

LAND BANK OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(All amounts in Philippine Peso unless otherwise stated)

1. Corporate Information

The Land Bank of the Philippines (“LBP” or “Parent”) is a financial institution wholly-owned by the National Government. The Parent was established in 1963 as the financial intermediary of the Land Reform Program of the government. Later, it became the first universal bank by charter with expanded commercial banking powers to sustain its social mission of spurring countryside development.

The Parent is a depository bank of the government and its various instrumentalities. The Parent services the requirements of the national government, local government units and government-owned and controlled corporations. As of December 31, 2020, 63 percent of the deposit portfolio came from the government while the rest came from private depositors.

The Parent and its subsidiaries (Group) are engaged in the business of banking, financing, leasing, real estate, insurance brokering and other related services to personal, commercial, corporate and institutional clients. The Group’s products and services include deposit-taking, lending and related services, treasury and capital market operations, trade services, payments and cash management, and trust services.

The Parent’s principal office of business is located at the LANDBANK Plaza, 1598 M.H. Del Pilar corner Dr. J. Quintos Streets, Malate, Manila.

The accompanying comparative financial statements of the Parent were authorized for issue by the Parent’s Board of Directors on August 17, 2021 while those of the subsidiaries were approved for issue by their respective Board of Directors on various dates.

2. Summary of Significant Accounting Policies

2.1 Statement of Compliance

The consolidated financial statements of the Group and of the Parent have been prepared in compliance with the Philippine Financial Reporting Standards (PFRSs).

The LBP Board of Directors, as contained in the Board Resolution No. 21-138 dated 24 February 2021, approved the Parent’s request to avail of the regulatory relief on the non-imposition of monetary penalties for delayed submission of supervisory reports for the covered period March 8, 2020 to September 8, 2020 per BSP Memorandum No. M-2020-008 dated 14 March 2020. The relief has no financial impact on the Parent’s Financial Statements.

2.2 Basis of Financial Statements Preparation

The accompanying financial statements have been prepared on a historical cost basis unless stated otherwise.

The financial statements of the Parent include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

The functional currency of RBU and FCDU is Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated assets and liabilities in the RBU are translated in Philippine Peso based on the Bankers Association of the Philippines (BAP) closing rate prevailing at end of the year and at the BAP Weighted Average Rate for the year for income and expenses.

The consolidated financial statements are presented in Philippine peso and all values are rounded to the nearest peso except when otherwise indicated.

2.3 Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent and the following wholly-owned subsidiaries:

Name	Country of Incorporation	Principal Activity	Functional Currency
LBP Leasing and Finance Corporation	Philippines	Leasing	Philippine peso
LBP Insurance Brokerage, Inc.	Philippines	Insurance brokerage	Philippine peso
LBP Resources and Development Corporation	Philippines	Real estate	Philippine peso
Masaganang Sakahan, Inc.	Philippines	Trading	Philippine peso
Overseas Filipino Bank, Inc	Philippines	Banking	Philippine peso

The consolidated financial statements were prepared using consistent accounting policies for like transactions and other events in similar circumstances. All significant inter-company balances and transactions have been eliminated in consolidation.

2.4 Adoption of New and Amended PFRS

The Group and the Parent adopted for the first time the following new PFRS, amendments to PAS or PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2020. The application of these amendments had no significant impact on the Group and the Parent's financial statements.

Revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework for Financial Reporting is a comprehensive set of concepts for financial reporting. It sets out the objective of financial reporting and the qualitative characteristics of useful financial information. The revisions include several new concepts, provide clarifications on some key concepts and update the definitions and the criteria for recognizing assets and liabilities. New concepts introduced in the revised

Conceptual Framework include description of the reporting entity, measurement, presentation and disclosure and derecognition. Other than the new concepts, several sections or chapters were also revised that include definitions and recognitions of assets and liabilities. The revisions give importance to the qualitative side of capturing or recognizing assets, liabilities, income and expenses and emphasizes that recognition of these elements should only be done if they will result in relevant information and faithful representation.

PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

The amendments were issued to provide clarification and to align the definition of material. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

PFRS 3 (Amendments), *Business Combinations – Definition of a Business*

The amendments to PFRS 3 were issued to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process. They also narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. The amendments also provide guidance and illustrative examples to help entities assess whether a substantive process has been acquired and remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

Amendments to PFRS 7, Financial Instruments: Disclosures, and Amendments to PFRS 9, Financial Instruments – Interest Rate Benchmark Reform

The amendments require additional disclosures that allow users to understand the nature and extent of risks arising from the Interbank Offered Rates (IBOR) reform to which the entity is exposed to and how the entity manages those risks. The application of these amendments had no significant impact on the Group and the Parent's financial statements.

Amendments to PFRS 16, Leases COVID -19-Related Rent Concessions

The amendment adds a practical expedient to PFRS 16 which provides relief for lessees in assessing whether specific COVID-19 rent concessions are considered to be lease modifications. Instead, if this practical expedient is applied, these rent concessions are treated as if they are not lease modifications. There are no changes for lessors.

The practical expedient is only applicable to rent concessions provided as a direct result of the COVID-19 pandemic. The relief is only for lessees that are granted these rent concessions. There are no changes for lessors. All of the following conditions in relation to the lessee expedient need to be met: (1) The rent concession provides relief to payments that overall results in the consideration for the lease contract being substantially the same or less than the original consideration for the lease immediately before the concession was provided. (2) The rent concession is for relief for payments that were originally due on or before June 30, 2021. So payments included are those required to be reduced on or before June 30, 2021, but subsequent rental increases of amounts deferred can go beyond June 30, 2021. The application of these amendments had no significant impact on the Group and the Parent's financial statements.

2.5 Significant Accounting Policies

Financial Instruments

PFRS 9, Financial Instruments

The Group adopted the classification and measurement, impairment and hedge accounting requirements of the standard as follows:

Classification and Measurement

a. Debt Financial Assets

Financial assets are measured at Fair Value through Profit or Loss (FVTPL) unless these are measured at Fair Value through Other Comprehensive Income (FVOCI) or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVTPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVTPL.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets measured at FVOCI. Debt instruments that are managed on a "hold to collect" basis will be classified as investment securities at amortized cost.

For those debt financial assets that would otherwise be classified as financial assets at FVOCI or at amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument as financial asset measured at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

b. Equity Financial Assets

All equity financial assets are required to be measured at initial recognition at FVTPL unless an irrevocable designation is made to classify the instrument as financial asset measured at FVOCI. The FVOCI for equity category results in all realized and unrealized

gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss. Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

c. Financial liabilities

The classification and measurement of financial liabilities remain essentially unchanged from the current PFRS 9 requirements. Changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI.

d. Derivatives

Derivatives are initially recognized at fair value and classified as financial assets/liabilities measured at FVTPL under PFRS 9.

Expected Credit Loss (ECL) Assessment

ECL Assessment shall be applied to the following exposures:

- a. Loans and receivables measured at amortized cost;
- b. Investments in debt instruments that are measured at amortized cost;
- c. Investments in debt instruments that are measured at fair value through other comprehensive income (FVOCI);
- d. Due from Bangko Sentral ng Pilipinas and Due from Other Banks;
- e. Credit commitments and financial guarantee contracts that are not measured at fair value through profit or loss; and
- f. Other Financial Assets measured at amortized cost (Accounts Receivables, etc.)

The Parent's exposures shall be classified into the following stages:

STAGE	CHARACTERISTICS	ECL ASSESSMENT
Stage 1	credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	12 month
Stage 2	credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
Stage 3	credit exposures with objective evidence of impairment, these are considered as "non-performing"	Lifetime

Foreign currency translation

Transactions and balances

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD. For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine Peso

based on the BAP closing rate prevailing at the statement of financial position date and foreign-currency denominated income and expenses at the prevailing exchange rate on date of transaction. Foreign exchange differences arising from revaluation and translation of RBU denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU assets and liabilities of the Parent are translated in the Philippine Peso at BAP closing rate prevailing at the statements of financial position date, and its income and expenses are translated at BAP weighted average rate for the year. Exchange difference arising on translation to the presentation currency are recorded to "Translation Adjustment and Others" in the Equity. Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the cumulative amount of translation adjustments in the equity is recognized in the statement of comprehensive income.

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date - the date that an asset is delivered to or by the Group. Securities transactions are also recognized on settlement date basis. Derivatives are recognized on trade date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost.

The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group first assesses the contractual terms of financial assets to identify whether they pass the contractual cash flow test (SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial assets at initial recognition and may change over the life of the financial asset. The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than insignificant exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL. Only financial assets that pass the SPPI test are eligible to be measured at FVOCI or at amortized cost.

a. Financial Assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at financial assets at FVTPL, irrespective of the business model. Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of comprehensive income.

b. Financial Assets at FVOCI

Financial assets at FVOCI reclassified from Available for Sale Securities include debt and equity securities. After initial measurement, financial assets at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax, as applicable, from the reported earnings and are recognized in the statement of comprehensive income as 'Change in net unrealized loss on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions:

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

The effective yield component (including premium, discounts and directly attributable transaction costs) and foreign exchange restatement of debt securities are reported in the statement of comprehensive income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of comprehensive income as 'Dividends' when:

- a. the Group's right to receive payment of the dividend is established;
- b. it is probable that the economic benefits associated with the dividend will flow to the entity; and
- c. the amount of the dividend can be measured reliably.

c. Financial Assets at Amortized Cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions:

- (i) These are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and

- (ii) The contractual terms give rise on a specified dates to cash flows that are SPPI on the outstanding principal amount.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest Income' in the statement of comprehensive income. Losses arising from credit losses are recognized in 'Provision for impairment, credit and other losses' in the statement of comprehensive income.

d. Loans and receivables, amounts due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements

These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as other financial assets held for trading, designated as FVOCI investments. These are measured at amortised cost.

Determination of fair value

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

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

Derivative Instruments

The Parent enters into derivative contracts such as currency forwards and currency swaps to manage its foreign exchange exposure. These derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of comprehensive income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative instruments are booked at its notional amount under contingent account on trade date and subsequently measured using the mark to forward methods. Any gains/(losses) arising from the market valuation are booked under asset account "Derivatives with positive fair value" if the market valuation is positive and under the liability account "Derivatives with negative fair value" if the market valuation is negative contra foreign exchange gain/(loss) account.

The Parent did not apply hedge accounting treatment for its derivative transactions.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

As practiced, the specific identification method or the "matched deal close-out" is applied in the measurement of realized and unrealized gain or loss on sale of debt securities wherein the book value of the specific deal in the inventory is allocated for the sale.

Financial Liabilities. Derecognition of a financial liability of the Group happens when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Offsetting of financial assets and financial liabilities are only made and the net amount are reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Subsequent Events

Any post-year-end event that provides additional information about the Group's position at the statement of financial position date (adjusting event) is reflected in the financial statements. Post-year-end events that are non- adjusting events, if any, are disclosed in the Notes to the Financial Statements, when material.

Impairment of Property and Equipment, Investment Property and Other Resources

At each reporting date, the Group assesses if there is any indication that the property and equipment and investment properties may be impaired.

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Investments in Subsidiaries

The Parent's investments in subsidiaries in which the Parent has control are accounted for under the cost method of accounting in the separate financial statements. These are carried in the statement of financial position at cost less any impairment in value.

Investment in Associate

The Parent's investment in associate pertains to the entity over which the Parent has investment holdings of 20 per cent or more and has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associate is accounted for under the equity method of accounting.

Property and Equipment

Property and equipment of the Parent are carried at cost less accumulated depreciation and amortization and any impairment in value. When the assets are sold or retired, their cost and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposal is recognized in the profit or loss.

The initial cost of property and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, are normally charged to profit and loss in the period in which the costs are incurred.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful life (EUL) of the property and equipment as follows:

	Number of Years
Buildings	10 – 30
Furniture, fixtures and equipment	5 – 10
Leasehold rights	10 - 30*
Transportation equipment	7 – 10

*EUL shall depend on the length of the lease. It shall be the period of the lease or the EUL of the assets, as given, whichever is shorter.

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Investment Properties

Property acquired by the Group in settlement of loans through foreclosure or dation in payment, and that is not significantly occupied by the Group, is classified as investment property. Investment property comprises land and building.

The Parent applies the cost model in accounting for investment properties. Investment properties are measured initially at cost including transaction costs incurred upon acquisition. An investment property is recognized upon:

- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

The initial cost of the investment property acquired is determined based on the following order:

- 1st - Fair value of the asset received;
- 2nd - Fair value of the asset given up;
- 3rd - Carrying amount of the asset given up, if the fair values of the assets received and asset given up cannot be determined.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss. Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of an investment property are recognized in the profit and loss in the year of derecognition.

Expenditures incurred after the fixed investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to expense in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis over 10 to 30 years, which is the estimated useful life of the investment properties.

Non-Current Assets Held for Sale

Non-current assets held for sale include other properties (chattels, auto and real estate) acquired through repossession or foreclosure that the Group intends to sell within one year from the date of classification as held for sale.

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Group is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair values. In the event that the sale of the asset is extended beyond one year, 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 control of the Group and there is sufficient evidence that the Group remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. The Group recognizes an impairment loss for any initial and subsequent write-down of the asset to 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 or amortization.

Intangible Assets

Computer software

The acquired computer software licenses of the Parent are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (three to five years) using the straight-line method.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

Income Taxes

Current taxes of the Parent

The current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred taxes of the Parent

The deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are recognized in other comprehensive income and not in the statement of comprehensive income.

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

Employee Benefits

A defined contribution plan is maintained under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay

further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employees' service in the current and prior period. The standard requires an entity to recognize contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.

The fund comes from the Parent's annual contribution based on the total number of employees as of December 31 of each year, which for 2020 amounts to P7.86 million. The fund is being administered by the Provident Fund Office and it is kept separate and distinct from its other funds.

The Group maintains a defined contribution plan which provides for estimated pension benefits on its contributory retirement plan covering all regular employees.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of total lease payments of the entire lease term. The Group uses the incremental borrowing rate at the lease commencement date in calculating for the present value of lease payments because the interest rate implicit in the lease is not determinable. After the commencement date, the amount of lease liabilities is increased to reflect the interest accretion and reduced for the lease payments made. The carrying amount of lease liabilities is accordingly re-measured if there is a modification, a change in the lease term or a change in the lease payments.

Group is the lessee

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

Group is the lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

PFRS 15 provides a five-step model framework for revenue arising from contracts with customers.

This five-step model is as follows:

1. Identify the contract(s) with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. PFRS 15 requires the Group to exercise judgement, taking into account all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

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

Revenues within the scope of PFRS 15

Service charges and penalties

Service charges and penalties of the Parent are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Fees and commissions

The Group earns fee and commission income from a diverse range of services it provides to its customers, which are divided into the following two categories:

- a. Fee income earned from services that are provided over time

Fees earned for the provision of services over a period of time are accrued over that period. Commitment fees received to originate a loan are deferred and recognized as an adjustment to the effective interest rate. If the loan commitment expires, the fee is recognized as revenue on expiry.

- b. Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Other income

Income from the sale of services of the Group is recognized upon completion of service. Income from sale of properties is recognized upon completion of earnings process and the collectability of the sales price is reasonably assured under 'Profit from assets sold/exchanged' in the statement of comprehensive income.

Rewards Program

The Parent's Credit Card Rewards Program is a point-based loyalty program automatically computed by the system and credited to Cardholder's account based on card usage or purchases made by a Cardholder. As approved by the Management, one (1) point is earned for every P30 pesos purchase charged on the credit card. The points will accumulate and have no expiry however, in accordance with PFRS 15, the peso equivalent of all outstanding Rewards points, net of points allocated to cancelled cards, is booked as Miscellaneous Liability on a monthly basis. The accrued amount for Rewards Program is adjusted when rewards points are redeemed. Currently, redemption is done in the form of rebate to be applied as credit/payment to Cardholder's account based on computed peso equivalent.

The peso value of total Rewards points credited to Cardholders for the month is recognized as Miscellaneous Expense in the Statement of Comprehensive Income while the outstanding balance of contra account is reflected in the Statement of Financial Position under Miscellaneous Liability.

Fees received in connection with the issuance of credit cards are deferred and amortized on a straight-line basis over the period the cardholder is entitled to use the card. Fees are booked when they are charged to cardholders.

Revenues outside the scope of PFRS 15:

Interest income

The Parent's Interest on interest-bearing financial assets at FVTPL and Held-for-Trading (HFT) investments are recognized based on the contractual rate. Interest on financial instruments measured at amortized cost and fair value through other comprehensive income are recognized based on the effective interest method of accounting.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

Interest is recognized on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

Recovery on charged-off assets

The Parent's income arising from collections on accounts or recoveries from impairment of items previously written off is recognized in the year of recovery.

Dividend income

Dividend income is recognized in profit or loss when:

- a. the Group's right to receive payment of the dividend is established;
- b. it is probable that the economic benefits associated with the dividend will flow to the entity; and
- c. the amount of the dividend can be measured reliably.

Rental income

The Parent's rental income arising on leased premises is accounted for on a straight-line basis over the lease terms on ongoing leases.

Borrowing Costs

The Parent's borrowing costs are expensed when incurred.

Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group and the Parent does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group and the Parent intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2021

PFRS 3 (Amendment), *Reference to the Conceptual Framework* (effective from January 1, 2022)

The amendment is to update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. It adds 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 recognize contingent assets acquired in a business combination. This will have no significant impact on the Group's financial statements as it only serves to update an outdated reference in PFRS 3 without significantly changing its requirements.

PAS 16 (Amendment), *Property, Plant and Equipment – Proceeds before Intended Use* (effective from January 1, 2022)

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss. It is expected that the amendments will have no material effect on the Group's financial statements .

PAS 37 (Amendment), *Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)

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 labour, 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 Group is presently assessing the impact in adopting the amendment. The Group is expecting that at the adoption date, this will have no material impact on its financial statements.

