account consists of the following:

	2023	2022
Customers' deposit payable	466,890,702	465,024,989
Guaranty/Security deposit payable	247,000	247,000
	467,137,702	465,271,989
Current	186,512,442	228,013,261
Non-Current	280,625,260	237,258,728

Customers' Deposit Payable

This account consists of guaranty deposits on finance leases ranging in amount from five per cent to 20 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, 2023 and 2022 is as follows:

	2023	2022
Due within one year	186,265,442	227,766,261
Due beyond one year	280,625,260	237,258,728
	466,890,702	465,024,989

Breakdown of deposit on finance leases as to industry as of December 31, 2023 and 2022 is as follows:

	2023	2022
Manufacturing company	179,596,402	192,107,812
Trading and commercial company	121,432,302	99,246,736
Construction company	106,972,864	89,242,264
Transportation company	39,703,588	51,516,751

	2023	2022
Mining and quarrying company	11,185,546	17,105,546
Educational institution	8,000,000	8,425,880
Administrative and support services company	0	7,380,000
	466,890,702	465,024,989

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 P1 billion and P500 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).

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 2022, the Board of Directors (BOD) of DBPLC, in its January 25, 2023 regular meeting, approved the request for dividend exemption per Board Resolution No. 2023-01-003. The status of the request for dividend exemption is still pending for approval of the Office of the President of the Philippines through the Department of Finance.

For CY 2021, the BOD of DBPLC, in its May 6, 2022 regular meeting, approved the declaration of cash dividends amounting to P1.75 million and remitted to the Bureau of Treasury on May 11, 2022.

20. INTEREST INCOME

Interest income consists of the following:

	2023	2022
Loans receivable – others	49,665,667	53,164,212
Cash and cash equivalents	138,201	238,594
	49,803,868	53,402,806

21. LEASE INCOME

This account pertains to income from finance lease amounting to P97,324,973 in 2023 and P67,693,506 in 2022.

22. MISCELLANEOUS INCOME

Miscellaneous Income consists of the following:

	2023	2022
Processing/service fees and other charges	872,543	1,171,875
Gain on disposal of property (Note 8 and 10)	22,271	1,367,840
Other income	229,188,100	5,575,104
	230,082,914	8,114,819

Processing/service fees and other charges consist of gross receipts tax on lease and interest income for the account of the client. Other income pertains to penalties, surcharge and interest on late payments as well as income from restructuring of receivables.

23. EXPENSES

This account represents Salaries and Other Personnel Expenses and other administrative expenses incurred for the years ended December 31, 2023 and 2022.

Personnel Services

	2023	2022
Salaries and wages	22,664,014	21,914,497
Other compensation		
Mid-year and year-end bonus	4,021,386	3,824,882
Directors' and committee members' fees	2,266,000	2,401,600
Transportation allowance	969,500	1,150,957
Representation allowance	969,500	1,150,957
Personnel economic relief allowance	709,000	710,091
Clothing allowance	180,000	192,000
Cash gift	151,000	151,500
Other bonus and allowances	1,973,393	2,832,160
	11,239,779	12,414,147
Personnel benefit contributions		
SSS and ECC contributions	911,667	705,579
PHIC contributions	311,631	306,304
HDMF contributions	37,430	34,600
	1,260,728	1,046,483

Other personnel benefits		
Retirement gratuity	1,304,466	1,000,129
	36,468,987	36,375,256

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

Maintenance and Other Operating Expenses

	2023	2022
Taxes, duties and licenses	33,693,408	15,029,586
Travelling expenses-local	1,812,929	1,138,532
General services	1,285,687	1,127,616
Insurance expenses	1,250,190	1,351,308
Representation expenses	643,562	432,896
Communication expenses	584,675	611,218
Repairs and maintenance	497,317	181,852
Office supplies expense	464,124	663,711
Auditing service	407,000	370,000
Semi-expendable expenses	397,460	412,578
Other professional service	302,080	50,000
Training expenses	251,466	172,101
Utility expenses	207,113	167,237
Subscription expenses	159,708	136,227
Information Technology	9,645	0
Advertising, promotional and marketing expense	7,661	162,400
Litigation/Asset acquired expense	0	341,554
Miscellaneous expense	526,442	416,993
	42,500,467	22,765,809

Miscellaneous expense composed of the following:

	2023	2022
Membership fees and dues	153,445	36,250
GAD expenses	83,397	77,056
Notarial fees	80,150	126,759
Corporate give away	74,313	0
Periodicals and magazines	0	3,865
Other expenses	135,137	173,063
	526,442	416,993

Other Expenses consists of Cost of Online Loandex Information System and Cost of Negative File Information System, office deep cleaning and disinfection, sponsorship agreement, among others.