Annual Improvements to PFRS Standards 2018 - 2020 are effective from January 1, 2022

Among the improvements, the following amendments are relevant to the Group:

- PFRS 9, 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 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, Lease Incentives - The amendment merely 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.

Both the above amendments are expected to cause no effect in the Group’s FS.

PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Asset Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely)

The amendments to PFRS 10 require full recognition in the investor’s financial statements of gains or losses from the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor’s interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

PFRS 17 – Insurance Contracts (effective from January 1, 2023)

PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement mode.

The Group's financial statements will not be affected as it has no insurance operations.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments 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.

Judgments

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

Leases

Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio and over various owned fixed assets. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Group as Lessee

The Group has entered into lease on premises it uses for its operations. The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Extension and termination options

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimating the Incremental Borrowing Rate for lease liabilities

The Group uses the incremental borrowing rate (IBR) at the lease commencement date in calculating for the present value of lease payments because the interest rate implicit in the lease is not determinable. The IBR for lease liabilities is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

The carrying values of the Parent's ROU assets and lease liability are disclosed in Notes 17 and 18, respectively.

Impairment of Financial Assets

The Parent adopted Expected Credit Loss (ECL) model in measuring credit impairment of financial assets in accordance with the provisions of PFRS 9. These financial assets are booked as amortized cost/fair value through other comprehensive income (FVOCI) such as:

1. Loans and receivables that are measured at amortized costs;
2. Investments in debt instruments that are measured at amortized cost;
3. Investments in debt instruments that are measured at FVOCI;
4. Credit commitments and financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL);
5. Due from BSP and Due from Other Banks; and
6. Other financial assets measured at amortized costs.

To measure the ECL, for financial assets initial assessment is first done on a per security basis to assess its level of credit risk. The estimated ECL per instrument is based on credit losses that result from possible default events within the next 12 months if there is no significant increase of credit risk (SICR) since initial recognition or with low credit risk. Otherwise, credit losses that result from all possible default events over the expected life of a financial instrument is considered in the ECL calculation.

Assessment of ECL

The Parent segmented its credit exposures for purposes of ECL calculation according to groups that share similar credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The segmentation are by instrument type, product terms and conditions, and

industry/market segment. Treasury exposures are segmented into Due from BSP and Securities Purchased under Resell Agreements (SPURA), Due from Other Banks (DFOB), FVOCI Debt Investments, and Financial Assets at Amortized Cost. Assessment is then conducted on a per security basis to determine its level of credit risk.

Moreover, the Parent conducts an assessment to determine whether a financial instrument is subject to 12-Month or Lifetime ECL. Financial instruments under treasury is deemed to have a significant increase on credit risk if 1) Rating downgraded from investment grade to speculative/non-investment grade or 2) Rating downgraded by at least two rating grades.

Treasury Exposures are considered in default upon occurrence of the following:

1. If a credit obligation is considered non-performing;
2. If a borrower has been placed in bankruptcy, has been found insolvent, or has ceased operations;
3. If the bank sells a credit obligation at a material credit-related loss; or
4. If a credit obligation of a borrower/obligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

Staging Assessment

Treasury exposures shall be classified into the following stages:

STAGE	CHARACTERISTICS	ECL ASSESSMENT
Stage 1	Credit exposures with no significant increase in credit risk since initial recognition, with low credit risk, or with external credit rating of investment grade	12 month
Stage 2	Credit exposures with significant increase in credit risk since initial recognition as follows: 1. exposures with external credit rating downgraded from investment grade to speculative/non-investment grade; or 2. exposures with risk ratings downgraded by at least two rating grades	Lifetime
Stage 3	Credit exposures with objective evidence of impairment or has defaulted	Lifetime

ECL Parameters and Methodologies

The Parent adopts the ECL parameter-based estimation approaches as an impairment methodology. The ECL rate is determined by the following parameters:

1. Exposure at Default (EAD) is defined as the total credit exposure to a borrower or counterparty at the time of default. Parent used outstanding balances of credit exposures as of cut-off date plus accrued interest receivables.

2. Probability of Default (PD) is the likelihood that the counterparty will default over a certain time horizon. It does not depend on the transaction but rather, on the counterparty's characteristics. The Parent follows the following hierarchy to estimate the PD:
 - a. Internal Credit Risk Rating - PD is estimated based on issuer/borrower rating grade produced by internal rating models adopted from the methodology for Loans.
 - b. External Credit Risk Rating - PD is based on issue/issuer rating grade provided by external ratings agencies such as Moody's, S&P, and Fitch. Moody's rating scale for external ratings is primarily used. For issuers with no rating from Moody's, ratings from other external credit rating agencies (e.g. S&P, Fitch) are extracted and these ratings are then mapped to Moody's rating scale. PD is then assigned corresponding to the external credit rating of the issue/issuer as provided by Moody's average cumulative default rates and recovery rates study. For exposures with maturity of less than one year, the PD is adjusted to reflect the actual term of exposures. PD Estimation already incorporates any Forward-Looking Overlays.
 - c. External Credit Rating for Benchmark/Comparable Companies - PD is based on issuer rating grade of benchmark or comparable companies. The methodology used in determining the ratings of benchmark companies is either of the following:
 - 1) Based on Bloomberg peers where Parent uses the equivalent ratings of the comparable companies sourced from the Relative Valuation function in Bloomberg; and
 - 2) Based on Industry average where the Parent uses the industry average credit rating where the issuer belongs.

The external ratings of the comparable companies are mapped to Moody's rating scale. PDs are assigned corresponding to the external credit ratings of the issuer as provided by Moody's average cumulative default rates and recovery rates study. The average PD of the comparable companies is used as the forward-looking PD rate for the issuer company.
 - d. Credit Default Swaps Spread Curves
3. Overlay is an estimation of forward-looking overlay which considers the following:
 - a. Lending policies and procedures;
 - b. Economic business conditions and developments;
 - c. Trend volume of types of loans;
 - d. Experienced credit judgment of management and staff;

- e. Changes in market trends;
- f. Loan review system of the Parent; and
- g. Credit risk profile of the Parent's exposure.

The Parent has also incorporated forward-looking overlay adjustment to the PD while experienced credit judgement is subject to the following:

- 1. Established policies and procedures;
- 2. Approved and documented framework assessments;
- 3. Reasonable and verifiable assumptions; and
- 4. Supported by adequate documentations.

Investments in peso-denominated debt securities issued by the Philippine Government or Bangko Sentral ng Pilipinas (BSP) are considered to have low credit risk and carries zero Expected Credit Loss.

- 4. Loss Given Default (LGD) is the assigned loss estimate when a counterparty has defaulted, after all recoveries are taken into account. LGD depends on the transaction, not the counterparty. It is computed as one less recovery rate. LGD estimation for treasury exposures follows the same hierarchy used for PD estimation.

Restructured loans

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

FVOCI Investments

If an FVOCI investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that security previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as FVOCI investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income. The carrying values of FVOCI investments for the Group and Parent are P510,346,974,393 and P510,295,467,407 as of December 31, 2020 and P209,795,565,189 and P209,747,478,068 as of December 31, 2019 respectively.

Estimation uncertainty

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

a. Fair value of financial instruments (including derivatives) of the Parent

The fair value of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by the Risk Management Group. All models are reviewed before they are used to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

b. Useful lives of property and equipment

The Group's Management determines the estimated useful lives and related depreciation charges for its property and equipment. The Parent will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying values of property and equipment of the Group and the Parent are P10,668,890,454 and P10,292,234,440 as of December 31, 2020 and P10,830,182,708 and P10,418,071,840 as of December 31, 2019.

4. Fair Value Hierarchy

These levels are based on the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: inputs that are not based on observable market data or unobservable inputs

As of December 31, 2020 and 2019, the fair value hierarchy of the Parent's assets and liabilities are presented below:

As of December 31, 2020					
	Book Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
FVTPL	10,883,107,586	6,429,977,233	3,477,223,795	975,906,558	10,883,107,586
Debt Securities	6,281,407,849	6,281,407,849	0	0	6,281,407,849
Domestic	5,825,111,174	5,825,111,174	0	0	5,825,111,174
FX-Reg	0	0	0	0	0

As of December 31, 2020					
	Book Value	Level 1	Level 2	Level 3	Total Fair Value
FCDU	456,296,675	456,296,675	0	0	456,296,675
Equity Securities	1,124,475,942	148,569,384	0	975,906,558	1,124,475,942
Domestic	184,768,603	148,569,384	0	36,199,219	184,768,603
FX-Reg	939,707,339	0	0	939,707,339	939,707,339
Derivative w/ positive FV	3,477,223,795	0	3,477,223,795	0	3,477,223,795
PLFD	3,276,212,400	0	3,276,212,400	0	3,276,212,400
FX-Reg	111,518,758	0	111,518,758	0	111,518,758
FCDU	89,492,637	0	89,492,637	0	89,492,637
FVOCI	494,193,913,859	506,631,901,458	0	3,663,565,949	510,295,467,407
Debt Securities	485,586,172,494	492,593,198,983	0	58,989,856	492,652,188,839
Domestic	413,025,769,428	417,280,090,456	0	58,989,856	417,339,080,312
FX-Reg	7,939,071,974	8,217,255,045	0	0	8,217,255,045
FCDU	64,621,331,092	67,095,853,482	0	0	67,095,853,482
Equity Securities	8,607,741,365	14,038,702,475	0	3,604,576,093	17,643,278,568
Domestic	4,307,593,202	12,749,977,980	0	661,255,087	13,411,233,067
FX-Reg	4,300,148,163	1,288,724,495	0	2,943,321,006	4,232,045,501
FCDU	0	0	0	0	0
HTC	456,451,469,809	482,334,943,092	4,096,207,949	6,584,903,273	493,016,054,314
Debt Securities	456,451,469,809	482,334,943,092	4,096,207,949	6,584,903,273	493,016,054,314
Domestic	430,332,008,475	458,919,604,371	4,096,207,949	22,145,266	463,037,957,586
FX-Reg	5,943,472,543	1,502,132,773	0	4,714,597,417	6,216,730,190
FCDU	20,175,988,791	21,913,205,948	0	1,848,160,590	23,761,366,538
Total	961,528,491,254	995,396,821,783	7,573,431,744	11,224,375,780	1,014,194,629,307

FINANCIAL LIABILITIES

Bills Payable	27,006,374,753	0	26,812,500,340	194,819,383	27,007,319,724
BSP Rehabilitation Program	25,336,905	0	0	25,336,905	25,336,905
Domestic Borrowings (ODA thru BTr)	169,482,479	0	0	169,482,479	169,482,479
Foreign Borrowings (ODA)	25,670,467,861	0	25,670,467,861	0	25,670,467,861
Interbank Loans-Foreign	0	0	0	0	0
Regular					
Deposit Substitute-Repurchase Agreement	1,141,087,508	0	1,142,032,479	0	1,142,032,479
Bonds Payable	5,000,000,000	0	5,085,579,960	0	5,085,579,960
Derivative Liabilities	7,973,518	0	7,973,518	0	7,973,518
Total	32,014,348,271	0	31,906,053,818	194,819,384	32,100,873,202

As of December 31, 2019					
	Book Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
FVTPL	11,853,339,179	6,238,009,651	4,662,987,679	952,341,849	11,853,339,179
Debt Securities	5,869,047,593	5,869,047,593	0	0	5,869,047,593
Domestic	5,869,047,593	5,869,047,593	0	0	5,869,047,593
FX-Reg	0	0	0	0	0

As of December 31, 2019					
	Book Value	Level 1	Level 2	Level 3	Total Fair Value
FCDU	0	0	0	0	0
Equity Securities	1,321,303,907	368,962,058	0	952,341,849	1,321,303,907
Domestic	415,448,840	368,962,058	0	46,486,782	415,448,840
FX-Reg	905,855,067	0	0	905,855,067	905,855,067
FCDU	0	0	0	0	0
Derivative w/ positive FV	4,662,987,679	0	4,662,987,679	0	4,662,987,679
PLFD	4,427,525,372	0	4,427,525,372	0	4,427,525,372
FX-Reg	141,102,111	0	141,102,111	0	141,102,111
FCDU	94,360,196	0	94,360,196	0	94,360,196
FVOCI	195,834,202,139	205,526,674,345	0	4,220,803,723	209,747,478,068
Debt Securities	186,673,418,991	190,769,696,906	0	58,989,856	190,828,686,762
Domestic	151,247,548,690	151,733,124,607	0	58,989,856	151,792,114,463
FX-Reg	2,181,767,134	2,274,010,282	0	0	2,274,010,282
FCDU	33,244,103,167	36,762,562,017	0	0	36,762,562,017
Equity Securities	9,160,783,148	14,756,977,439	0	4,161,813,867	18,918,791,306
Domestic	4,310,297,013	13,844,407,730	0	595,549,169	14,439,956,899
FX-Reg	4,850,486,135	912,569,709	0	3,566,264,698	4,478,834,407
FCDU	0	0	0	0	0
HTC	464,862,193,350	461,393,660,302	4,505,254,432	8,431,136,866	474,330,051,600
Debt Securities	464,862,193,350	461,393,660,302	4,505,254,432	8,431,136,866	474,330,051,600
Domestic	433,461,319,679	435,018,160,683	4,505,254,432	302,599,738	439,826,014,853
FX-Reg	7,162,138,440	1,519,101,323	0	5,846,200,884	7,365,302,207
FCDU	24,238,735,231	24,856,398,296	0	2,282,336,244	27,138,734,540
Total	672,549,734,668	673,158,344,298	9,168,242,111	13,604,282,438	695,930,868,847
FINANCIAL LIABILITIES					
Bills Payable	27,538,506,878	0	27,319,464,914	219,041,964	27,538,506,878
BSP Rehabilitation Program	36,722,229	0	0	36,722,229	36,722,229
Domestic Borrowings (ODA thru BTr)	182,319,735	0	0	182,319,735	182,319,735
Foreign Borrowings (ODA)	27,319,464,914	0	27,319,464,914	0	27,319,464,914
Interbank Loans-Foreign Regular	0	0	0	0	0
Total	27,538,506,878	0	27,319,464,914	219,041,964	27,538,506,878

5. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2020	2019 As Restated	2020	2019
Cash on hand	47,467,335,540	37,876,765,321	47,466,285,540	37,875,409,063
Checks and other cash items	11,143,667	12,820,070	11,143,667	12,820,070
Returned checks and other cash items	42,723,012	57,620,095	42,723,012	57,598,498

	Group		Parent	
	2020	2019 As Restated	2020	2019
Petty cash fund	10,237,225	9,676,227	10,152,225	9,591,227
Revolving fund	217,092	417,636	217,092	235,507
Payroll fund	370,420	109,373	370,420	109,373
	47,532,026,956	37,957,408,722	47,530,891,956	37,955,763,738

6. Due from Bangko Sentral ng Pilipinas

This account represents the Parent's demand and special deposits in local currency maintained with BSP to meet reserve requirements and to serve as clearing account for interbank claims consistent with BSP guidelines.

7. Due from Other Banks

This account consists of:

	Group		Parent	
	2020	2019 As Restated	2020	2019
Deposit with local banks	609,896,259	414,227,550	2,425,703,429	2,241,932,972
Deposit with foreign banks	8,174,926,925	11,098,545,279	8,174,926,925	11,098,545,279
Allowance for Credit Losses	(4,614,412)	(2,049,973)	(4,614,412)	(2,049,973)
Accrued Interest Receivable	0	0	4,400,000	3,777,778
Allowance for Credit Losses	(2,772)	(819)	(2,772)	(819)
	8,780,206,000	11,510,722,037	10,600,413,170	13,342,205,237

The Group maintains nostro accounts on global basis with 21 foreign depository banks totaling 23 and 25 bank accounts in 2020 and 2019, respectively, the most significant of which are as follows:

2020	2019
1. Standard Chartered Bank, N.Y.	1. Standard Chartered Bank, N.Y.
2. Bank of America, N.Y.	2. Wells Fargo Bank, N.A.
3. JP Morgan Chase Bank	3. JP Morgan Chase Bank
4. Citibank N.Y.	4. Citibank N.Y.
5. The Bank of New York	5. The Bank of New York

8. Interbank Loans Receivables

This account consists of the Parent's loans receivable from foreign banks. Interbank loans receivable carry interest rates at December 31, 2020 as follows:

	2020	2019
Foreign	0.10% to 1.62%	1.53% to 2.05%

9. Securities Purchased under Agreements to Resell

This account consists of:

	Group		Parent	
	2020	2019	2020	2019
Domestic				
Reverse Repurchase-BSP	16,655,101,575	37,168,092,153	15,819,273,408	36,920,542,939
Repo Lending-Private	0	1,170,995,380	0	1,170,995,380
Accrued Interest Receivable	2,109,236	16,305,289	2,109,236	16,222,773
	16,657,210,811	38,355,392,822	15,821,382,644	38,107,761,092

Reverse Repurchased with BSP carry interest rate at 2.00 per cent and 4.00 per cent as at December 31, 2020 and 2019, respectively. Outstanding Repo with Private Corporation carry interest rate at 5.375 per cent as at December 31, 2019 while there was no outstanding Repo agreement as of December 31, 2020.

10. Fair Value Thru Profit or Loss (FVTPL)

This consists of:

	Group		Parent	
	2020	2019	2020	2019
Government Securities – Domestic	5,825,111,174	5,869,047,594	5,825,111,174	5,869,047,594
Government Securities – Foreign	456,296,675	0	456,296,675	0
Private Securities – Domestic	184,768,603	415,448,839	184,768,603	415,448,839
Private Securities – Foreign	939,707,339	905,855,067	939,707,339	905,855,067
Derivative with positive fair value	3,477,223,795	4,662,987,679	3,477,223,795	4,662,987,679
Accrued Interest Receivable	12,925,069	10,750,961	12,925,069	10,750,961
	10,896,032,655	11,864,090,140	10,896,032,655	11,864,090,140

The FVTPL financial assets of the Group carry interest rates at December 31 as follows:

	2020		2019	
Domestic	3.50%	to 6.25%	3.375%	to 5.50%
Foreign	0.625%	to 10.625%	0%	to 0%

FVTPL includes the foreign exchange (FX) Risk Cover of the Parent's borrowings from multilateral agencies amounting to P3,276,212,400 and P4,427,525,372 in 2020 and 2019, respectively, which is treated as a derivative financial instrument per BSP Monetary Board Resolution No. 1063 dated August 14, 2008.

Under a Memorandum of Agreement between the National Government (thru the Department of Finance) and the Parent, the former shall guarantee and assume the FX risk relating to foreign currency denominated borrowings from multilateral agencies (i.e. World Bank, Asian Development Bank, JICA, etc.) which are relented in local currencies. The fair value changes on the FX Risk Cover are reported immediately in the statement of comprehensive income. As of December 31, 2020, the outstanding notional amount of the FX Risk Cover amounted to JPY22,576,443,627 and EUR23,480,730.27.

Prior to 2007, the value of the FX Risk Cover as an option derivative varies on the movement of the foreign exchange rates of the Bills Payable. Beginning 2007, in accordance with Monetary Board Resolution No. 1063 dated August 14, 2008, the Parent applied the standard option valuation model approach which resulted in an increase in the derivative asset amounting to P1,151,312,972 in 2020 and P1,137,909,856 in 2019.

The derivative with positive fair value comprise of the following:

	2020	2019
FX Risk Cover	3,276,212,400	4,427,525,372
Debt Warrants	89,492,637	94,360,196
Forward Contracts	111,518,758	141,102,111
	3,477,223,795	4,662,987,679

The Garman-Kohlhagen valuation model used in pricing the derivative FX Risk Cover was found acceptable by the BSP during the conduct of their on-site validation in 2009.

11. Fair Value Through Other Comprehensive Income (FVOCI)

This account consists of:

	Group		Parent	
	2020	2019 As Restated	2020	2019 As Restated
Domestic				
Government	417,390,587,298	151,840,201,584	417,339,080,312	151,792,114,463
Private securities	13,411,233,067	14,439,956,900	13,411,233,067	14,439,956,900
Foreign				
Government	75,313,108,527	41,568,322,299	75,313,108,527	41,568,322,299
Private securities	4,232,045,501	1,947,084,406	4,232,045,501	1,947,084,406
Accrued Interest Receivable	2,829,073,710	1,729,245,793	2,829,027,043	1,729,245,793
Allowance for Credit Losses	0	(2,319)	0	(2,319)
	513,176,048,103	211,524,808,663	513,124,494,450	211,476,721,542

FVOCI of the Group carry interest rates at December 31 as follows:

	2020			2019		
Domestic	2.375%	To	6.375%	3.375%	to	6.25%
Foreign	1.50%	To	11.625%	1.125%	to	10.63%

Domestic – Private securities

a. Manila Electric Company (MERALCO) shares

FVOCI investments-Domestic Private include 42,002,750 MERALCO shares of stocks which are subject of legal disputes.

In November 2008, MERALCO unlawfully cancelled the 42,002,750 shares of stocks registered in the name of the Parent and reissued the same in favor of another individual allegedly in compliance with the Demand to Comply issued by the Sheriffs of the

Department of Agrarian Reform (DAR) Regional Adjudicator. Of these 42,002,750 shares, 3,366,800 shares had been negotiated by another party; 37,233,200 shares remained quarantined at the Philippine Depository and Trust Corporation (PDTC); and another 1,402,750 shares has not yet been lodged with PDTC. However, the execution sale which was the basis for the issuance of the Demand to Comply was null and void from the beginning because of the Supreme Court's Temporary Restraining Order (TRO) enjoining the sale and the Resolution quashing all acts done pursuant to the Adjudicator's Writ. On December 17, 2008, the DAR Adjudication Board so ordered and required:

- 1) For MERALCO to cancel the Stock Certificates issued in favor of another party;
- 2) To restore the ownership of the subject MERALCO shares of stock to the Land Bank of the Philippines and to record the same in the Stock and Transfer Book of MERALCO; and
- 3) For the Philippine Stock Exchange, Inc. (PSE), the PDTC, the Securities Transfer Services, Inc., the Philippine Dealing System Holdings, Corp. and Subsidiaries (PDS Group) and any stockholder, dealer or agent of subject MERALCO shares to forthwith STOP: trading or dealing those shares and/or affecting settlement thereof, *inter alia*, so as to undo the foregoing contravening acts.

The Parent's shares of stock in MERALCO are not part of the Agrarian Reform Fund (ARF), a fund which is solely answerable to the obligation of the National Government pursuant to its Agrarian Reform Program. In accordance with Section 63 of Republic Act 6657 (Comprehensive Agrarian Reform Law), assets of the Parent cannot be used to pay for land acquisition as this shall only be sourced from the ARF.

In its December 14, 2011 *Decision* in G.R. No. 188376, the Supreme Court directed MERALCO to return to the Land Bank of the Philippines (LBP) 42,002,750 MERALCO shares of stock. The Supreme Court further declared that the MERALCO shares of stocks are corporate assets of LBP illegally taken to satisfy the payment of just compensation that should have been appropriated only from the ARF. This ruling has become final and executory on September 11, 2012 (Entry of Judgment).

LBP immediately filed a motion before the Regional Agrarian Reform Adjudicator (RARAD) for the issuance of a writ of execution to implement the Supreme Court decision. This was, however, vigorously opposed by the other party. On April 1, 2013, the RARAD finally issued the *Writ of Execution*. As partial compliance, MERALCO delivered to LBP 38,635,950 shares including cash dividends in the total amount of P1,206,955,618; and property dividends consisting of 108,884,212 shares of stock in Rockwell Land Corporation.

Still undelivered as of December 31, 2018 are 3,366,800 shares with market value of P1,067,275,600 plus accrued cash dividends thereon, amounting to P403,480,679 plus 9,488,394 shares of stock in Rockwell Land Corporation as property dividends, and the unpaid dividends due from the 1,402,750 MERALCO shares amounting to P8,145,010. These 1,402,750 shares are part of the 38,635,950 shares restored to LBP, but certificated in the name of the other party before the Supreme Court decision was partially implemented.

To recover fully the MERALCO shares and dividends, LBP sent its June 18, 2014 *Letter* to the Office of the Regional Adjudicator Region IV – B (MIMAROPA) requesting the office to direct the Sheriff to perform all necessary acts for the full implementation of the April 1, 2013 *Writ of Execution* such as, but not limited to, the issuance of another *Demand to Comply* to be served upon MERALCO. LBP again sent the August 15, 2014 *Letter* to RARAD reiterating its request to expedite the full implementation of the Supreme Court's ruling in G.R. No. 188376 and to prevent further damage to LBP.

On February 6, 2015, LBP received the January 24, 2014 *Sheriff's Report* from the Sheriff of the Regional Adjudicator Region IV-B (MIMAROPA) regarding MERALCO's partial compliance of the December 14, 2011 Supreme Court *Decision* in G.R. No. 188376. LBP's June 18, 2014 *Letter* and August 15, 2014 *Letter* were not acted upon by the RARAD, and no further writ of execution or demand to comply were issued.

Since RARAD no longer issued a writ of execution or demand to comply, LBP sent the February 11, 2015 *Letter* addressed to MERALCO to demand the delivery of the remaining 3,366,800 shares of stocks plus unpaid dividends. MERALCO failed to respond to LBP's demand.

On account of the January 24, 2014 Sheriff's Report and MERALCO's failure to respond to LBP's February 11, 2015 Letter, LBP prepared a petition for contempt against MERALCO and its representatives for failing to deliver the remaining 3,366,800 shares of stocks plus accrued dividends and the unpaid dividends due from the 1,402,750 MERALCO shares delivered to LBP, and to compel full compliance with the December 14, 2011 Supreme Court Decision.

On March 10, 2015, the petition was sent to the Office of the Government Corporate Counsel (OGCC) for review and signature. OGCC approved the filing of the petition before the Supreme Court. On April 14, 2015, the *Petition to Cite Respondents in Indirect Contempt* was filed before the Supreme Court.

On February 8, 2018, LBP filed its *Motion for Early Resolution with Manifestation* dated February 6, 2018. On March 5, 2018, the Supreme Court issued a Resolution which (1) Noted LBP's *Motion for Early Resolution with Manifestation* dated February 6, 2018; (2) Gave due course to LBP's Petition; and (3) Required parties to submit their respective Memoranda within thirty (30) days from notice thereof.

LBP received the aforesaid Resolution on May 15, 2018. On May 28, 2018, LBP forwarded the 32-page LBP Memorandum to the OGCC for their consideration, review and/or signature.

On June 22, 2018, the Parent's Legal Services Group and the OGCC filed LBP's Memorandum, in compliance with the Honorable Supreme Court's Resolution dated March 5, 2018. Likewise, on July 2, 2018, we received a copy of the respondent's Memorandum dated June 20, 2018.

LBP's petition for indirect contempt filed against MERALCO and its officers to compel them to deliver the unrestored MERALCO shares (G.R. No. 217428) was dismissed by the Supreme Court on March 25, 2019 on the ground that MERALCO and its officers cannot be held guilty of disobedience of a lawful judgment of a court. MERALCO was unable to return the 3,366,800 shares because these shares were validly traded through

the PSE. LBP's Motion for Reconsideration of the March 25, 2019 Decision was denied by the Supreme Court in its August 14, 2019 Resolution.

Due to the finality of the said decision, LBP has derecognized the 3,366,800 MERALCO shares with a market value of P1,067,275,600 and accrued dividends in the amount of P411,625,689 and proposed to collect the monetary equivalent of the 3,366,800 MERALCO shares from the ARF. The matter was discussed before the Agri-Agra Social Concerns Committee meeting on November 25, 2019 and resolved to be referred to DAR. To date, the matter is still pending for action by DAR.

b. Private securities include investment in equity securities which are irrevocably designated at FVOCI as these are held for long-term strategic purpose rather than for trading. These equity securities include listed stocks, shares in recreational clubs, investment in countryside financial institutions (CFI) and other non-marketable equity securities. The Parent disposed equity securities at FVOCI with total carrying value of P2.70 million in 2020. No gain or loss was recognized on the disposal of the said equity securities.

Foreign – Private securities

Metro Rail Transit Corporation (MRTC) preference shares

Total FVOCI accounts of the Parent include investment of \$19,567,859.96 (P939,707,339) in MRTC preference shares and \$61,279,926.14 (P2,942,845,893) in Unsecuritized Equity Rental Payments, respectively.

In 2008, the National Government, as confirmed through Executive Order No. 855 dated January 18, 2010, instructed LBP and the Development Bank of the Philippines (DBP) to acquire majority interest in MRTC as a result of the recommendation made by the inter-agency Committee tasked to review the MRT III project. In the same year, the LBP Board of Directors approved the purchase of MRTC interests in the form of unsecuritized portion of the Equity Rental Payment (ERP), MRT Bonds, and Preference Shares issued by MRT III Funding Corporation. LBP together with DBP completed its acquisition in May 2009, collectively owning around 80 per cent of MRTC interests. LBP owns approximately 37.77 per cent economic interest in MRTC.

The rental fees are structured in such a way that the initial investment in the MRT III project along with a 15 per cent rate of return is paid to MRTC for 25 years. In other words, the rental fees contain both an income and a return of the initial equity investment in the MRT III project. This is consistent with the definition of Net Economic Return in the Build, Lease and Transfer (BLT) Agreement between the DOTC (now, DOTr) and MRTC. According to the BLT Agreement, Net Economic Return is defined as “the return to be realized by Metro Rail over the life of this Agreement of the amount of its equity investments into LRTS [Light Rail Transit System] Phase I together with 15 per cent per annum thereon, such returns to be computed using standard “internal rate of return” methodology and the same assumptions as were utilized in determining the Rental Fees set forth in table 2 of Annex A-1 on the date hereof...”.

The fact that ownership over the MRT III project will be transferred to DOTr at a nominal amount of just U.S. \$1.00 at the end of 25 years likewise confirms that the ERPs represent full payment by the DOTr of the investment along with its economic return. As

stated in the BLT Agreement, “At the end of the Revenue Period and after Metro Rail and any other intended recipient shall have received from DOTC full payment of all Rental Fees and all other amounts payable by DOTC pursuant to this Agreement, Metro Rail shall transfer to DOTC, free from any lien or encumbrance created by Metro Rail or existing as a result of Metro Rail’s actions, all its title to, and rights and interest in, LRTS Phase I in return for DOTC’s payment to Metro Rail of U.S.\$1.00.”.

Following the principle that the ERP’s represent the return of principal and interest, the amortization schedules of LBP for its MRTC investments are computed based on the internal rates of return that would equate the present values of the future ERPs to be received to the purchase costs of these investments.

The acquisition cost, book value and percentage of economic interest in MRTC are as follows:

	Acquisition Cost As of December 31, 2020 (In US Dollars)	Book Value As of December 31, 2020 (In US Dollars)	Percentage in MRTC
▪ MRT III Bonds	57,399,795	136,658,643	
▪ MRT III Preferred Shares	54,000,000	19,567,860	
Securitized ERPs	111,399,795	156,226,503	26.65%
Unsecuritized ERPs	51,096,261	61,279,926	11.12%
	162,496,056	217,506,429	37.77%

The decrease in the investment in unsecuritized ERP was brought about by the refund of US\$1,433,535 (equally shared by the Bank and DBP) received from a third party in 2010. The refund represents cash that was already in the account of the third party, hence this did not affect the LBP’s percentage of economic interest in MRTC. Another refund of US\$1,381,747 was received by the Bank and DBP in early 2011 representing Accrued ERPs.

The Parent’s Accumulated market gains/losses on FVOCI government and private issues amounted to P16,101,553,551 and P11,440,885,498 as of December 31, 2020 and 2019, respectively.

Outstanding equity securities at FVOCI as of December 31, 2020 and 2019 generated dividends amounting to P1.08 billion and P1.19 billion, respectively for the Parent. Dividends amounting to P0.14 million and P3.22 million were recognized in 2020 and 2019, respectively, for the disposed securities at FVOCI while the same transaction resulted to a miscellaneous loss of P411.63 million in 2019.

Fair Value of FVOCI-Equity Securities as of December 31, 2020, as follows:

FVOCI Equity Securities	Fair Value
Listed Stocks	13,956,152,475
Shares in Sports Clubs.	82,550,000
Rural Banks	4,435,246
INMES	3,600,140,847
	17,643,278,568

12. Hold to Collect (HTC)

This account consists of:

	Group		Parent	
	2020	2019	2020	2019
Government				
Domestic	427,056,215,585	429,466,649,339	426,130,525,226	428,440,828,676
Foreign	18,209,726,397	19,370,539,307	18,209,726,397	19,370,539,307
Private				
Domestic	4,221,483,249	5,137,336,497	4,201,483,249	5,020,491,003
Foreign	7,909,734,938	12,030,334,364	7,909,734,938	12,030,334,364
Allow. For Credit Losses	(711,589,786)	(711,848,096)	(711,359,174)	(711,694,355)
Accrued Interest				
Receivable	3,446,375,831	3,605,941,597	3,446,375,831	3,603,490,642
Allow. For Credit Losses	(8,871,900)	(8,949,484)	(8,871,900)	(8,949,484)
	460,123,074,314	468,890,003,524	459,177,614,567	467,745,040,153

HTC investments of the Group carry interest rates at December 31 as follows:

	2020		2019	
Domestic	2.625%	to 18.25%	3.25%	to 18.25%
Foreign	6.375%	to 11.625%	2.75%	to 10.63%

The sale of HTC Investment in 2019 was approved by the Board of Directors per LBP Board Resolution No. 19-665 dated 11 September 2019. This is relative to the proposed Alignment of HTC Business Model which states that:

- Threshold of Investment allowed under the HTC-Amortized Cost Business Model to match the securities and term loan portfolio against the Parent's level of core deposits.
- Alignment of the HTC-Amortized Cost Business Model through a combination of rebalancing and redeployment strategies.

This was the first time the parent sold HTC investments in response to the huge adjustment made in the Core Deposit calculation by Treasury Risk Management Department (TRMD).

Such sale was among the Permitted Sales under BSP Circular 708, which we likewise adopted in the Parent's business model, to wit:

A "more than infrequent sale" of financial assets in a portfolio of debt instruments measured at amortized cost shall be assessed as to whether such sales are consistent with an HTC business model.

The following sales/derecognition of financial assets shall not be considered inconsistent with an HTC model:

(9) sales attributable to a change in statutory or regulatory requirements significantly modifying either what constitutes a permissible investment or the maximum level of

particular investments, thereby causing the FI to dispose a security under the amortized cost category.

In 2019, the financial asset that was derecognized has a total cost of P23.0 billion which resulted to a realized net loss of P285,885 while no similar transaction was made in 2020.