Non-cash expenses composed of the following:

	2023	2022
Credit and impairment losses (Note 13)	290,250,556	10,825,379
Depreciation (Notes 10 and 11)	7,162,600	7,362,141
Amortization (Note 12)	190,765	226,005
	297,603,921	18,413,525

24. INCOME TAX

The income tax expense (benefit) consists of:

	2023	2022
Current tax expense	54,519,940	589,545
Deferred tax income	(73,523,666)	(1,645,887)
Deficiency taxes	1,721,048	0
	(17,282,678)	(1,056,342)

Details of current tax expense are as follows:

	2023	2022
Financial loss	(77,142,584)	(8,873,404)
Add (Deduct): Reconciling items		
Non-deductible expenses	295,098,120	12,175,998
Rental payment	(5,881,470)	(5,623,716)
Depreciation on right-of-use-asset	4,878,012	4,870,178
Interest in arbitrage	27,640	47,719
Interest income subject to final tax	(138,201)	(238,594)
Deficiency taxes	1,238,241	0
Taxable income	218,079,758	2,358,181
Tax rate	25%	25%
	54,519,940	589,545

Details of deferred tax income are as follows:

	2023	2022
Allowance for credit and impairment losses	72,562,639	1,496,616
Accruals	1,010,763	220,337
Depreciation of right-of-use-asset	1,219,503	1,217,545
Amortization of lease liability	(1,269,239)	(1,288,611)
	73,523,666	1,645,887

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.

Details of deferred taxes as of December 31, 2023 and 2022 follows:

	2023	2022
Allowance for credit and impairment losses	139,027,825	66,465,186
Accruals	1,761,431	750,668
Lease liability	2,597,301	3,866,540
Right-of-use-asset	(2,540,631)	(3,760,134)
MCIT	0	4,928
	140,845,926	67,327,188

Income tax credit reported as Prepayments under Other Assets amounting to P1,180,409 in 2022 and Income Tax Payable included under Inter-Agency Payables – BIR amounting to P53,089,309 in 2023 are computed as follows:

	2023	2022
Prepaid taxes (Income tax payable), beginning	1,180,409	1,401,908
Add: Creditable withholding tax	320,605	372,974
Excess of MCIT over RCIT in 2022	4,928	0
Less: Income tax expense - current year	(54,519,940)	(589,545)
Excess of MCIT over RCIT	0	(4,928)
Income tax deficiency - prior year	(75,311)	0
Prepaid taxes (Income tax payable), ending	(53,089,309)	1,180,409

The DBPLC 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 regular corporate income tax (RCIT), whichever is higher. MCIT for year 2022 amounted to P594,473. As provided in RA No. 11534, effective July 1, 2020 until June 30, 2023, the MCIT rate shall be one per cent. According to Revenue Memorandum Circular No. 69-2023, effective July 1, 2023 the MCIT for domestic and resident foreign corporations, including offshore banking units and regional operating headquarters, shall now revert to two per cent based on the gross income of such corporations.

In 2023 and 2022, 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.

Deficiency Taxes

During the year, DBPLC paid deficiency taxes to the Bureau of Internal Revenue totaling P3,657,168 for CYs 2020 and 2021 (Note 27), of which P1,721,048 pertains to income 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 December 31, 2023, the following are the on-going litigations involving the Corporation as a claimant:

1. A collection case suit for recovery of sums of money in the amount of P13,044,249.68 was filed by the DBPLC against a defaulted lessee. The judgment award, however, amounts to P31,424,753.69, inclusive of penalties and attorney's fees equivalent to 25 per cent of its total obligation.

On February 15, 2021, the Supreme Court issued a Resolution that considered the case closed and terminated. On June 21, 2022, the Supreme Court issued its Entry of Judgement, certifying that its February 15, 2021 Resolution and termination of the case had become final and executory on June 16, 2021.

On November 20, 2023, the Office of the Government Corporate Counsel (OGCC), on behalf of DBPLC filed a "Motion for the Issuance of a Writ of Execution" before the Regional Trial Court-Makati City Branch 58. This is in accordance with Section 11, Rule 51 of the Revised Rules of Court.

No Court order has been received yet by the OGCC nor DBPLC as of February 26, 2024.

2. The DBPLC has a claim in the amount of P2,345,357.59 against a client that filed a case for voluntary rehabilitation under RA No. 10142. After several status hearing dates, the Court dismissed the Petition for Corporate Rehabilitation in an Order dated November 11, 2022. It thus opened the opportunity for all claimants and creditors to file their actions for recovery of sums of money. On February 23, 2024, DBPLC forwarded to the OGCC documents and other corroborative papers to start the filing of an action against the client.
3. The DBPLC filed a claim for P46,347,333.70 against a client that filed a Petition for Voluntary Rehabilitation in August 2021. On April 18, 2022, OGCC informed DBPLC that the required majority votes for all classes of creditors needed for the approval of the client's Amended Rehabilitation Plan was not obtained. Therefore, as of date, there is no known rehabilitation plan for the client and no other development on the case had been reported to DBPLC.
4. The DBPLC has a claim in the amount of P13,420,296.68 against a client that filed for a Petition for Corporate Rehabilitation in January 2021. In an Order dated November 24, 2023, the Court declared the client insolvent and under liquidation proceedings. It dissolved the business under the client's name and set initial hearing for the liquidation proceedings on January 29, 2024. There are no further updates on this case.

26. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2023	2022
Current ratio	1.06:1	1.30:1
Debt-to-equity ratio	1.62:1	1.69:1
Return on equity	(6.48%)	(0.80%)
Return on assets	(2.48%)	(0.30%)
Loans-to-assets	0.38:1	0.44:1

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 or 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, Amortised Commercial Loan and Rediscounting Facility	925,796
ii.	DST on Loans Payable	4,803,039
	Total	5,728,831
f.	All other taxes, local and national, including license and permit fees lodged under the Taxes, duties and licenses under the Maintenance and other operating expenses;	
i.	Gross Receipts Tax	26,652,048
ii.	Deficiency taxes	1,936,120
iii.	Business permit	261,823
iv.	Real property tax	16,753
v.	License fee	23,625
	Total	28,890,369
g.	The amount of withholding taxes categorized into	
i.	Tax on compensation and benefits	3,387,013
ii.	Creditable withholding tax/es	1,968,315
iii.	Final withholding tax/es	4,512,143
	Total	9,867,471
h.	Amount/s of deficiency tax assessments, whether protested or not	
	<u>Period covered</u>	<u>Amount</u>
	CY 2021	1,158,064
	CY 2020	2,499,104
	Total	3,657,168

Taxes paid in 2023 composed of:

Final withholding taxes	9,572,855
Gross receipts tax	7,441,216
Compensation and benefits	3,387,013
Expanded withholding taxes	2,942,854
Documentary stamp tax	925,796
	24,269,734

Accrued gross receipts tax at the end of 2023 amounted to P21,514,504.

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 2023 and 2022 and the related outstanding balances as of December 31, 2023 and 2022 are as follows:

- a. The Corporation maintains current and savings account with DBP included under Cash and Cash Equivalents account in the statements of financial position (see Note 6). These deposits generally earn interest at annual rates of 0.250 per cent to 0.375 per cent in 2023 and 2022. Interest income earned on these deposits in 2023 and 2022 are included as part of Interest Income under Income in the statements of comprehensive income.

	2023	2022
Cash in bank – local currency, current account	181,235,631	67,682,980
	181,235,631	67,682,980

- b. Compensation of key management personnel (covering officer positions starting from Assistant Vice President and up) is included as part of Personnel expenses under Expenses in the statements of comprehensive income.

Remuneration of key management personnel for the years 2023 and 2022 are as follows:

	2023	2022
Short term benefits	9,411,339	9,827,933
Post-employment benefits	1,670,971	1,603,731
	11,082,310	11,431,664

The Corporation, in the past, also granted car loans to officers at no interest. Outstanding loans to officers are presented as Car loan receivables under Financial assets at amortised cost account (Note 8). Car loan receivable from one of the resigned officers amounted to P123,199 are considered impaired and with 100 per cent provision as of December 31, 2023 and 2022.