13. Loans and Receivables

This account consists of:

	Group		Parent	
	2020	2019 As Restated	2020	2019
Interbank loans receivable	18,974,987,726	24,161,301,253	18,974,987,726	24,161,301,253
Allowance for credit losses	(458,731,882)	(323,054,279)	(458,731,882)	(323,054,279)
	18,516,255,844	23,838,246,974	18,516,255,844	23,838,246,974
Loans to Government	107,944,980,546	121,067,829,967	109,101,572,260	121,996,652,985
Allowance for credit losses	(23,070,344)	(22,998,264)	(23,070,344)	(22,998,264)
	107,921,910,202	121,044,831,703	109,078,501,916	121,973,654,721
Agrarian Reform and other Agriculture Loans	146,090,385,332	134,550,102,734	146,090,385,330	134,205,098,502
Allowance for credit losses	(3,773,870,954)	(1,300,710,623)	(3,773,870,952)	(1,225,329,360)
	142,316,514,378	133,249,392,111	142,316,514,378	132,979,769,142
Microfinance Loans	18,834,813,798	22,182,020,697	18,834,813,798	22,173,088,963
Allowance for credit losses	(558,477,445)	(521,012,462)	(558,477,445)	(520,024,148)
	18,276,336,353	21,661,008,235	18,276,336,353	21,653,064,815
SME/MSE Loans	54,559,652,177	61,293,521,080	54,088,163,391	60,140,034,554
Allowance for credit losses	(3,144,690,134)	(1,600,380,799)	(3,007,962,708)	(1,411,935,967)
	51,414,962,043	59,693,140,281	51,080,200,683	58,728,098,587
Contract to Sell	792,684,677	840,872,923	792,684,677	438,011,023
Allowance for credit losses	(204,190,740)	(196,238,277)	(204,190,740)	(143,790,580)
	588,493,937	644,634,646	588,493,937	294,220,443
Loans to Private Corporation	441,288,754,940	436,758,102,674	439,055,395,485	433,400,466,659
Allowance for credit losses	(10,358,554,932)	(7,566,092,253)	(10,142,883,802)	(6,969,152,535)
	430,930,200,008	429,192,010,421	428,912,511,683	426,431,314,124
Loans to Individuals for Housing Purposes	5,655,206,483	5,951,599,608	5,655,206,483	5,907,256,536
Allowance for credit losses	(338,244,921)	(86,217,230)	(338,244,921)	(83,319,562)
	5,316,961,562	5,865,382,378	5,316,961,562	5,823,936,974
Loans to Individual for Consumption	38,977,767,077	32,137,485,491	38,977,767,077	31,850,081,818
Allowance for credit losses	(822,199,038)	(756,083,749)	(822,199,038)	(584,028,617)
	38,155,568,039	31,381,401,742	38,155,568,039	31,266,053,201
Loans to Individual for Other Purposes	1,462,982,888	1,687,042,450	1,383,781,585	1,510,833,033
Allowance for credit losses	(76,528,462)	(31,118,246)	(57,330,503)	(17,718,797)
	1,386,454,426	1,655,924,204	1,326,451,082	1,493,114,236
General loan loss provision	(6,569,860,356)	(6,026,905,239)	(6,539,488,976)	(5,987,650,805)
	808,253,796,436	822,199,067,456	807,028,306,501	818,493,822,412
Accrued interest receivable	11,143,126,673	7,065,594,845	11,101,051,355	7,023,096,064

	Group		Parent	
	2020	2019 As Restated	2020	2019
Allowance for credit losses	(542,882,614)	(313,259,350)	(542,493,804)	(292,390,854)
	10,600,244,059	6,752,335,495	10,558,557,551	6,730,705,210
Accounts receivable	2,120,832,091	2,589,299,025	1,613,685,519	1,869,960,302
Allowance for credit losses	(1,609,253,330)	(1,436,653,294)	(1,452,616,007)	(1,332,028,193)
	511,578,761	1,152,645,731	161,069,512	537,932,109
Sales contract receivable	632,017,703	758,928,669	614,570,118	734,618,501
Allowance for credit losses	(4,456,447)	(23,959,546)	(4,439,926)	(23,933,374)
	627,561,256	734,969,123	610,130,192	710,685,127
Due from ARF	202,405,194	64,834,125	202,405,194	64,834,125
Lease contract receivable	1,604,503,580	1,887,432,908	0	0
Allowance for credit losses	(135,947,943)	(15,793,488)	0	0
	1,468,555,637	1,871,639,420	0	0
	821,664,141,343	832,775,491,350	818,560,468,950	826,537,978,983

The Parent's interest rates on loans in 2020 range from 4.12 per cent to 12.89 per cent for peso denominated loans and from 2.20 per cent to 4.75 per cent for foreign currency denominated loans.

Allowance for credit losses

The details of allowance for credit losses on loans of the Parent are:

	2020	2019
Balance, January 1	17,289,002,914	14,716,968,798
Provision	8,644,151,342	4,205,482,392
Write-offs	(24,736,280)	(1,185,418,182)
Transfers and other adjustments	18,033,335	(448,030,094)
Balance, December 31	25,926,451,311	17,289,002,914

As of December 31, 2020 and 2019, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2020		2019	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	94,197,805,367	11.31	108,185,496,008	12.94
Various guarantees	214,305,643,985	25.72	199,729,246,247	23.90
Various mortgages	251,368,269,078	30.18	258,806,974,689	30.97
	559,871,718,430	67.21	566,721,716,944	67.81
Unsecured loans	273,083,039,382	32.79	269,061,108,382	32.19
Gross loan at amortized cost	832,954,757,812	100.00	835,782,825,326	100.00

Non-performing loans (NPLs) included in the total loan portfolio of the Parent are presented below as net of specific allowance for credit losses on NPLs in compliance with

BSP Circular No. 772 and 941, which amends regulations governing non-performing loans.

	2020	2019
Total NPLs	25,613,645,864	18,766,221,400
Allowance for credit losses	(13,704,767,892)	(6,752,483,291)
Net NPLs	11,908,877,972	12,013,738,109

14. Investment in Subsidiaries

This account consists of the following investments in subsidiaries which are 100 per cent owned by the Parent and are accounted for at cost:

Name	2020	2019
Overseas Filipino Bank, Inc.	1,701,000,000	1,701,000,000
LBP Leasing and Finance Corporation (formerly LBP Leasing Corporation)	310,252,630	310,252,630
LBP Insurance Brokerage, Inc.	52,500,000	52,500,000
LBP Resources and Development Corporation	51,467,436	51,467,436
Masaganang Sakahan, Inc.	24,554,941	24,554,941
Total	2,139,775,007	2,139,775,007
Allowance for credit losses	(766,985,461)	(1,478,005,523)
Net	1,372,789,546	661,769,484

Pursuant to the directive of Malacañang Executive Order (EO) No. 44 dated September 28, 2017, the Parent through Investment and Loan Committee Resolution No. 18-088 and Board Resolution No. 18-119 approved the capital infusion of up to P1.701 billion into Overseas Filipino Bank (OFB). The initial infusion in the amount of P429 million was released on July 06, 2018. Further, the OFB per Board Resolution No. 2018-73 has approved the increase in Authorized Capital Stock (ACS) amounting P3.5 billion where P3 billion is allocated as common shares and P0.5 billion as preferred shares. The increase in ACS was approved by BSP on July 02, 2019 while the Certificates of Approval of Increase of Capital Stock and Filing of Amended Articles of Incorporated were approved by the Securities and Exchange Commission on March 18, 2021. The Parent has released a total capital infusion amounting to P1.27 billion to OFB in 2019 as Deposit for Stock Subscription. The same EO directed the Philippine Postal Corporation and Bureau of Treasury to transfer their respective OFB shares to the Parent at zero value. The shares were transferred in March 2018 and the investment was recorded at zero value based on the fair value of the net assets on acquisition date as determined by a third party valuation advisor.

15. Investment in Associates

This account represents the Parent's 20.91 per cent ownership of the capital stock of Small Business Corporation.

16. Investment Property

This account consists of:

	Group							
	2020				2019			
	Land	Building	Others	Total	Land	Building	Others	Total
At Cost								
At January 1	4,735,114,801	3,394,055,490	0	8,129,170,291	4,435,974,292	2,906,246,715	19,393,890	7,361,614,897
Additions/(Disposals)	169,861,964	760,214,945		930,076,909	300,615,044	487,808,775		769,029,929
Transfers/Adjustment	556,184	0	0	556,184	(1,474,535)	0	(19,393,890)	(1,474,535)
At December 31	4,905,532,949	4,154,270,435	0	9,059,803,384	4,735,114,801	3,394,055,490	0	8,129,170,291
Accumulated depreciation and impairment								
At January 1	288,335,934	858,854,082	0	1,147,190,016	423,907,779	1,138,800,269	19,393,889	1,582,101,937
Depreciation	0	253,753,774		253,753,774	0	130,345,410		130,345,410
Transfers/Adjustment	(1)	(98,009,751)	0	(98,009,752)	(14,041,000)	(274,838,851)	(19,393,889)	(308,273,740)
Impairment Loss	(18,008,061)	98,324,880		80,316,819	(121,530,845)	(135,452,746)		(256,983,591)
At December 31	270,327,872	1,112,922,985	0	1,383,250,857	288,335,934	858,854,082	0	1,147,190,016
Net book value	4,635,205,077	3,041,347,450	0	7,676,552,527	4,446,778,867	2,535,201,408	0	6,981,980,275

	Parent					
	2020			2019		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	4,643,936,446	3,312,872,182	7,956,808,628	4,224,938,565	2,634,505,810	6,859,444,375
Additions/(Disposals)	170,418,149	760,214,945	930,633,094	418,997,881	678,366,372	1,097,364,253
At December 31	4,814,354,595	4,073,087,127	8,887,441,722	4,643,936,446	3,312,872,182	7,956,808,628
Accumulated depreciation and impairment						
At January 1	281,998,417	811,082,218	1,093,080,635	403,529,262	1,059,131,018	1,462,660,280
Depreciation	0	252,633,789	252,633,789	0	129,087,757	129,087,757
Transfers/Adjustment	0	(98,009,751)	(98,009,751)	0	(241,683,811)	(241,683,811)
Impairment Loss	(18,008,061)	98,324,880	80,316,819	(121,530,845)	(135,452,746)	(256,983,591)
At December 31	263,990,356	1,064,031,136	1,328,021,492	281,998,417	811,082,218	1,093,080,635
Net book value	4,550,364,239	3,009,055,991	7,559,420,230	4,361,938,029	2,501,789,964	6,863,727,993

Investment properties include real estate properties acquired in settlement of loans and receivables.

As of December 31, 2020 and 2019, the carrying value of investment properties still subject to redemption amounted to P1,588,948,805 and P179,508,998, respectively, for the Parent. Investment properties with on-going cases amounted to P289,034,406 and P732,882,117 as of December 31, 2020 and 2019, respectively. Properties amounting to P43,079,661 and P43,708,690 as of December 31, 2020 and 2019, respectively, are agricultural lands covered by the government's agrarian reform program.

In 2020 and 2019, the rental income (included under 'Rent' in the Statements of Comprehensive Income) on investment properties, which are leased out under operating leases, amounted to P721,808 and P5,006,264, respectively, for the Parent. In 2020 and 2019, the parent's direct operating expenses, consisting of depreciation and amortization and repairs and maintenance (included in the Statements of Comprehensive Income) pertaining to investment properties amounted to P252,633,789 and P129,087,757, respectively.

17. Property and Equipment

This account consists of:

	Group									Total 2020
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Right of Use Assets	
At Cost										
At January 1,	1,706,253,575	87,296,262	5,172,326,713	1,247,705,014	108,924,479	8,745,089,719	702,007,469	831,539,096	1,918,034,406	20,519,176,733
Additions	118,000,162	71,848,425	274,152,167	105,409,413	11,984,266	503,557,306	67,656,673	772,892,477	1,579,058	1,927,079,947
Disposals	0	(157,608)	13,886,818	(6,243,805)	(6,478,659)	(177,523,960)	0	(32,020,839)	(20,346,385)	(228,884,438)
Transfers	330,009	(6,138,724)	(157,689,998)	(22,605,141)	(11,519,036)	28,760,301	(60,047,467)	(507,130,784)	372,641,350	(363,399,490)
At December 31	1,824,583,746	152,848,355	5,302,675,700	1,324,265,481	102,911,050	9,099,883,366	709,616,675	1,065,279,950	2,271,908,429	21,853,972,752
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	2,487,186,875	555,204,216	80,031,284	5,651,478,673	361,826,591	79,253,921	413,914,385	9,628,895,945
Depreciation & amortization	0	0	290,750,877	101,889,115	19,163,793	711,503,099	21,197,629	206,893,680	269,769,869	1,621,168,062
Disposals	0	0	29,825,325	(1,895,611)	(5,992,372)	(143,738,669)	0	(4,822,172)	(32,790,438)	(159,413,937)
Transfers/Adjustments	0	0	(100,341,143)	(18,131,448)	(7,438,337)	(173,735,977)	(105,340)	(144,397,854)	461,313,590	17,163,491
At December 31	0	0	2,707,421,934	637,066,272	85,764,368	6,045,507,126	382,918,880	136,927,575	1,112,207,406	11,107,813,561
Allow for Losses	0	0	41,469,224	1,401,407	7,987,971	31,510,823	0	(5,369,097)	268,409	77,268,737
Net book value	1,824,583,746	152,848,355	2,553,784,542	685,797,802	9,158,711	3,022,865,417	326,697,795	933,721,472	1,159,432,614	10,668,890,454

	Group As Restated									Total 2019
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Right of Use Assets	
At Cost										
At January 1, as restated	1,492,986,640	148,324,887	5,121,268,735	1,165,790,160	114,655,106	8,458,527,612	525,504,852	119,405,448	0	17,146,463,440
Additions	206,578,878	11,733,204	1,885,865,786	191,028,923	90,672,135	1,030,196,346	185,227,806	750,369,539	1,918,034,406	6,269,707,023
Disposals	(15,285,000)	0	(11,957,003)	(30,132,742)	(8,360,775)	(320,065,952)	(8,768,605)	(5,795,016)	0	(400,365,093)
Transfers	21,973,057	(72,761,829)	(1,822,850,805)	(78,981,327)	(88,041,987)	(423,568,287)	43,416	(32,440,875)	0	(2,496,628,637)
At December 31, as restated	1,706,253,575	87,296,262	5,172,326,713	1,247,705,014	108,924,479	8,745,089,719	702,007,469	831,539,096	1,918,034,406	20,519,176,733
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	2,268,839,213	477,763,909	91,410,847	5,479,636,448	344,321,411	49,410,377	0	8,711,382,205
Depreciation & amortization	0	0	165,807,076	106,128,810	2,369,281	714,149,067	25,396,924	48,245,647	413,914,385	1,476,011,190
Disposals	0	0	(12,658,490)	(4,782,790)	(6,128,106)	(296,778,988)	(7,891,744)	(3,994,860)	0	(332,234,978)
Transfers/Adjustments	0	0	65,199,076	(23,905,713)	(7,620,738)	(245,527,854)	0	(14,407,243)	0	(226,262,472)
At December 31, As restated	0	0	2,487,186,875	555,204,216	80,031,284	5,651,478,673	361,826,591	79,253,921	413,914,385	9,628,895,945
Allow for Losses	0	0	34,503,790	1,297,038	7,987,971	21,800,288	0	(5,491,007)		60,098,080
Net book value, As restated	1,706,253,575	87,296,262	2,650,636,048	691,203,760	20,905,224	3,071,810,758	340,180,878	757,776,182	1,504,120,021	10,830,182,708

	Parent									Total 2020
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Right of Use Assets	
At Cost										
At January 1	1,564,463,575	87,296,262	5,140,208,101	1,246,445,212	78,873,633	8,538,061,116	407,105,647	788,823,697	1,915,686,978	19,766,964,221
Additions	118,000,162	71,848,425	272,585,347	105,409,413	8,561,605	497,250,213	0	772,533,600	0	1,846,188,765
Disposals	0	(157,608)	13,886,818	(6,238,854)	(3,345,239)	(154,409,563)	0	(9,957,239)	(20,346,385)	(180,568,070)
Transfers	330,009	(6,138,724)	(150,245,807)	(22,605,141)	(11,519,036)	28,950,944	0	(507,130,784)	372,641,350	(295,717,189)
At December 31	1,682,793,746	152,848,355	5,276,434,459	1,323,010,630	72,570,963	8,909,852,710	407,105,647	1,044,269,274	2,267,981,943	21,136,867,727

Parent									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Right of Use Assets
Accumulated Depreciation and Amortization									Total 2020
At January 1	0	0	2,415,440,930	554,511,876	57,592,384	5,473,877,014	312,715,652	62,754,141	411,902,304
Depreciation and amortization	0	0	284,239,418	101,421,374	17,356,443	704,345,188	13,072,532	205,483,658	268,653,133
Disposals	0	0	29,825,325	(1,890,660)	(3,268,956)	(121,415,125)	0	(3,568,247)	(32,790,438)
Transfers/Adjustments	0	0	(100,341,143)	(18,131,448)	(7,438,337)	(173,670,954)	(105,340)	(144,397,854)	461,313,590
At December 31	0	0	2,629,164,530	635,911,142	64,241,534	5,883,136,123	325,682,844	120,271,698	1,109,078,589
Allow for Losses	0	0	41,469,224	1,401,407	7,987,971	31,510,823	0	(5,491,007)	268,409
Net book value	1,682,793,746	152,848,355	2,605,800,705	685,698,081	341,458	2,995,205,764	81,422,803	929,488,583	1,158,634,945

Parent									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Right of Use Assets
At Cost									Total 2019
At January 1	1,351,196,640	70,086,597	4,981,218,702	1,138,284,613	82,950,259	8,223,220,596	407,062,231	99,415,850	0
Additions	206,578,878	89,971,494	1,883,251,485	191,028,923	87,788,985	1,026,081,682	0	727,130,720	1,915,686,978
Disposals	(15,285,000)		(11,957,003)	(3,886,997)	(3,823,624)	(292,937,228)	0	(5,281,998)	0
Transfers	21,973,057	(72,761,829)	(1,712,305,083)	(78,981,327)	(88,041,987)	(418,303,934)	43,416	(32,440,875)	0
At December 31	1,564,463,575	87,296,262	5,140,208,101	1,246,445,212	78,873,633	8,538,061,116	407,105,647	788,823,697	1,915,686,978
Accumulated Depreciation and Amortization									
At January 1	0	0	2,203,322,780	455,822,943	66,559,761	5,280,654,706	295,600,267	34,088,655	0
Depreciation and amortization	0	0	159,577,564	104,697,723	549,006	705,302,987	17,115,385	47,063,329	411,902,304
Disposals	0	0	(12,658,490)	(4,782,790)	(1,895,645)	(266,958,730)	0	(3,990,600)	0
Transfers/Adjustments	0	0	65,199,076	(1,226,000)	(7,620,738)	(245,121,949)	0	(14,407,243)	0
At December 31	0	0	2,415,440,930	554,511,876	57,592,384	5,473,877,014	312,715,652	62,754,141	411,902,304
Allow for Losses	0	0	34,503,790	1,297,038	7,987,971	21,800,288	0	(5,491,007)	0
Net book value	1,564,463,575	87,296,262	2,690,263,381	690,636,298	13,293,278	3,042,383,814	94,389,995	731,560,563	1,503,784,674

Depreciation and amortization of the Group amounting to P1,621,168,062 and P1,476,011,190 and of the Parent amounting to P1,594,571,746 and P1,446,208,298 in 2020 and 2019, respectively, are included in depreciation and amortization expense in the Statements of Comprehensive Income.