Breakdown of Car Loan Receivable of existing officers are as follows:

	2023	2022
Car Loan Receivable		
Current	179,899	198,799
Non-current	9,450	66,150
	189,349	264,949

Group, AVP for Accounts Management Group, Corporate Secretary/AVP for Legal Services Group, 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, interest, operational, market and legal risks. In managing these risks, the approach is not always risk minimization but managing risks to make an optimal 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, Anti-Money Laundering Committee 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 CreCom (a board level committee) has the authority to approve application with amounts P100 Million and below – said amount subject to Board notation. 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:

	2023	2022
Secured		
Chattel mortgage	1,731,851,988	1,951,577,159
Property under finance lease	39,576,270	52,701,339
Unsecured	299,683,124	472,678,294
Total	2,071,111,382	2,476,956,792

c) *Impairment assessment*

The Corporation recognizes provision for credit 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 credit risk exposure before collateral held or other credit enhancements*

	2023		2022	
	Gross Carrying Amount	Maximum Exposure	Gross Carrying Amount	Maximum Exposure
Financial assets:				
Cash	181,275,631	181,275,631	67,822,980	67,822,980
Finance Lease				
Receivables	1,310,226,745	1,310,226,745	1,489,210,878	1,489,210,878
Loans Receivables				
– Others	1,294,068,794	1,294,068,794	1,230,325,665	1,230,325,665
Total	2,785,571,170	2,785,571,170	2,787,359,523	2,787,359,523

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

As of December 31, 2023

	Cash	Finance Lease Receivables	Loans Receivable- Others
Banks	181,275,631	0	0
Services	0	282,809,122	875,121,041
Manufacturing	0	436,528,984	184,506,210
Real estate	0	241,070,326	143,470,088
Public sector	0	39,977,003	65,836,695
Wholesale and retail trade	0	288,293,968	10,842,210
Mining and quarrying	0	21,547,342	14,292,550
Total	181,275,631	1,310,226,745	1,294,068,794

As of December 31, 2022

	Cash	Finance Lease Receivables	Loans Receivable- Others
Banks	67,822,980	0	0
Services	0	375,086,411	754,803,011
Manufacturing	0	518,013,639	171,787,094
Real estate	0	244,930,520	143,470,087
Public sector	0	53,358,009	132,617,928
Wholesale and retail trade	0	262,067,699	12,528,519
Mining and quarrying	0	35,754,600	15,119,026
Total	67,822,980	1,489,210,878	1,230,325,665

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, 2023

	Cash	Finance Lease Receivables	Loans Receivable- Others
Neither past due nor impaired	181,275,631	907,724,656	237,442,179
Past due but not impaired	0	230,760,514	230,907,799
Impaired	0	171,741,575	825,718,816
Total	181,275,631	1,310,226,745	1,294,068,794

As of December 31, 2022

	Cash	Finance Lease Receivables	Loans Receivable- Others
Neither past due nor impaired	67,822,980	1,020,253,982	400,258,726
Past due but not impaired	0	391,232,969	670,794,921
Impaired	0	77,723,927	159,272,018
Total	67,822,980	1,489,210,878	1,230,325,665

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 7, 8 and 13.

Detailed Credit Quality Analysis

Presented below are the Corporation's credit exposure of receivable from borrowers and its corresponding staging analysis:

Finance Lease Receivables

	Gross Carrying Amount			
	Stage 1	Stage 2	Stage 3	Total
Large enterprises	691,363,984	161,862,509	223,464,407	1,076,690,900
Medium enterprises	164,188,550	0	17,175,173	181,363,723
Small enterprises	12,195,119	0	0	12,195,119
National Government units	39,977,003	0	0	39,977,003
	907,724,656	161,862,509	240,639,580	1,310,226,745

Movements in Gross Carrying Amounts:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2023	1,020,253,977	226,405,090	242,551,811	1,489,210,878
New assets originated or purchased	97,165,318	0	0	97,165,318
Assets derecognized or repaid (excluding write-offs)	(182,729,142)	(82,484,685)	(10,935,624)	(276,149,451)
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	(26,965,497)	26,965,497	0	0
Transfer to Stage 3	0	(9,023,393)	9,023,393	0
Amounts written-off	0	0	0	0
December 31, 2023	907,724,656	161,862,509	240,639,580	1,310,226,745

Movements in the Allowance for Expected Credit Losses:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2023	7,045,440	14,422,524	55,647,553	77,115,517
New assets originated or purchased	971,653	0	0	971,653
Assets derecognized or repaid (excluding write-offs)	0	(13,921,921)	0	(13,921,921)
Adjustments in allowance for credit losses	5,762,068	0	10,696,795	16,458,863
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	(7,997,583)	7,997,583	0	0
Transfer to Stage 3	0	0	0	0
Amounts written-off	0	0	0	0
December 31, 2023	5,781,578	8,498,186	66,344,348	80,624,112

Loans Receivables – others

	Gross Carrying Amount			
	Stage 1	Stage 2	Stage 3	Total
Large enterprises	165,811,428	146,430,515	615,255,097	927,497,040
Medium enterprises	14,292,550	0	252,711,818	267,004,368
Small enterprises	5,794,055	0	23,555,504	29,349,559
Micro enterprises	0	0	4,381,132	4,381,132
National Government units	65,836,695	0	0	65,836,695
	251,734,728	146,430,515	895,903,551	1,294,068,794

Movements in Gross Carrying Amounts:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2023	402,693,021	146,880,165	680,752,479	1,230,325,665
New assets originated or purchased	0	0	0	0
Assets derecognized or repaid (excluding write-offs)	1,074,694	799,168	61,869,267	63,743,129
Transfer to Stage 1	0	0	0	0
Transfer to Stage 2	(152,032,987)	152,032,987	0	0
Transfer to Stage 3	0	(153,281,805)	153,281,805	0
Amounts written-off	0	0	0	0
December 31, 2023	251,734,728	146,430,515	895,903,551	1,294,068,794

Movements in the Allowance for Credit Losses:

	Stage 1	Stage 2	Stage 3	Total
January 1, 2023	4,026,930	14,688,016	146,749,288	165,464,234
New assets originated or purchased	0	0	0	0
Assets derecognized or repaid (excluding write-offs)	0	0	0	0
Adjustments in allowance for credit losses	32,042,543	46,173,308	208,879,960	287,095,811
Transfer to Stage 1	(33,552,126)	33,552,126	0	0
Transfer to Stage 2	0	0	0	0
Transfer to Stage 3	0	(79,770,398)	79,770,398	0
Amounts written-off	0	0	0	0
December 31, 2023	2,517,347	14,643,052	435,399,646	452,560,045

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., Eastwest Banking Corporation, and Security 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, 2023

	Due within 1 year	Over 1 year to 3 years	Over 3 years	Total
Financial liabilities				
Loans payable	629,725,662	0	293,750,000	923,475,662
Payables	94,219,271	0	0	94,219,271
Lease liability	5,021,114	5,368,089	0	10,389,203
Trust liabilities	186,512,442	189,315,002	91,310,258	467,137,702
	915,478,489	194,683,091	385,060,258	1,495,221,838

As of December 31, 2022

	Due within 1 year	Over 1 year to 3 years	Over 3 years	Total
Financial liabilities				
Loans payable	922,222,753	190,112,745	50,000,000	1,162,335,498
Payables	21,841,511	0	0	21,841,511
Lease liability	5,076,958	9,986,999	402,204	15,466,161
Trust liabilities	228,013,261	172,164,007	65,094,721	465,271,989
	1,177,154,483	372,263,751	115,496,925	1,664,915,159

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.

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

NON-FINANCIAL ISSUES

1. Receivables amounting to P10.565 million aged over 30 days to 18 years remained uncollected or unsettled due to non-implementation of appropriate legal remedies or actions, contrary to the DBPLC Credit Manual, thereby depriving DBPLC of additional funds for its operations.

1.1 Item I.1(3) of the DBPLC Credit Manual provides guidelines on the collections of receivables and other legal strategies for past due accounts as follows:

I. Remedial Management on Problem Accounts

X x x

1. Past Due Accounts

- *As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions hereof, is not paid at their contractual due date, in which case, the total outstanding balance shall be considered past due.*
- *X x x*
- *Procedural Guidelines to classify the account as past due:*

X x x

(3) When the account turns past due, AMG must immediately prepare a demand letter requiring payment/reply within five (5) days from receipt of the letter, which can be sent via personal delivery or by a registered mail. A second demand letter should follow if client fails to make a payment or reply; and a 3rd or final demand letter will be prepared by LSG to be sent to client.