The Parent's office equipment, furniture and vehicles with carrying amount of P220,374,029 and P246,268,308 in 2020 and 2019, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P24,246,285 and P29,821,469 in 2020 and 2019, respectively.

18. Leases

Parent as lessee

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of December 31, 2020 for the Group and the Parent are as follows:

	Within 1 Year	After 1 Year but not more than 5 Years	More than 5 Years	Total
Finance Charge	106,813,498	228,055,166	104,291,524	439,160,188
Lease Liability	468,353,069	915,718,390	488,604,122	1,872,675,581
Lease Payment	575,166,567	1,143,773,556	592,895,646	2,311,835,769

As of December 31, 2020, the Parent recognized interest expense on lease liabilities (included in the Statements of Comprehensive Income) amounting to P128,232,396 and rent expense from short-term leases and leases of low-value assets amounting to P803,276,349.

Parent as lessor

The Parent has entered into commercial property leases with various tenants on its investment property portfolio and part of LBP premises. Various lease contracts include escalation clauses. Rent income from leases (included in the Statements of Comprehensive Income) of the Parent amounted to P23,495,890 and P35,013,733 in 2020 and 2019, respectively.

Lease Liability is included under 'Others' account in Note 24 - Other Liabilities.

19. Other Intangible Assets

This account consists of:

	Group		Parent	
	2020	2019	2020	2019
Balance at the beginning of the year	1,162,906,170	1,183,451,617	1,138,144,879	1,155,894,949
Addition	346,968,853	243,457,769	343,561,666	242,062,229
Amortization for the year	(359,468,300)	(264,003,216)	(356,305,675)	(259,812,299)
Balance at the end of the year	1,150,406,723	1,162,906,170	1,125,400,870	1,138,144,879
Allow for Losses	(10,673,500)	(10,673,500)	(673,500)	(673,500)
Net book value at end of year	1,139,733,223	1,152,232,670	1,124,727,370	1,137,471,379

20. Other Assets

This account consists of:

	Group		Parent	
	2020	2019	2020	2019
		As Restated		As Restated
Sundry debits	1,344,607,815	901,817,348	1,338,239,975	901,511,875
Prepaid expenses	642,675,196	424,751,168	638,021,054	434,914,151
Documentary stamps	843,954,151	809,039,852	843,041,507	808,610,259
Stationery & supplies on hand	143,841,871	141,125,616	139,203,589	136,459,689
Accounts receivable-net	21,648,507	30,034,336	13,546,968	29,401,813
Inter-office float items	242,552	3,248,164	242,552	301,785
Others	1,751,118,954	2,307,600,219	1,651,221,230	2,408,346,832
Allowance for credit losses	(28,035,599)	(58,035,599)	(28,035,599)	(28,035,599)
	4,720,053,447	4,559,581,104	4,595,481,276	4,691,510,805

21. Allowance for Credit Losses and Impairment Losses

Changes in the allowance for credit losses and impairment losses of the Parent are as follows:

	2020	2019
Balance at beginning of year:		
Loans	17,289,002,914	14,716,968,798
Investments	2,198,651,682	415,741,891
Receivables from customers and Other assets	2,150,663,062	2,287,224,726
Contingent	409,006,907	431,529,554
	22,047,324,565	17,851,464,969
Provisions charged to operations	8,285,481,838	6,243,266,880
Accounts charged off and others	(25,041,114)	(1,243,476,977)
Transfer/adjustments	4,552,121	(803,930,307)
	8,264,992,845	4,195,859,596
Balance December 31	30,312,317,410	22,047,324,565
Balance at end of year:		
Loans (Note 13)	25,926,451,311	17,289,002,914
Investments (Note 11, 12, 14)	1,487,216,535	2,198,651,682
Receivables from customers and other assets (Note 13, 16, 17, 19, 20)	2,608,053,807	2,150,663,062
Contingent	290,595,757	409,006,907
	30,312,317,410	22,047,324,565

With the foregoing level of allowance for credit losses, Management believes that the Parent has sufficient allowance to cover any losses that the Parent may incur from the non-collection or non-realization of its loans and receivables and other risk assets.

The account includes provision for credit losses/impairment losses of the Parent as follows:

	2020	2019
Loans	8,644,151,342	4,205,482,392
Investments	(713,911,242)	1,787,779,402
Receivables from customers and other assets	473,652,888	272,527,732
Contingent	(118,411,150)	(22,522,647)
	8,285,481,838	6,243,266,880

The calculated ECL as of December 2020 increased from P723.07 million to P724.85 million, as follows:

INVESTMENTS (In Thousand P)	TOTAL		STAGE 1		STAGE 2		STAGE 3	
	2020	2019*	2020	2019*	2020	2019*	2020	2019*
Due from BSP and SPURA	-	-	-	-	-	-	-	-
Due from Other Banks	4,617.18	2,050.79	4,585.22	2,037.22	31.96	13.57	-	-
Due from Foreign Banks	2,618.99	1,708.62	2,618.99	1,708.62	-	-	-	-
Due from Local Banks and FIs	1,894.56	316.61	1,862.60	303.04	31.96	13.57	-	-
Inter-bank loan and receivables	103.63	25.56	103.63	25.56	-	-	-	-
FA at FVOCI debt investments	-	372.03	-	372.03	-	-	-	-
Local Debt Securities	-	-	-	-	-	-	-	-
Foreign Debt Securities	-	372.03	-	372.03	-	-	-	-
FA at amortized cost	720,231.07	720,643.84	10,753.41	9,255.24	12,236.50	16,844.78	697,241.16	694,543.82
Local Debt Securities	-	-	-	-	-	-	-	-
Foreign Debt Securities	-	-	-	-	-	-	-	-

INVESTMENTS (In Thousand P)	TOTAL		STAGE 1		STAGE 2		STAGE 3	
	2020	2019*	2020	2019*	2020	2019*	2020	2019*
<i>Private Securities</i>								
Local	712,883.33	716,729.93	5,218.96	5,341.33	10,423.21	16,844.78	697,241.16	694,543.82
Foreign	7,347.74	3,913.91	5,534.45	3,913.91	1,813.29	-	-	-
TOTAL	724,848.25	723,066.66	15,338.63	11,664.49	12,268.46	16,858.35	697,241.16	694,543.82

*Note: Result for the ECL calculation using Treasury exposures as of June 2019 is the basis for the allowance for 2019.

22. Deposit Liabilities

This account consists of:

	Group		Parent	
	2020	2019	2020	2019
Domestic				
Demand deposits	1,067,839,637,115	884,242,337,174	1,068,477,682,342	884,597,244,105
Savings deposits	906,190,504,838	798,813,818,564	905,915,136,347	796,871,655,025
Time certificate of deposits	416,349,835	449,333,001	418,748,973	434,203,920
Long Term Negotiable Certificate of Deposits	6,000,000,000	6,000,000,000	6,000,000,000	6,000,000,000
	1,980,446,491,788	1,689,505,488,740	1,980,811,567,662	1,687,903,103,050
Foreign				
Demand deposits –FCDU/EFCDU	0	0	0	0
Savings deposit –FCDU/EFCDU	19,313,285,277	16,685,052,793	19,313,408,190	16,684,236,253
Time certificate of deposit- FCDU/EFCDU	94,520,336,003	78,489,092,666	94,520,238,806	78,488,837,039
	113,833,621,280	95,174,145,459	113,833,646,996	95,173,073,292
	2,094,280,113,068	1,784,679,634,198	2,094,645,214,658	1,783,076,176,342

The Parent's domestic deposit liabilities earn annual fixed interest rates ranging from 0.500 to 0.75 per cent and 0.100 to 0.725 per cent in 2020 and 2019, respectively. Foreign deposit rates range from 0.05 to 0.5 per cent and from 0.15 to 0.250 per cent in 2020 and 2019, respectively. In 2020 and 2019, P1,317,621,116,982 or 63 per cent and P1,177,850,389,645 or 66 per cent, respectively, of the Parent's deposit portfolio came from the government while the rest came from private depositors.

23. Bills Payable

This account consists of:

	Group		Parent	
	2020	2019	2020	2019
Bangko Sentral ng Pilipinas	25,336,905	36,722,229	25,336,905	36,722,229
Domestic borrowings	2,895,208,866	2,346,319,736	1,310,569,987	182,319,735
Foreign borrowings	25,670,467,861	27,319,464,914	25,670,467,861	27,319,464,914
Foreign interbank borrowings	0	0	0	0
	28,591,013,632	29,702,506,879	27,006,374,753	27,538,506,878

The breakdown of Parent's Bills payable (foreign borrowings) is as follows:

Creditor/Funder	2020	2019
World Bank/IBRD	13,892,367,999	14,490,003,629
Asian Development Bank (ADB)	333,503,256	406,161,155
Japan International Cooperation Agency (JICA)	10,064,282,951	11,039,918,730
Kreditanstalt für Wiederaufbau (KfW)	1,380,313,655	1,383,381,400
	25,670,467,861	27,319,464,914

The total foreign borrowings of P25,670,467,861 is guaranteed by the National Government. Foreign borrowings relented in local currency amounting to P11,865,992,690 are provided with foreign exchange (FX) Risk Cover by the National Government. This has historical value of P11,402,757,508. The Parent's foreign borrowings from multilateral and bilateral agencies have maturities ranging from 15 to 40 years.

Interest rates on foreign and domestic borrowings in 2020 range from 0.01 to 2.70 per cent and 4.75 per cent, respectively, for foreign and domestic borrowings, respectively.

24. Other Liabilities

This account consists of:

	Group		Parent	
	2020	2019 As Restated	2020	2019
Accrued interest, fringe benefits, taxes and other expense payable	9,049,958,144	8,530,195,496	9,165,082,508	8,530,195,496
Accounts payable	33,633,513,417	36,416,581,238	33,302,614,011	36,219,367,074
Due to Agrarian Reform Fund	151,966,341	180,826,143	151,966,341	180,826,143
Sundry credits	4,126,323,782	516,237,402	4,119,269,716	515,366,173
Unearned income	384,439,207	42,867,423	12,316,446	14,929,302
Withholding tax payable	295,806,388	395,497,661	291,653,902	394,804,859
Miscellaneous liabilities	3,728,106,973	6,966,242,158	3,688,835,584	6,925,288,943
Provision for estimated credit losses	290,595,757	409,006,907	290,595,757	409,006,907
Others	5,011,672,303	4,867,340,362	4,813,688,575	4,347,764,961
	56,672,382,312	58,324,794,790	55,836,022,840	57,512,649,380

25. Income and Other Taxes

Under Philippine tax laws, the Regular Banking Unit of the Parent is subject to percentage and other taxes (presented as Taxes and Licenses in the statement of comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes. Income taxes include the corporate income tax and final withholding tax on gross interest income from government securities, deposits and other deposit substitutes. These income taxes and deferred tax benefits are presented in the statement of comprehensive income as Provision for or (Benefit from) Income Tax.

Based on Republic Act 11534 (CREATE Law), which was passed into law in March 2021 and amended certain provisions of the National Internal Revenue Code of 1997, the normal corporate income tax rate is 25 per cent effective July 1, 2020. Initial implementation for taxable year 2020, the normal corporate income tax rate to be used is 27.50 per cent pursuant to BIR Revenue Regulations No. 5-2021. The interest allowed as deductible expense is reduced by an amount equivalent to 20 per cent of the interest income subjected to final tax. Prior to RA 11534, the normal corporate income tax rate is 30 per cent and the interest allowed as deductible expense is reduced by an amount equivalent to 33 per cent of the interest income subjected to final tax.

FCDU offshore income (income from non-residents) derived by depository banks under the expanded foreign currency deposit system is exempt from income tax while gross onshore interest income (income from residents) from foreign currency loans under the Expanded Foreign Currency Deposit System is subject to 10 per cent final tax. Interest income derived by resident individual or corporation on deposits with other FCDUs and Offshore Banking Units (OBU) are subject to 15 per cent final tax.

The provision for/(benefit from) income tax consists of:

	Group		Parent	
	2020	2019	2020	2019
Current:				
Normal	3,461,936,969	2,386,087,597	3,247,261,661	2,303,787,951
Income Tax - Final	0	0	0	0
	3,461,936,969	2,386,087,597	3,247,261,661	2,303,787,951
Deferred	(3,045,059,745)	(655,403,539)	(2,937,214,210)	(658,589,902)
	416,877,224	1,730,684,058	310,047,451	1,645,198,049

The reconciliation of the provision for income tax computed at the statutory tax rate to the actual provision is as follows:

	Group		Parent	
	2020	2019	2020	2019
Statutory income tax	6,099,894,604	6,461,557,069	5,981,559,020	6,377,108,451
Additions to (reductions in) income taxes arising from:				
Non-deductible interest expense	2,630,740,771	3,042,147,388	2,630,565,248	3,042,127,952
Other deductible/Non-deductible expense	514,154,685	1,269,950,495	516,257,765	1,259,492,107
FCDU income	(834,015,747)	(1,140,280,055)	(834,015,747)	(1,140,280,055)
Tax exempt & tax paid income	(8,520,388,066)	(7,742,312,118)	(8,509,352,328)	(7,730,330,033)
Others	526,490,977	(160,378,721)	525,033,493	(162,920,373)
	416,877,224	1,730,684,058	310,047,451	1,645,198,049

The net deferred income tax asset reported by the Parent amounted to P7,111,184,519 and P4,173,970,307 for CY 2020 and 2019, respectively while the subsidiaries recognized deferred tax assets of P165,067,505 and P60,356,320 for CY 2020 and 2019, respectively.

Below are the temporary differences for which deferred tax asset (net of deferred tax liabilities) recognized by the Parent because Management believes that it is probable that future taxable profits will be available against which the asset can be utilized.

	Parent	
	2020	2019
Deferred tax asset:		
Allowance for credit losses	5,945,724,382	4,191,313,158
Accrued expenses	1,264,057,576	466,853,960
Unrealized loss on foreign exchange	91,498,271	0
Unrealized loss on financial assets and liabilities-held for trading	294,101,101	0
	7,595,381,330	4,658,167,118
Deferred tax liability:		
Unrealized gain on financial assets and liabilities-held for trading	107,395,807	107,395,807
Unrealized gain on foreign exchange	376,801,004	376,801,004
	484,196,811	484,196,811
	7,111,184,519	4,173,970,307

26. Supplementary Information Required Under Revenue Regulations (RR) Nos. 19-2011 and 15-2010

Supplementary information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 (and as further amended by RR No. 2-2014 dated January 24, 2014) which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2020, the Parent reported the following revenues and expenses for income tax purposes:

Revenues	
Services/operations	41,149,092,504
Non-operating and taxable other income:	
Trading and securities gain	3,911,092,786
Service charges, fees and commissions	1,721,458,933
Profit from assets sold	427,122,663
Income from trust operations	208,627,159
Others	480,008,003
	6,748,309,544
Total Revenues	47,897,402,048
Expenses	
Cost of services:	
Compensation and fringe benefits	8,179,806,489
Others	11,678,032,744
Total cost of services	19,857,839,233
Itemized deductions:	
Taxes and licenses	4,394,342,897
Documentary stamps used	4,329,104,323
Compensation and fringe benefits	2,214,706,757
Information technology expenses	956,079,283
Security, messengerial and janitorial	887,624,379
Depreciation and amortization	874,965,965
Communications, light and water	484,370,586
Fees and commission	376,093,137
Rent	244,074,065

Management and professional fees	167,296,231
Representation and entertainment	147,986,718
Transportation and travel	127,336,547
Insurance	108,264,395
Repairs and maintenance	106,594,110
Advertising	59,662,706
Bad debts	25,041,114
Trainings and seminars	15,572,589
Others	712,222,788
	<hr/> 16,231,338,590
Total expenses	36,089,177,823
Net taxable income	<hr/> 11,808,224,225

Supplementary information Under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

In compliance with the requirements of the BIR hereunder are the information on taxes and license fees paid or accrued during the taxable year.

I. The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2020 are as follows:

Documents / transactions	DST Paid
Debt instruments, bonds, certificate of time deposits	6,285,669,218
Mortgages, pledges, deed of assignments/trust	485,291,010
Foreign bills of exchange, letters of credit	87,990,785
Banks, checks, drafts and telegraphic transfer/others	86,434,898
Acceptance of bills of exchange payable in the Philippines	74,240,094
On assignments and renewal of certain instruments	1,390,684
Bills of exchange or drafts	210,455
Leases and other hiring agreements	51,962
Certificates of profits or interest in property	3,625
In case stock without par value	3,220
Certificates	1,800
Total DST Paid	<hr/> 7,021,287,751

II. All other taxes, local and national, paid for the tax period 2020:

National	
Percentage taxes (GRT)	4,324,085,029
Fringe benefits tax	242,308
National taxes	79,093,813
	<hr/> 4,403,421,150
Local	
Real estate tax	56,192,160
Local business tax	77,604,175
Mayor's Permit/Municipal License/Other Regulatory Fees/License Permit	181,524,094

Other local taxes	11,259,314
	326,579,743
	4,730,000,893

III. The amount of withholding taxes paid/accrued for the year amounted to:

Tax on Compensation and benefits	1,136,991,899
Creditable withholding taxes	162,033,257
Final withholding taxes	2,499,338,165
	3,798,363,321

IV. Taxes withheld by client on their income payments to the Bank were claimed as tax credits:

Tax Credits against Income Tax	2,127,301,345
Tax Credits against Gross Receipts Tax	291,332,375
	2,418,633,720

27. Retirement Cost

The Parent has separate funded contributory defined contribution retirement plans covering all its officers and regular employees. Under the retirement plans, all concerned officers and employees are entitled to cash benefit after satisfying certain age and service requirements. Total expenses charged against operations in 2020 and 2019 amounted to P1,121,432,757 and P1,069,092,596, respectively.