1.2 COA Circular No. 2023-008 dated August 17, 2023, the guidelines on the proper disposition of dormant accounts not covered by specific laws, rules and regulations, provides the following:

- 5.7 *Dormant Receivable Accounts – accounts which balances remained inactive or non-moving in the books of accounts for ten (10) years or more and where settlement/collectability could no longer be ascertained.*
- 6.2 *All government entities shall determine the existence of dormant accounts in their books.*

- 6.4 *The entity shall determine whether the dormant accounts identified are covered by specific laws, rules and regulations prescribing guidelines for the proper disposition and/or procedures to address the issue on dormancy.*
- 6.5 *If the dormancy of an account cannot be addressed through item 6.4 above, then the entity shall apply the procedures prescribed in this Circular.*
- 8.1 *Dormant accounts covered by this Circular shall be derecognized from the books of accounts only upon the grant of specific authority by COA.*
- 8.2 *Within one (1) year from the effectivity of the Circular, the Head of Accounting Unit through the HoA shall file with/through the ATL and/or RSA/SA, depending on the jurisdictional amount, a request for the approval of COA to write-off/derecognize from the books the dormant accounts pursuant to the provisions of this Circular. Xxx.*
- 10.2 *The Head of Accounting Unit shall:*

Ensure that current transactions and those below ten years are properly documented and appropriately acted upon immediately to avoid being dormant. If the AO fail to settle his/her accountabilities despite demand, the action could either be salary deduction or filing of appropriate cases.

1.3 As at December 31, 2023, the Financial Assets at Amortised Cost account balance amounting to P843,478,281.76 presented in the Statement of Financial Position of DBPLC included Other receivables with gross balance of P16,894,600.54. Review of the Other receivables disclosed that a total of P10,565,300.74 remained outstanding from over 30 days to 18 years as summarized below:

Age	Accounts receivable	Inter-agency receivables	Car loan receivable	Total
31 to 180 days	5,922.05	73,918.48	0.00	79,840.53
181 to 365 days	185,334.00	0.00	0.00	185,334.00
Over 1 year	9,576.13	70,000.00	0.00	79,576.13
Over 2 years	7,839,338.02	367,820.61	123,198.51	8,330,357.14
Over 10 years	1,890,192.94	0.00	0.00	1,890,192.94
Total	9,930,363.14	511,739.09	123,198.51	10,565,300.74

1.4 Verification of records revealed the following details of the long overdue receivables:

- a. RLV Shipping & Logistics Services – The balance amounting to P2,428,593.00 outstanding for nine years and six months pertains to expenses for refloating MV Lolo Uweng of Landayan that sank at Roxas, Zamboanga del Norte on April 12, 2012.

- b. R&J Commercial – The total balance of P2,088,183.82 aged nine to ten years pertains to various expenses including repossession, survey services, drydocking and repairs for DLC Barge 1 and M/Tug Queenie 1 incurred in CY 2013 and 2014.
- c. VG Shipping Lines – The balance of P1,867,466.16 pertains to berthing fee, salvaging and refloating of MV Miss Romblon. The account has been outstanding for eight years and ten months.
- d. All Star Shipping Group, Inc. – The balance of P1,401,429.18 outstanding for 12 years pertains to various expenses such as marine hull insurance, penalty, guarantee deposit and service fee.
- e. Nautical Training International and Competency Academy Incorporated – The receivables totaling P319,678.52 aged four to five years pertains to various expenses including berthing fees, insurance premium and emergency purchases of items to safely secure MV Gloria 1 due to strong waves caused by typhoon.
- f. Boac Ferries Inc. – The balance of P304,023.09 pertains to documentary stamp tax (DST) and penalty and insurance for MV Lolo Uweng of Landayan which is outstanding for 12 years.
- g. United Power System Phils, Inc. – The amount of P185,334.00 outstanding for 284 days pertains to insurance expenses for three units of repossessed assets.
- h. Orient Star Transport Phils, Inc. – The balance of P109,597.38 pertains to usage fee of the Port of Manila for M/Tug Copper outstanding for three years and four months.
- i. JCV Lines Inc. – The total receivables of P37,099.12 aged more than six years pertains to DST and spare parts for the DLC RORO 3.
- j. Resigned Employees – The balance of P1,135,423.84 pertains to various receivables for unliquidated cash advances, loan premiums, telecommunication charges, insurance expenses and legal consultancy services outstanding for up to 18 years. Meanwhile, the balance of P158,644.46 is composed of telecommunication bill charges covering the period November 28, 2008 to May 28, 2010 amounting to P35,445.95 which is outstanding for nine years and 11 months and uncollected car loan receivable of P123,198.51 aged nine years and one month.
- k. Officers and Employees – The balance of P9,148.47 pertains to telecommunication charges and mandatory government contributions. This account is outstanding for 38 days to more than a year.
- l. Various Creditors – The amount of P8,940.61 pertains to various expenses such as application fees for change of homeport, DST and other taxes, notarial fees and excess payment of interest. These receivables have been outstanding for two to ten years.

- m. Social Security System (SSS) – The total receivables of P484,519.09 is outstanding for 115 days to seven years. These receivables pertain to advances made by DBPLC for maternity and sickness benefits for reimbursement from SSS.
- n. Bureau of Internal Revenue – The balance of P27,220.00 pertains to overpayment of DST due to double remittance made. The account is outstanding for eight years and five months.

1.5 It was noted that demand letters for the accounts of Boac Ferries Inc., VG Shipping Lines, Nautical Training International and Competency Academy Incorporated, and Orient Star Transport Phils, Inc. that are past due for the last three years to more than ten years were only issued in March 2024. There are no proofs that demand letters were sent to other borrowers.

1.6 From the foregoing, the remedial management on the past due accounts as provided in the DBPLC Credit Manual was not carried out by the responsible Offices. As stated, when the account turns due, a demand letter shall immediately be prepared requiring payment/reply within five days from receipt of the letter which shall be sent via personal delivery or by a registered mail. A second demand letter should follow if client fails to make a payment or reply; and a 3rd or final demand letter will be prepared by Legal Services Group to be sent to client.

1.7 Management explained that collection/demand letters have been sent in the past to some of these borrowers but were not responded. The demand letters however are not on file due to fast turnover of personnel and no proper turnover of documents. Further, some accounts are not currently located at their addresses on file. Management informed that they will exert efforts and further actions are being discussed to enforce collections.

1.8 The existence of long outstanding accounts receivables for up to 18 years indicates that appropriate legal remedies or actions to collect or settle the receivables were not implemented, contrary to the DBPLC Credit Manual, thereby depriving DBPLC of additional funds for its operations.

1.9 **We recommended and Management agreed to:**

- a. **Exhaust all available remedies or implement appropriate actions to collect the long outstanding receivable accounts of DBPLC pursuant to Item I.1(3) of the DBPLC Credit Manual; and**
- b. **Consider filing a request for authority to write off receivable accounts, not covered by specific laws, rules and regulations, which balances remained inactive or non-moving in the books of accounts for ten years or more and where settlement/collectability could no longer be ascertained following the procedures prescribed under COA Circular No. 2023-008.**

Compliance with Tax Laws

2. **Documentary Stamp Tax amounting to P3.626 million on agreements related to restructuring of loans executed in CY 2023 were not paid, contrary to the National Internal Revenue Code (NIRC), as amended.**

2.1. Sections 179, 198 and 200 (B) of the NIRC, as amended, provide that:

Section 179. Stamp Tax on All Debt Instruments. - On every original issue of debt instruments, there shall be collected documentary stamp tax of One peso and fifty centavos (P1.50) on each Two hundred pesos (P200), or fractional part thereof, of the issue price of any such debt instrument: x x x

For purposes of this section, the term 'debt instrument' shall mean debt instrument representing borrowing and lending transactions including but not limited to debentures, certificates of indebtedness, due bills, bonds, loan agreements, including those signed abroad wherein the object of contract is located or used in the Philippines, x x x.

Section 198. Stamp Tax on Assignments and Renewals of Certain Instruments. - Upon each and every assignment or transfer of any mortgage, lease or policy of insurance, or the renewal or continuance of any agreement, contract, charter, or any evidence of obligation or indebtedness by altering or otherwise, there shall be levied, collected and paid a documentary stamp tax, at the same rate as that imposed on the original instrument.

Section 200. Payment of Documentary Stamp Tax. -

X x x

(B) Time for Filing and Payment of the Tax. - Except as provided by the rules and regulations promulgated by the Secretary of Finance, upon recommendation of the Commissioner, the tax return prescribed in this Section shall be filed, either electronically or manually, within five (5) days after the close of the taxable month when the taxable document was made, signed, issued, accepted, or transferred, and the tax thereon shall be paid, either electronically or manually, at the same time the aforesaid return is filed.