28. Related Party Transactions

In the ordinary course of business, the Parent has loan transactions with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70 per cent of which must be secured by their respective deposits and book value of their respective investments in the Parent. In the aggregate, loans to DOSRI generally should not exceed the respective total unimpaired capital or 15 per cent of total loan portfolio, whichever is lower, of the Parent.

BSP Circular No. 547 dated September 21, 2006 prescribed the DOSRI rules for government borrowings in government-owned or controlled banks. Said circular considered as indirect borrowings of the Republic of the Philippines (ROP), loans, other credit accommodations and guarantees to: (a) Government-Owned and Controlled Corporations (GOCCs); and (b) Corporations where the ROP, its agencies/departments/bureaus, and/or GOCCs own at least 20 per cent of the subscribed capital stocks.

Total outstanding DOSRI loans of the Parent as of December 31, 2020 amounted to P96,702,219,491, of which P96,434,190,557 are government borrowings covered by BSP Circular No. 547.

The following are the significant transactions of the Parent with related parties:

	2020				2019			
	Key Management Personnel	Subsidiaries	Others (GOCCs, Provident Fund and Rural Banks)	Total	Key Management Personnel	Subsidiaries	Others (GOCCs, Provident Fund and Rural Banks)	Total
Receivables from customers	25,044,813	1,285,282,136	96,677,173,344	97,987,500,293	26,487,987	1,179,765,412	114,018,563,934	115,224,817,333
Deposit liabilities		921,775,857	0	921,775,857		358,688,534	0	358,688,534
Other liabilities		564,410,013	0	564,410,013		496,186,748	0	496,186,748
	25,044,813	2,771,468,006	96,677,173,344	99,473,686,163	26,487,987	2,034,640,694	114,018,563,934	116,079,692,615

The following are the percentage of DOSRI loans:

	2020	2019
DOSRI to Total Loans	11.61%	13.65%
Unsecured DOSRI to Total DOSRI	0.02%	3.78%
Past due DOSRI to Total DOSRI	0	0
Non-performing DOSRI to Total DOSRI	0	0

The following are the significant transactions with subsidiaries:

	2020	2019
Interest income	86,679,990	113,931,309
Interest expense	(87,525,238)	(68,851,085)
Lease expense	0	(51,860,862)
Other income	584,134	364,848
Other expenses	(714,460,027)	(347,253,953)

Transactions with other related parties:

Compensation of key management personnel:

	Group		Parent	
	2020	2019	2020	2019
Short-term employee benefits	152,706,807	164,268,409	125,592,539	124,407,908
Post-employment benefits	34,356,235	35,050,050	33,876,262	32,377,743
Other long-term benefits	59,767,344	50,739,795	59,767,344	50,739,795
	246,830,386	250,058,254	219,236,145	207,525,446

Terms and conditions of transactions with related parties:

The Parent's related party transactions with its subsidiaries amounted to P99,473,686,163 and P116,079,692,615 as at December 31, 2020 and 2019, respectively. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2020 and 2019, the Group has not made any provision for doubtful accounts relating to amounts owed by related parties. This assessment is undertaken each financial year through examination of the financial position of the related party and the market in which the related party operates.

29. Trust Operations

The Parent is authorized under its Charter to offer trust services and administer trust funds through its Trust Banking Group. The Parent accepts funds entrusted by clients and undertakes as trustee to invest such funds in acceptable securities or other investment outlets. Trust funds or assets under Management of the Parent under its trust operations amounted to P348,175,073,332 and P318,588,657,925 as of December 31, 2020 and 2019, respectively.

Summary of Assets under Management is as follows:

	2020 (Unaudited)	2019 (Unaudited)
Special Purpose Trust	417,110,371	435,226,689
Other Fiduciary Accounts	304,713,118,094	277,870,422,124
Agency	33,195,449,985	34,101,954,309
Trust	9,849,394,882	6,181,054,803
	348,175,073,332	318,588,657,925

In compliance with the requirements of the General Banking Law, government securities with total face value of P950,000,000 both in 2020 and 2019 are deposited with BSP as security for the Parent's faithful performance of its fiduciary obligation.

30. Derivative Financial Instruments

For Derivative instruments, fair values are estimated based on quoted market prices, prices provided by independent parties or values determined using accepted valuation models with observable inputs.

Freestanding Derivatives

Currency Forwards

As of December 31, 2020, the Parent's outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P22,810,595,000 with market value of P22,699,264,368 while currency bought forward amounted to P728,700,000 with a market value of P720,993,970.

Over the Counter Interest Rate Option Contract Bought

As of December 31, 2020, the Parent's outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P74,003,527 with market value of P89,492,637.

Foreign Exchange (FX) Risk Cover

The FX Risk Cover on foreign borrowings is a derivative financial instrument per BSP Monetary Board Resolution No. 1063 dated August 14, 2008 and its fair value changes are reported in the statement of comprehensive income. As of December 31, 2020, the

Parent's outstanding notional amount of the FX Risk Cover amounted to JPY22,576,443,627 and EUR23,480,730.27.

Embedded Derivatives

Embedded Credit Derivatives

For the Parent, this includes credit default swaps embedded in host debt instruments and with credit linkages to reference entities.

Embedded Optionalities in Debt Investments

For the Parent, this includes call, put, extension, and conversion options in debt securities and loan receivables. The embedded call, put and extension options are deemed to be closely related to their host contracts, while the put option embedded in a debt investment is not deemed to be significant.

Embedded Currency Derivatives

The Group has currency derivatives embedded in host non-financial contracts such as lease agreements and purchase orders.

31. Commitments and Contingent Liabilities

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities which are not presented in the financial statements. The Group does not anticipate material losses from these commitments and contingent liabilities.

The Group is contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or under negotiation, the outcome of which is not presently determinable. In the opinion of Management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the Group's financial statements.

The following is a summary of various commitments and contingencies at their equivalent peso revalued amounts arising from off-balance sheet items which the Parent has contracted:

	Parent	
	2020	2019
Trust Department accounts	348,175,073,332	318,588,657,925
Commitments	83,243,429,970	78,517,889,556
Standby/commercial letters of credit	9,282,597,552	20,843,395,749
Derivatives	35,357,061,206	30,231,574,369
Outstanding guarantees	504,809,589	527,382,128
Spot exchange contracts	2,881,380,000	3,367,227,500
Late deposits received	319,346,253	808,963,314
Outward bills for collection	40,961,550	78,665,417
Liability Indemnity Fund	1,371,785,084	86,255,242

Parent		
	2020	2019
Others	15,565,994,757	1,157,012,761
	496,742,439,293	454,207,023,961

32. Financial Performance

The following basic ratios measure the financial performance of the Parent:

	2020	2019
		As Restated
Net interest margin ratio	3.15%	3.31%
Return on average assets	0.97%	0.96%
Return on average equity	13.22%	13.19%

33. Equity

As of December 31, 2020, the Parent's authorized capital stock consisted of 2 billion common shares with par value of P100 per share totaling P200 billion.

The Parent's Paid-up capital stood at P26.29 billion equivalent to 262,907,777 shares with par value of P100 per share.

In accordance with Section 3 of Malacanang Executive Order No. 198, series of 2016, the Parent's authorized capital was increased to P200 billion divided into 2 billion common shares with par value of P100 per share. With the increase in par value per share from P10 to P100, the number of shares issued decreased from 1,197,100,000 to 119,710,000.

The Parent consistently complies with the provision of RA No. 7656, or the Dividend Law and its revised implementing rules and regulations on the dividend declaration to the National Government (NG) and with the loan and guarantee agreements between the World Bank, the Parent and the Department of Finance (DOF).

The Parent complied with the Dividend Law for its 2018 and 2019 net earnings when it was granted dividend relief. The Parent's dividend rates in 2018 and 2019 were adjusted from 50% to 0% through the issuance of Executive Order Nos. 109 dated 18 March 2020 and 132 dated 28 April 2021, respectively. For its 2020 net earning, the Parent has a pending request for dividend relief with the DOF awaiting endorsement to the Office of the President for its approval.

On February 2021 the Parent received capital infusion from the NG amounting to P27.5 billion.

The Retained Earnings- reserves of the Group and the Parent consist of:

	Group		Parent	
	2020	2019	2020	2019
	(Amounts in Millions)			
Reserve for trust business	5,103.99	5,079.99	5,103.99	5,079.99
Reserve for contingencies	5,032.50	5,032.50	5,002.50	5,002.50
Reserve for PPE and software acquisition	53.07	54.30	0.00	0.00
Reserve for retirement fund and insurance	32.00	32.00	0.00	0.00
Reserve for business expansion	1,135.00	1,135.00	0.00	0.00
Reserve for others	74,440.51	61,982.50	74,320.95	61,862.95
	85,797.07	73,316.29	84,427.44	71,945.44

The following table shows the components of Other Comprehensive Income of the Group and Parent:

	Group			Total
	Re-measurement of retirement benefit obligation	Net Unrealized Gain/(loss) on AFS securities	Translation Adjustment and Others	
Balances, as of January 1, 2020 as Restated	(10,463,835)	11,493,085.916	108,006,321	11,590,628,402
Increase/decrease in CY 2020	(2,452,535)	4,663,884,625	(208,136,572)	4,453,295,518
Balance, as of December 31, 2020	(12,916,370)	16,156,970,541	(100,130,251)	16,043,923,920

	Parent		Total
	Net Unrealized Gain/(loss) on AFS securities	Translation Adjustment and Others	
Balances, as of January 1, 2020 as Restated	11,440,885,498	108,006,321	11,548,891,819
Increase/(decrease) in CY 2020	4,660,668,053	(208,136,572)	4,452,531,481
Balance, as of December 31, 2020	16,101,553,551	(100,130,251)	16,001,423,300

Capital Management

The overall capital management objective of the Group is to create a more efficient capital structure while ensuring compliance with externally imposed capital requirements.

The Group manages its capital by maintaining strong credit ratings and healthy capital ratios to support its business and sustain its mandate. Adjustments to the Group's capital structure are made in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

Under existing BSP regulations, the Parent's compliance with regulatory requirements and ratios is determined based on the amount of the Parent's unimpaired capital (regulatory net worth) as reported to the BSP.

In addition, the risk-based capital ratio of a Parent, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10 per cent for both

stand-alone basis (head office and branches) and consolidated basis (Parent and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The Parent adopted BASEL III CAR computation pursuant to BSP Circular No. 781 effective January 31, 2014. FVOCI and FVTPL Equity were included as regulatory adjustments/deduction to Tier 1 capital.

	Group		Parent	
	2020	2019	2020	2019
	(Amounts in Millions)			
Tier 1 Capital	164,231	143,520	163,215	143,907
Tier 2 Capital	8,285	8,188	8,264	8,122
Less: Required Deductions	19,814	25,547	21,089	28,193
Total Qualifying Capital	152,702	126,161	150,390	123,836
Risk Weighted Assets	940,041	915,796	936,923	908,168
Common Equity Tier 1 Ratio (CET1)	15.36%	12.88%	15.17%	12.74%
Total Capital Adequacy Ratio (CAR)	16.24%	13.78%	16.05%	13.64%

The regulatory qualifying capital of the Parent consists of Tier 1 (core) capital, which comprises paid-up common stock, retained earnings, current year profit less required deductions such as unsecured credit accommodations to DOSRI, deferred income tax, other intangible assets, equity investments and investment in non-marketable securities. Tier 2 (supplementary) capital includes general loan loss provision.

The BSP thru its letter dated October 26, 2018 granted the Parent regulatory relief in the form of non-deduction of the Parent's equity investment in MRTC in the computation of its Common Equity Tier 1 (CET1), Capital Adequacy Ratio (CAR) and Basel III Leverage Ratio (BLR) until December 31, 2020.

The Group has fully complied with the CAR requirement of the BSP.

BASEL III Leverage Ratio

The Parent adopted the Basel III Leverage Ratio (BLR) pursuant to BSP Circular No. 881 and 990 dated May 2015 and January 5, 2018, respectively.

Basel III Leverage Ratio Common Disclosure Template
Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure
As of December 31, 2020
(Amounts in Millions)

Item		Leverage Ratio Framework	
		Group	Parent
1.	Total consolidated assets as per published financial statements	2,365,468.550	2,361,932.398
2.	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside		

Item		Leverage Ratio Framework	
		Group	Parent
	the scope of regulatory consolidation		
3.	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4.	Adjustments for derivative financial instruments	1,121.845	1,121.845
5.	Adjustments for securities financial transactions (i.e., repos and similar secured lending)	103.084	103.084
6.	Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	46,373.599	45,784.199
7.	Other adjustments	(14,520.166)	(15,987.318)
8.	Leverage ratio exposure	2,398,546.912	2,392,954.208

Basel III Leverage Ratio Common Disclosure Template
As of December 31, 2020
(Amounts in Millions; Ratios in Percent)

Item		Leverage Ratio Framework	
		Group	Parent
On-balance sheet exposures			
1.	On-balance sheet items ^{1/}	2,367,374.860	2,363,646.319
2.	Asset amounts deducted in determining Basel III Tier 1 Capital	(19,814.207)	(21,088.970)
3.	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,347,560.653	2,342,557.349
Derivative exposures			
4.	Replacement cost associated with all derivatives transactions	3,387.731	3,387.731
5.	Add-on amounts for Potential Future Exposure associated with all derivative transactions	1,121.845	1,121.845
6.	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework ^{2/}		
7.	Deductions of receivables assets for cash variation margin provided in derivatives transactions ^{2/}		
8.	Exempted CCP leg of client-cleared trade exposures		
9.	Adjusted effective notional amount of written credit derivatives	0.000	0.000
10.	Adjusted effective offsets and add-on deductions for written credit derivatives ^{2/}	0.000	0.000
11.	Total derivative exposures (sum of lines 4 to 10)	4,509.576	4,509.576
Securities financing transaction exposures			
12.	Gross SFT assets (with no recognition of netting)	0.000	0.000
13.	Netted amounts of cash payables and cash receivables of gross SFT assets ^{2/}		
14.	CCR exposures for SFT assets	103.084	103.084
15.	Agent transaction exposures ^{3/}	0.000	0.000
16.	Total securities financing transaction exposures (sum of lines 12 to 15)	103.084	103.084
Other off-balance sheet exposures			
17.	Off-balance sheet exposure at gross notional amount	110,571.090	109,368.372
18.	Adjustments for conversion to credit equivalent amounts	0.000	0.000
19.	Off-balance sheet items	46,373.599	45,784.199
Capital and total exposures			

Item		Leverage Ratio Framework	
20.	Tier 1 capital	144,417.234	142,126.183
21.	Total exposures (sum of lines 3, 11, 16 and 19)	2,398,546.912	2,392,954.208
Leverage ratio			
22.	Basel III leverage ratio	6.02%	5.94%

1/ Gross of General Loan Loss Provision (GLLP) and excluding derivatives and SFTs

2/ Not included under the framework

3/ When a bank/non-bank acting as an agent in an SFT provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of the collateral the borrower has provided

34. Prior Period Adjustments

In 2020 the Parent made adjustments to its financial statements as of December 31, 2019 as a result of the mark to market adjustment pertaining to the valuation of the Parent's equity investment in Development Academy of the Philippines (DAP) Building and the recovery or return of cost of the Equity Rental Payments received by the Parent on the equity investment in MRTC.

The effects of these restatements in the financial statements as of and for the year ended December 31, 2019 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
Parent			
Changes in the Statement of Financial Position			
Assets			
Fair Value Through Other Comprehensive Income (FVTOCI)	211,613,341,976	(136,620,434)	211,476,721,542
Loans and Receivable	826,475,770,620	62,208,363	826,537,978,983
Dividends Receivable	383,310	73,828,046	74,211,356
Equity			
Retained Earnings Free	21,248,048,551	(905,634,818)	20,342,413,733
Net Unrealized Gain/Loss on AFS Securities	10,083,395,824	1,357,489,674	11,440,885,498
Cumulative Foreign Currency Translation	196,833,025	(88,826,704)	108,006,321
Changes in the Statement of Other Comprehensive Income			
Other Operating Income			
Dividends	1,554,764,612	(363,612,176)	1,191,152,436

35. Miscellaneous Income

This account is composed of:

	Group		Parent	
	2020	2019	2020	2019
Gain from sale/derecognition of non-financial assets	1,260,800,766	995,235,061	505,572,278	989,083,923
Rent income	43,448,565	56,510,543	23,495,890	35,013,733
Miscellaneous income	777,484,828	438,199,560	722,289,467	252,149,730
Recovery on charged-off assets	34,487,283	60,362,376	34,487,283	59,349,224
	2,116,221,442	1,550,307,540	1,285,844,918	1,335,596,610

36. Investment Income

The Investment Income of the Parent consists of:

a. Interest Income

	2020	2019
FVOCI	9,512,897,779	4,241,368,333
FVTPL	165,815,812	195,327,183
HTC	17,474,974,016	18,587,660,264
	27,153,687,607	23,024,355,780

b. Gain/(Loss) on Sale/Redemption/Derecognition of Financial Assets and Liabilities

	2020	2019
FVOCI	1,789,642,014	1,151,311
HTC	0	(285,885)
	1,789,642,014	865,426

c. Gain/(Loss) on Financial Assets and Liabilities-FVTPL

	2020	2019
Realized Gain/(Loss) from Sale/Derecognition	510,874,777	632,966,942
Unrealized Gain/(Loss)-Mark-to-Market	(1,073,703,066)	1,256,003,346
Realized Gain/(Loss) from Sale/Derecognition-Derivative-FX	861,596,462	427,769,662
Realized Gain/(Loss) from Foreign Exchange Transactions-Derivative	353,340,217	351,408,843
	652,108,390	2,668,148,793

37. Miscellaneous Expenses

This account is composed of:

	Group		Parent	
	2020	2019 As Restated	2020	2019
Finance Charges	200,191	158,361	0	0
Management and other professional fees	216,598,767	249,406,042	169,998,451	196,331,001
Supervision fees	574,277,611	526,788,179	573,050,028	523,406,929
Fines, penalties and other charges	2,875,461	721,212	2,874,284	382,160
Insurance	3,955,825,661	3,702,008,298	3,940,746,328	3,678,490,463
Fees and commission expense	397,085,360	297,564,114	391,655,023	297,994,627
Litigation/asset acquired expenses	123,612,519	232,715,388	120,339,817	223,463,067
Bad debts written-off	77,753	86,406	77,753	86,407
Other Expenses	9,160,302,490	9,867,894,266	8,749,052,940	9,579,910,946
	14,430,855,813	14,877,342,266	13,947,794,624	14,500,065,600

38. Events After Reporting Period

Merger of the Parent and United Coconut Planters Bank (UCPB)

On June 25, 2021, Executive Order (EO) No. 142 was issued authorizing the merger of LBP and UCPB, and directing both Banks to enter into and implement a merger applicable to Government-Owned and Controlled Corporations (GOCCs).