2.2. On September 28, 2023, DBPLC entered into Payment Workout Agreements (PWA) with four defaulting borrowers extending the maturity dates of the credit facilities and revising the principal amounts totaling P483,527,629.68, interest rates and amounts of payment within the capacity of the borrowers. Accordingly, DBPLC derecognized its old receivables from these borrowers and recognized a new amount which comprise the outstanding principal balance of the old loan and the uncollected interests and penalties.

2.3. Review of DBPLC's compliance with the rules and regulations on filing of tax returns and remittance of taxes revealed that DBPLC paid a total of P925,795.50 Documentary Stamp Tax (DST) for the year 2023. However, the DST totaling P3,626,457.22 on the aforesaid agreements were not paid. This is not consistent with

Section 200 of the NIRC, providing that DST at the rate of P1.50 for every P200 shall be paid on or before the 5th day following the month the debt instruments were made and signed, which in this case is on October 5, 2023.

2.4. Management explained/informed that:

a. The PWAs are just a supplement to the original credit facility agreement and cannot be considered a separate loan agreement to be liable for DST since the original agreement has never been abandoned nor vacated but merely alleviated through a payment workout arrangement for the clients that are financially distressed. A mere granting of extension of payment which does not alter the essence of the obligation does not novate the original agreement;

b. These four clients under PWA are currently paying minimal monthly amounts as they have been greatly impacted by the pandemic and are attempting to rebuild, thus, they are not capable to pay the DST; and

c. The DBPLC Board of Directors had approved the restructuring of the loans of these clients in March 2024. The DST will be charged to the clients and remitted to the BIR upon completion of the documentation.

2.5. Consistent with the provisions of Sections 179 and 198 of the NIRC, as amended, the DST is required to be paid on the agreements entered by DBPLC with their borrowers that extended the maturity date of their obligations and altered the principal amount, interest rates and payment schedules.

2.6. The non-payment of DST amounting to P3,626,457.22 on agreements related to the restructuring of loans executed in CY 2023 is contrary to the above-cited provisions of the NIRC, as amended, and exposes DBPLC to payment of penalties for non-compliance within the time of filing and payment of DST.

2.7. We recommended that Management file the Documentary Stamp Tax return and pay the tax due on agreements related to restructuring of loans executed by DBPLC in CY 2023 pursuant to Sections 179 and 198 of the NIRC.

Gender and Development (GAD)

3. As a continuing effort to adhere to the mandate of Republic Act (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 2023, the GAD funds and activities of DBPLC are as follows:

a. GAD Focal Point System (GFPS) was created with the issuance of Office Order No. 10-19 dated August 15, 2019, and updated on September 29, 2023 under Office Order No. 23-23;

b. GAD Agenda, composed of the GAD Strategic Framework and GAD Strategic Plan for CY 2023 to CY 2028 has been prepared;

- c. GAD Plan and Budget (GPB) for CY 2023 was prepared, approved by the Head of Agency, submitted to and endorsed by the Philippine Commission for Women (PCW). The COA was furnished a copy of the PCW-endorsed GPB;
- d. A GAD budget of P2.914 million or five per cent (5.95%) of the total corporate operating budget of P49.0 million was appropriated;
- e. Sex-disaggregated data was on file; and
- f. GAD Accomplishment Report and evaluation of the GPB utilization for CY 2023 was submitted to the PCW on February 28, 2024 in accordance with PCW Memorandum Circular 2023-05 and is currently under review.

3.2. We commend 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 Revised Implementing Rules and Regulations of 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. For CY 2022, the Board of Directors of DBPLC, in its January 25, 2023 regular meeting, approved the request for dividend exemption per Board Resolution No. 2023-01-003. The status of the request for dividend exemption is still pending for approval of the Office of the President of the Philippines through the Department of Finance.

SSS, Philhealth and Pag-IBIG Premiums

5. In 2023, 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, 2023 to SSS and ECC, Philhealth and Pag-IBIG amounting to P94,036, P82,811 and P18,907, respectively, were all remitted to the agencies concerned in January 2024.

Status of Audit Suspensions, Disallowances and Charges

6. As of December 31, 2023, the balance of audit disallowances amounted to P6,970,276.40. There were no audit suspensions and charges as of the end of the year.

PART III

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

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

The five audit recommendations embodied in the CY 2022 Annual Audit Report were implemented in CY 2023.