The Parent will be the surviving entity in the merger and takes the lead in handling the merger. The merger will follow the following stages in accordance to the Governance Commission for GOCCs (GCG) Memorandum Circular No. 2015-03:

- a. Phase I (Pre-Merger Phase) - As a preliminary step, EO No. 142 directed the Parent to acquire the outstanding UCPB special preferred shares held by the PDIC. Upon the acquisition of the majority shares of the UCPB, UCPB will become a subsidiary of the Parent.
- b. Phase II (Merger Preparations Phase) – Preparations for the integration of the operations of the merged entity based on the approved plans in order to attain a seamless combination of the resources of the merged entity will commence.
- c. Phase III (Implementation Phase) – Implementation of the merger of the Parent and UCPB operations.

39. Financial Risk Management

CREDIT RISK MANAGEMENT

Credit risk arises from the failure of a counterparty to meet the terms of any contract with the Parent. Credit risk is not limited to the loan portfolio but is found in all the Parent's activities where success depends on counterparty, issuer, or borrower performance. It arises any time the Parent's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. The Parent considers its loan portfolio as the major source of credit risk. However, other sources of credit risk exist throughout the activities of the Parent, including the banking and trading books and On- and Off-Balance Sheet transactions.

Maximum Credit Risk Exposure

The table below shows the Parent's maximum exposure to credit risk, before and after considering eligible collateral held or other credit enhancements.

On-Balance Sheet (BS) Items	2020 (In Millions)							CRW A
	CEA	0%	20%	50%	75%	100%	150%	
Cash on Hand	48,313	48,313						
Checks and Other Cash Items (COCI)	12		12					2
Due from Bangko Sentral ng Pilipinas (BSP)	446,741	446,741						-
Due from Other Banks	7,066		86	6,941		39		3,527

On-Balance Sheet (BS) Items	2020 (In Millions)							CRW A
	CEA	0%	20%	50%	75%	100%	150%	
Financial Assets Designated at FVTPL	965					965		965
Available-for-Sale (AFS) Financial Assets	499,389	431,830		64,616		2,943		35,251
Held-to-Maturity (HTM) Financial Assets	459,159	434,759	2,633	12,666		9,101		15,961
Loans and Receivables	731,855		6,011	77,519	-	637,645	10,680	693,627
1. Interbank Loans Receivables	28,974		5,667	4,898		18,388	21	22,002
2. Loans & Receivables - Others								-
a. LGUs & Public Sector Entities	40,897					40,897		40,897
b. Government Corporation	1,893					1,893		1,893
c. Corporates	538,669					538,669		538,669
d. Micro/Small & Medium Enterprise	67,898		344	67,554				33,846
e. Loans to individuals	42,536			5,067		37,469		40,003
3. Defaulted Exposures	10,988					329	10,659	16,318
Other Loans and Receivables ^{1/}	16,657	16,657						-
Sales Contract Receivable (SCR)	600					456	144	672
Real and Other Properties Acquired	6,903						6,903	10,355
Total Exposures Excluding Other Assets	2,217,660	1,378,300	8,742	161,742	-	651,149	17,727	760,359
Other Assets	21,161	276				20,885		20,885
Total On-BS RWA not covered by CRM								2,154
Total On-Balance Sheet Exposures	2,238,821	1,378,576	8,742	161,742	-	672,034	17,727	783,398
^{1/} Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions								
Off-BS Items	CEA	0%	20%	50%	75%	100%	150%	CRW A
A. Direct credit substitutes	956			25		931		944
B. Transaction-related contingencies	42,190					42,190		42,190
C. Trade-related contingencies	1,407			745		662		1,035
D. Other commitments								
Total Off-Balance Sheet Exposures	44,553	-	-	770	-	43,783	-	44,168
Counterparty RWA In The Banking Book	CEA	0%	20%	50%	75%	100%	150%	CRWA
Derivative Exposures	1,162			1,162				581
Total Counterparty RWA In The Banking Book	1,162	-	-	1,162	-	-	-	581
Counterparty RWA In The Trading Book	CEA	0%	20%	50%	75%	100%	150%	CRWA
Derivative Exposures	347			43		304		326
Total Counterparty RWA In The Trading Book	347	-	-	43	-	304	-	326
Less: General Loan Loss Provision (GLLP) (excess in threshold limit of 1% of Gross CRWA)								2,190
Total Exposures	2,283,721	1,378,576	8,742	162,555	-	716,121	17,727	826,283
CEA: Credit Equivalent Amount CRM: Credit Risk Mitigant								
RWA: Risk Weighted Assets CRWA: Credit Risk Weighted Assets								

Credit Exposures and Credit-Related Commitments

As of December 31, 2020, Parent's Gross Loans & Receivables (GLR) amounted to P731,855 million, net of credit risk mitigation which consists mainly of prime collaterals such as deposit holdout, government securities (GS) and sovereign guarantees. Net of Loans & Receivables, Corporates stood at P538,669 million (73.60 per cent), followed by

Micro, Small & Medium Enterprises (MSMEs) at P67,898 million (9.28 per cent), Local Government Units (LGUs)/Public Sector Entities/Government Corporations at P42,790 million (5.85 per cent) and Loans to Individuals at P42,536 million (5.81 percent). The Bank also holds substantial receivables arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions amounting to P16,657 million. The P44,168 million credit risk weighted asset of net Off-balance Sheet exposures of P44,553 million is computed based on respective Credit Conversion Factors. These accounts are composed mainly of general guarantees of indebtedness (e.g., financial standby letters of credit - domestic and foreign), performance bonds and warranties related to particular transactions, and contingencies arising from movement of goods and trust transactions. Outstanding derivative exposures are mainly over-the-counter foreign exchange option contracts.

The Parent's GLR have corresponding Credit RWA of P693,627 million following the Standardized Approach. This represents 83.95 per cent of the Total Credit RWA of P826,283 million. Further, total Credit RWA represents 87.90 per cent of the Parent's Aggregate RWA of P940,041 million.

The table shows the concentration of the Parent's treasury exposures by location:

<i>In Million Peso</i>		
Location	2020	2019
Philippines	1,385,338.50	877,218.47
USA	18,135.02	21,160.34
Indonesia	21,812.24	10,686.09
Asia	8,961.19	10,178.29
Europe	1,762.50	7,387.99
Others	2.2	8.35
Total	1,436,011.65	926,639.53

Credit Risk Exposures

The Parent is guided by its investment policy in its treasury activities. LBP is only authorized to invest its funds to eligible securities that takes into account the credit worthiness of its issuer. The Parent uses credit ratings provided by external rating agencies like Moody's, Standard & Poor (S&P), Fitch, or other reputable rating agencies. The following indicates the level of credit quality for each rating agencies and its relevant external rating:

Rating Agency	Rating Grade	External Rating									
Moody's	Investment	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
	Speculative	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca-C
	Default	SD	D								
Standard & Poor	Investment	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
	Speculative	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC
	Default	SD	D								
Fitch	Investment	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
	Speculative	BB+	BB	BB-	B+	B	B-	CCC+	CCC	CCC-	CC
	Default	SD	D								

LBP considers instruments that are rated ‘investment grade’ to have low credit risk. The table presents the credit quality of the Parent’s treasury exposure:

INVESTMENTS (As of December 2020)	EXPOSURE-AT-DEFAULT (In Million Peso)			
	TOTAL	STAGE 1	STAGE 2	STAGE 3
Due from BSP and SPURA				
External Credit Rating				
Baa2 or equivalent	460,086.79	460,086.79	-	-
Due from Other Banks				
External Credit Rating				
Aaa or equivalent	1,683.67	1,683.67	-	-
Aa1 or equivalent	37.14	37.14	-	-
Aa2 or equivalent	16.28	16.28	-	-
Aa3 or equivalent	5,650.80	5,650.80	-	-
A1 or equivalent	7,637.74	7,637.74	-	-
A2 or equivalent	2,566.33	2,566.33	-	-
Baa1 or equivalent	11.44	11.44	-	-
Baa2 or equivalent	7.09	7.09	-	-
Ba2 or equivalent	0.65	-	0.65	-
Benchmarking				
Baa1 or equivalent	2,004.40	2,004.40	-	-
Unrated	16.9	16.18	0.72	-
FA at FVOCI debt investments				
External Credit Rating				
Aaa or equivalent	11,659.35	11,659.35	-	-
Baa2 or equivalent	484,002.58	484,002.58	-	-
Unrated	732.65	732.65	-	-
FA at amortized cost				
Internal Credit Rating				
High Grade	1,237.94	1,237.94	-	-
External Credit Rating				
Baa2 or equivalent	447,447.41	447,447.41	-	-
Benchmarking				
A3 or equivalent	1,078.42	1,078.42	-	-
Baa1 or equivalent	6,562.76	6,562.76	-	-
Baa3 or equivalent	511.50	511.5	-	-
Ba1 or equivalent	2,100.36	282.73	1,817.63	-
Ba2 or equivalent	707.58	-	96.78	610.8
Ba3 or equivalent	165.13	-	165.13	-
Unrated	86.74	0	-	86.74
TOTAL	1,436,011.65	1,433,233.20	2,080.91	697.54

INVESTMENTS (As of June 2019)	EXPOSURE-AT-DEFAULT (In Million Peso)			
	TOTAL	STAGE 1	STAGE 2	STAGE 3
Due from BSP and SPURA				
External Credit Rating				
Baa2 or equivalent	289,670.02	289,670.02	-	-
Due from Other Banks				
External Credit Rating				
Aaa or equivalent	3,598.77	3,598.77	-	-
Aa1 or equivalent	4,153.30	4,153.30	-	-
Aa2 or equivalent	330.54	330.54	-	-
Aa3 or equivalent	6,561.51	6,561.51	-	-
A1 or equivalent	3,908.35	3,908.35	-	-
A2 or equivalent	374.64	374.64	-	-
A3 or equivalent	2,354.46	2,354.46	-	-
Baa1 or equivalent	55.12	55.12	-	-
Baa3 or equivalent	11.60	11.6	-	-

INVESTMENTS (As of June 2019)	EXPOSURE-AT-DEFAULT (In Million Peso)			
	TOTAL	STAGE 1	STAGE 2	STAGE 3
Ba1 or equivalent	7.09	-	7.09	-
Ba2 or equivalent	0.65	-	0.65	-
Benchmarking	0.00			
Baa1 or equivalent	1,001.89	1,001.89	-	-
Unrated	17.35	17.35	-	-
FA at FVOCI debt investments				
Internal Credit Rating				
Satisfactory	780.63	780.63	-	-
External Credit Rating				
Aaa or equivalent	17,454.98	17,454.98	-	-
Baa2 or equivalent	100,581.12	100,581.12	-	-
FA at amortized cost				
Internal Credit Rating				
High Grade	1,463.13	1,463.13	-	-
External Credit Rating				
Baa2 or equivalent	478,728.62	478,728.62	-	-
Benchmarking				
Aa2 or equivalent	8,770.62	8,770.62	-	-
Aa3 or equivalent	135.44	135.44	-	-
Baa1 or equivalent	2,156.18	2,156.18	-	-
Baa2 or equivalent	583.13	583.13	-	-
Ba1 or equivalent	2,394.03	-	2,394.03	-
Ba2 or equivalent	775.93	-	165.13	610.8
Ba3 or equivalent	633.53	-	633.53	-
Unrated	136.90	53.16	-	83.74
TOTAL	926,639.53	922,744.56	3,200.43	694.54

As of December 31, 2020, the Parent's total treasury exposure is P1,436.01 billion. Due from BSP and SPURA increased from P289.67 billion to P460.09 billion while Due from Other Banks decreased from P22.38 billion to P19.63 billion. The Parent's FVOCI debt investments grew from P118.82 billion to P496.39 billion while HTC measured at amortized cost decreased from P495.78 billion to P459.90 billion.

The Parent's exposure classified as Stage 1, Stage 2, and Stage 3 amounted to P1,433.23 billion, P2.08 billion, and P0.70 billion, respectively. Exposures from HTC amounting to P1.12 billion was transferred from Stage 1 to Stage 2. Also, an exposure from HTC amounting to P3.00 million was transferred to Stage 3. The table below presents the Parent's exposure for the periods December 2020 and June 2019:

INVESTMENTS (In Million Peso)	TOTAL		STAGE 1		STAGE 2		STAGE 3	
	2020	2019	2020	2019	2020	2019	2020	2019
Due from BSP and SPURA	460,086.79	289,670.02	460,086.79	289,670.02	-	-	-	-
Due from Other Banks	19,632.43	22,375.25	19,631.07	22,367.52	1.36	7.73	-	-
FVOCI debt investments	496,394.57	118,816.73	496,394.57	118,816.73	-	-	-	-
HTC	459,897.85	495,777.51	457,120.76	491,890.28	2,079.54	3,192.69	697.55	694.54
TOTAL	1,436,011.64	926,639.51	1,433,233.19	922,744.55	2,080.90	3,200.42	697.55	694.54

Management of Credit Risk

Credit Risk Management aims to adequately manage the risk of financial loss arising from the failure of borrowers or counterparties to settle their obligations in accordance with the terms and conditions of the duly approved contractual agreement.

This involves the identification, measurement and monitoring of actual or potential losses and the implementation of appropriate measures, including the setting-up of applicable limits to keep credit risk exposures within the Parent's risk appetite or the acceptable level of credit risk that it is willing to accept in pursuit of its lending plans and programs.

The Parent also manages the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions and the correlation of credit risk with other risks. The effective management of credit risk is a critical component of a comprehensive approach to RM and essential to the long-term success of the Parent.

The Parent manages credit risk through a structured framework duly approved by the LBP Board that sets out policies and procedures covering the identification, measurement, control, and monitoring of credit risk. Accordingly, approval of credit application goes through prescribed loan approving levels which, depending on the transaction or amount of loan applied, could be elevated to the Credit Committee (CRECOM) a Management-level Committee, the Investment and Loan Committee (ILC), a Board-level Committee and up to the LBP Board, whenever applicable. The approval process also covers proposed remedial actions aimed at helping problem accounts regain normal operations. The Parent has put in place comprehensive set of credit policies through the issuance of Credit Manual, Credit Policy Issuances (CPIs) and Credit Bulletins (CBs). As the Parent's middle office for credit risk, the Credit Risk Management Department (CRMD) handles credit risk oversight, risk measurement and risk rating of borrowers.

To effectively monitor and maintain the quality of its loan portfolio, the Parent conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves. As of December 31, 2020, the Parent's net Non-Performing Loan (NPL) stood at P11,048 million or 1.29 per cent of the total loan portfolio of P858,243 million.

Credit Risk Rating

LBP's Credit Risk Engine System (CRES) serves as the main platform for the automated development of statistically-based credit rating models which will be used to conduct automated credit ratings of borrowers to help determine their credit worthiness. The Parent undertakes continuing development and implementation of the CRES scoring facility to provide support to its ongoing initiatives for the adoption of applicable banking regulations and global best practices and approaches in Credit Risk Management.

The Parent uses the following internally developed statistically-based credit scoring models and their corresponding rating guidelines:

- Application Scoring Model for Individual Home Buyers
- Application Scoring Model for Salary Loan Availers
- Behavioral Scoring Model for Local Government Units (LGUs)

- Behavioral Scoring Model for Small & Medium Enterprises (SMEs)
- Behavioral Scoring Model for Corporates
- Behavioral Scoring Model for Cooperatives
- Application Scoring Model for Credit Card
- Behavioral Scoring Model for Partner Financial Institutions (PFIs)

However, the Parent uses an internally developed expert-based credit rating system for Universal Banks, Commercial Banks and Offshore Banks.

These credit rating models were subjected to independent model validation by the Parent's internal audit.

Credit Risk Monitoring

The Parent has continuously adopted a formal reporting system for the Board of Directors and Senior Management to be able to monitor the credit quality of individual and loan portfolio using asset quality indicators such as past due ratio, NPL ratio, level of non-performing assets, coverage ratio, top 100 past due accounts, concentration risk. Clean large exposures, breaches in regulatory and internal limits, potential credit risk, restructured loans, government accounts, exposures to real estate sector, adverse news, credit migration, large exposure/single borrowers limit, DOSRI loans, Related Party Transactions, ECL calculation, Real and Other Property Acquired, PFIs, and compliance with Uniform Stress Testing and Real Estate Stress Test (REST) are intensively monitored by the ILC and the Risk Oversight Committee (RISKCOM). The recovery of written-off accounts is also within the radar of the LBP Board, RISKCOM and Senior Management.

Collateral and Other Credit Enhancements

The Parent adopts a cash flow lending principles and collateral is not the primary factor in granting credit. The required amount and type of collateral and other credit enhancements to mitigate credit exposures depend primarily on the results of the holistic and prudent credit assessment. When needed, the Parent diligently evaluates the enforceability, realizable value and marketability of offered collaterals. The Parent's Credit Manual and CPIs provide the guidelines on the acceptability of loan collateral and maximum valuation for each type of collateral.

The primary collaterals accepted are Holdout on Deposits, Government Securities, Real Estate Mortgage and Chattel Mortgage. The Parent also accepts government guarantees, cross suretyship from corporations and such other eligible guarantees. In the case of agricultural and agriculture-related loans that are vulnerable to the effects of climate and weather disturbances, borrowers are encouraged to avail of crop insurance guarantees and other insurance mechanisms to shield them from these risks.

Credit Stress Test

LBP regularly conducts stress testing of individual large exposure and its loan portfolio taking into account plausible risk events with high probability of occurrence. Utilizing such scenarios with documented assumptions, tests are done to determine the magnitude of impact on the Parent's loan portfolio, on the Credit RWA, and finally on the Common Equity Tier 1 (CET1) Ratio. The stress testing also includes prescribed regulatory tests

such as Uniform Stress Testing and REST. Likewise, various loan portfolio assessment and review are conducted to determine impact of a certain event and government regulation to the Parent's loan portfolio, past due ratio and CET 1. Results of the stress testing, together with the action plans, are escalated to the ILC and RISKCOM.

Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Parent has established concrete guidelines and procedures relative to managing, monitoring and reporting large exposures and credit risk concentrations in accordance with the rules and regulations issued by the BSP.

As of December 31, 2020, the Parent's qualifying capital covering credit risk is P150.390 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P50.355 billion for direct lending.

Overall credit risk management oversight is a function of the Board of Directors -level Risk Management (RM) Committee. In general, mitigation measures on credit risks are implemented at various levels. However, oversight on credit risk management is vested on the RM Group which is independent from the business function. This is critical in ensuring the integrity and objectivity of the credit risk assessment, pricing, and management process.

The Parent ensures that the credit risks undertaken are commensurate with the risk appetite and the Parent's capacity to manage such risks. Thus, regular monitoring of both the level of risk and equity capital is undertaken to ensure that even in instances of major credit surprises, the Parent could sustain its operations in spite of the losses incurred and continue to be an efficient financial intermediary for development and institutional financing.

The BSP considers that credit concentration exists when total loan exposure to a particular industry exceeds 30 per cent of total loan portfolio. As of December 31, 2020, and 2019, the Parent does not have credit concentration in any particular industry. As of December 31, 2020 and 2019, information on the concentration of credit as to industry based on carrying amount is shown below:

	Parent			
	2020		2019	
	Amount	%	Amount	%
Financial intermediation	77,253,031,205	9	110,113,453,941	13
Agriculture, hunting and forestry	74,979,514,763	9	79,445,244,619	10
Real estate, renting and business activities	84,689,477,541	10	74,174,101,954	9

	Parent			
	2020		2019	
	Amount	%	Amount	%
Public administration and defense	87,492,768,998	11	82,570,395,785	10
Manufacturing	60,623,218,561	7	62,778,530,124	8
Community, social and personal services	16,426,788,136	2	20,014,421,171	2
Electricity, gas and water	126,904,026,206	15	133,903,658,665	16
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	78,594,502,062	10	70,585,446,094	8
Transport, storage and communication	77,912,524,066	10	69,301,942,250	8
Construction	61,085,100,135	7	57,045,084,488	7
Private households	39,196,128,350	5	31,947,038,082	4
Hotel and restaurant	10,994,873,797	1	9,810,478,428	1
Others	36,802,803,992	4	34,093,029,725	4
	832,954,757,812	100	835,782,825,326	100
Allowance for losses	(25,926,451,311)		(17,289,002,914)	
	807,028,306,501		818,493,822,412	

MARKET RISK MANAGEMENT

Market Risk Management Framework

LBP is exposed to market risks in both its trading and non-trading banking activities. The Parent assumes market risk in market making and position taking in government securities and other debt instruments, equity, Foreign Exchange (FX) and other securities, as well as, in derivatives or financial instruments that derive their values from price, price fluctuations and price expectations of an underlying instrument (e.g., share, bond, FX or index). The Parent's exposure on derivatives is currently limited to currency swaps and currency forwards to manage FX exposure. The Parent is also exposed to derivatives that are embedded in some financial contracts, although, these are relatively insignificant in volume.

The Parent uses a combination of risk sensitivities, Value-at-Risk (VaR), stress testing, CET 1 ratio and capital metrics to manage market risks and establish limits. The LBP Board of Directors, RiskCom and the Asset and Liability Committee (ALCO), define and set the various market risk limits for each trading portfolio. The Treasury and Investment Banking Sector, particularly the Financial Markets Group (FMG) which manages the Parent's trading units as well as the Asset and Liability Management Group (ALMG) which manages the liquidity and reserve positions, conducts risk-taking activities within limits and ensures that breaches are escalated to the Senior Management for appropriate action.

A management alert is activated whenever losses during a specified period equal or exceed specified management alert level. The Parent controls and minimizes the losses that may be incurred in daily trading activities through the VaR, Management Action Triggers (MATs) and Stop Loss. Positions are monitored on a daily basis to ensure that these are maintained within established position limits to control losses. Position limits are subordinated to MATs, VaR and Stop Loss limits. Macaulay and Modified Duration are

used to identify the interest rate sensitivity of the Bond Portfolio of the Parent. In the same way, certain subsidiaries of the Parent independently quantify and manage their respective market risk exposures by maintaining their respective Risk Management system and processes in place.

Market Risk Weighted Assets (RWA) (ARAC II.C.2.a)

As of December 31, 2020, the LBP's Total Market RWA stood at P15,381 million, broken down as follows:

PARTICULARS	AMOUNT (In Millions)
Interest Rate Exposure	1,107
Equity Exposure	297
FX Exposure	2,027
Options	11,950
Total Market RWA	15,381

The Total Market RWA represents 1.64 per cent of the Parent's Aggregate RWA of P940,041 million.

Managing Market Risk Components

Market Risk is associated to earnings arising from changes in interest rate, FX rates, equity and in their implied volatilities. Market risk arises in trading as well as non-trading portfolios.

The Parent manages the following key market risk components using its internal risk mitigation techniques:

1. Interest Rate Risk in the Trading Book

Interest Rate Risk represents exposures to instruments whose values vary with the level or volatility of interest rates as a result of market making and portfolio taking. The Parent continues to manage interest rate risk in trading activities through factor sensitivities and the use of an effective and independently validated VaR methodology and stress testing. Government Securities and Foreign Securities are subject to daily mark-to-market (MTM) and controlled through risk limits such as position, VaR, MATs and Stop Loss.

PARTICULAR	DAILY LIMIT (In Millions)		MAT	STOP LOSS (In Million)
	POSITION	VaR		
Government Securities	P20,000.00	P150.00	YTD Gain Erosion	P215.00
Foreign Securities	\$ 20.00	\$ 0.20	Group Target	\$ 0.64

YTD: Year-to-Date

The Foreign Exchange Risk in Foreign Securities is accounted under FX Risk Management.

2. Equity Price Risk Management

The Parent is exposed to equity price risk resulting from changes in the levels of volatility of equity prices, which in turn affect the value of equity securities and impacts on profit and loss of the Parent. Equities are subject to daily MTM and controlled through risk limits such as position, VaR, MATs and Stop Loss.

PARTICULAR	DAILY LIMIT(In Millions)		MAT	STOP LOSS (In Millions)
	POSITION	VaR		
Equity	1,000.00	15.00	YTD Gain Erosion Group Target	25.00

3. FX Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in FX rates. Using the Philippine Peso as the functional currency, the Parent monitors daily the currency positions to ensure that these are within established limits.

The following limits are set for foreign-currency related transactions:

PARTICULAR	DAILY LIMIT(In \$ Millions)		MAT	STOP LOSS
	POSITION	VAR		
FX Trading	50.00	0.36	YTD Gain Erosion	65.00
Foreign Securities	20.00	0.20	Group Target	0.64
Derivatives	30.00	0.226		200.00

The Parent had the following significant exposures denominated in foreign currencies as of December 31, 2020:

PARTICULAR	USD	JPY	EUR	AUD	Others	Total
ASSETS						
Fx Currency Notes & Coins on Hand (FCNCH)/ Cash and Other Cash Items (COCI)	28,700	782	446	107	870	30,905
Due from Banks	140,884	597	1,361	46	988	143,876
Held for Trading	11,370	0	0	0	0	11,370
Available for Sale Investment	1,624,909	0	1	0	38,447	1,663,357
Investments in Bonds and Other Debt Instruments (IBODI)	565,904	0	0	0	0	565,904
Interbank Loans Receivable	220,003	0	0	0	0	220,003
Loans & Receivables	532,099	33,999	0	0	0	566,098
Other Assets	26,466	621	1,022	0	791	28,900
Gross FX Assets	3,150,335	35,999	2,830	153	41,096	3,230,413
LIABILITIES						
Deposit Liabilities	2,338,473	448	19	0	0	2,338,940
Bills Payable	253,456	0	0	0	0	253,456
Other Liabilities	120,482	253,383	30,324	0	790	404,979
Gross FX Liabilities	2,712,411	253,831	30,343	0	790	2,997,375

Market Risk Measurement and Validation Tools

1. Value-at-Risk (VaR) Analysis

VaR is a statistical approach for measuring the potential variability of trading revenue. It is used to measure market risk in the trading book under normal conditions, estimating the potential range of loss in the market value of the trading portfolio, over a one-day period, at 99.0 per cent confidence level, assuming a static portfolio.

The Parent uses Historical Simulation Model in computing VaR of Equities, Foreign Securities, Government Securities and FX trading portfolios as well as FX Net Open Position which is acceptable to BSP. **(ARAC II.C.2.b.iv)** Moreover, the Parent continuously pursues initiatives to improve its processes. The VaR disclosure is intended for external disclosure and for regulatory purposes.

The VaR both at portfolio and across portfolio level are monitored. Daily VaR calculations are compared against VaR limits which is the monetary amount of risk deemed tolerable by Management. The over-all VaR limit for the Treasury trading activities was set at P202 million throughout 2020. The Parent also determines Diversified VaR that takes into account the diversification effect in which all losses in all securities in a portfolio are imperfectly correlated.

2. Stress Test

Risk Management (RM) models have recently become the main focus of RM efforts in the banking industry where banking activities are exposed to changes in fair value of financial instruments. However, the Parent believes that the statistical models alone do not provide reliable method of monitoring and controlling risk because these models (while relatively sophisticated) have several known limitations, at the same time, do not incorporate the potential loss caused by very unusual market events. Thus, the VaR process is complemented by Stress Testing to measure this potential risk.

Stress Test is a RM tool used to determine the impact on earnings and capital of market movements considered “extreme”, i.e., beyond “normal” occurrence. The Parent utilizes Stress Tests to estimate possible losses which the VaR does not capture.

The Parent’s Portfolio Scenario Analysis (PSA) analyzes the impact of major risks that emerge out of the different scenarios, considering adverse and probable risk events, on activities related to Treasury’s trading and investment portfolios. This seeks to establish how far the Parent can absorb certain levels of stress, to explore the events that could cause a significant impact to the Parent and to assess its vulnerabilities and capability to deal with shocks such as price risk, interest rate risk, FX risk and eventually, liquidity risk. Reverse Stress Tests are conducted to identify and simulate the events that can lead the Parent to a particular tail event.

Results of the PSA are also simulated in the Common Equity Tier (CET) 1 Ratio computation to be able to assess its impact on the CET 1 ratio set at 10.50 per cent by BSP for LBP as Domestic Systemically Important Banks (DSIB) for 2020.

3. Back-Test (ARAC II.C.2.b.iii)

The Parent adopts back-testing as the basic technique in verifying the quality of risk measures used by comparing actual trading results with model-generated risk measures.

Under the back-testing process, exception occurs if mark-to-market and trading loss exceeds the result of the model-generated risk measure. The number of exceptions is noted and the model is classified into one of the three zones as follows: (ARAC II.C.2.b.v)

ZONE CLASSIFICATION	NUMBER OF EXCEPTIONS
safe/green zone	0-4 exceptions
non-conclusive/yellow zone	5-9 exceptions
problematic/red zone	10 or more exceptions

Back-testing results are presented to the ALCO and the RiskCom which examine the actual performance of portfolios against VaR measures to assess model accuracy and to enhance the risk estimation process in general.

4. Model Validation

Risk models used in managing market risk are subjected to independent model validation. The Internal Audit Group (IAG) is tasked to do model validation of RM models. The Parent has also engaged the services of a third party to conduct an independent model validation.

LIQUIDITY RISK MANAGEMENT

Liquidity Risk Management Framework

The Parent's liquidity RM process is consistent with its general RM framework covering risk identification, measurement and analysis, monitoring and control. The policies and procedures that govern liquidity RM are reviewed and endorsed on a regular basis by ALCO and RiskCom for approval of the Board of Directors. The basic liquidity policy of the Parent is to maintain fund availability at all times and hence, to be in a position to meet all of its obligations, in the normal course of business.

The Parent considers liquidity risk based on market and funding liquidity risk perspectives. Trading or market liquidity risk refers to the inability to unwind positions created from market, exchanges and counterparties due to temporary or permanent factors. It is the risk that the Parent cannot easily offset or eliminate a position at the market price because of inadequate market depth or through market disruption.

Market liquidity risk is also associated with the probability that large transactions may have a significant effect on market prices in markets that lack sufficient depth. This liquidity risk perspective is captured through stress testing or scenario analysis.

Funding liquidity risk is the risk that the Parent will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Parent. It occurs from the mismatch of asset, liability, exchange contract and contingent commitment maturities. Funding liquidity risk is being monitored and controlled through the classification of maturities of assets and liabilities over time bands and across functional currencies as reflected in the Liquidity Gap Report (LGR).

The Parent Board exercises oversight through RiskCom and has delegated the responsibility of managing the overall liquidity of the Parent to the ALCO. The ALCO and the Treasury Investment Banking Sector (TIBS) are responsible for the daily implementation and monitoring of relevant variables affecting Parent's liquidity position. The ALCO reviews the assets and liabilities position on a regular basis and, in coordination with the TIBS, recommends measures to promote diversification of its liabilities according to source, instrument and currency to minimize liquidity risks resulting from concentration in funding sources.

The ALCO meets weekly or more frequently as required by prevailing situations. The RMG, through the Treasury Risk Management Department (TRMD) is responsible for the oversight monitoring of the Parent's liquidity risk positions and ensures that reports on the Parent's current risk are prepared and provided to ALCO and RiskCom in a timely manner.

The Parent performs a comprehensive liquidity risk measurement and control using the LGR, covering the bank-wide balance sheet, as a tool. Risk models used in liquidity RM are subjected to independent model validation as conducted by the IAG and by a Third party.

Liquidity Risk Measurement Models

The Parent manages the liquidity risk using the following tools:

1. Liquidity Gap Report (LGR)

The Parent conducts liquidity gap analysis using the LGR. This risk measurement tool is used in identifying the current liquidity position and the Parent's ability to meet future funding needs. It categorizes balance sheet items according to estimated maturities of assets and liabilities in order to determine any future mismatch such as long-term assets growing faster than long term liabilities.

With the implementation of the Asset-Liability and Risk Management System (ALRMS), TRMD prepares RBU (Peso and FX Regular), FCDU, Solo (Parent) LGR on a weekly and monthly basis to ALCO and RISKCOM, respectively. Parent and Subsidiary LGR is prepared in a quarterly basis. ALCO reviews the Parent's assets and liabilities position on a regular basis and recommends measures to promote diversification of its liabilities according to sources, instruments, and currencies to minimize liquidity risks resulting from concentration in funding sources.

The table presents the assets and liabilities based on actual amortization schedule:

In P thousand						
PARTICULARS	LANDBANK					
	2020 ^{1/}		Total	2019		
Due within 1 year	Due > 1 year	Due within 1 year		Due > 1 year	Total	
ASSETS						
Cash & Other Cash Items	48,370,497	0	48,370,497	37,955,764	0	37,955,764
Due from BSP	272,358,986	184,769,152	457,128,138	380,699,212	0	380,699,212
Due from Other Banks	10,431,714	0	10,431,714	10,759,980	2,582,225	13,342,205
Interbank Loan Receivable	26,711,470	6,341,038	33,052,509	17,933,555	0	17,933,555
Security Purchased Under Agreement to Resell	15,823,492	0	15,823,492	38,107,761	0	38,107,761
Loans & Receivables	358,569,916	590,252,215	948,822,131	359,903,198	466,572,572	826,475,770
Investments	332,096,633	770,545,374	1,102,642,007	140,802,446	551,868,209	692,670,655
Other Assets	2,328,153	3,180,366	5,508,519	2,679,679	24,996,507	27,676,186
Total Assets	1,066,690,861	1,555,088,145	2,621,779,006	988,841,595	1,046,019,513	2,034,861,108
LIABILITIES						
Deposits						
Demand	105,998,621	963,824,952	1,069,823,573	884,597,245	0	884,597,245
Savings	419,615,249	526,699,786	946,315,036	813,555,891	0	813,555,891
Time	93,863,995	151,734	94,015,728	74,947,004	3,976,037	78,923,041
LTNCD	6,112,500	0	6,112,500		6,000,000	6,000,000
Bills Payable	3,667,287	24,909,623	28,576,910	2,242,579	25,295,928	27,538,507
Unsecure Subordinated Debt	0	0	0	0	0	0
Due to BTr, BSP, & MCs/PCIC	1,867,772	566,569	2,443,341	2,180,002	598,447	2,778,449
Due to Local Banks	0	0	0	0	0	0
Other Liabilities & Payable	50,094,199	18,682,928	68,777,127	658,003	71,892,813	72,550,816
Total Liabilities	681,228,623	1,534,835,592	2,216,064,215	1,778,180,724	107,763,225	1,885,943,949

1/ Using ALRMS computation

The Parent also prepares on a quarterly basis the Consolidated LGR (Parent and Subsidiaries). The following behavioral assumptions are used in measuring the Parent's liquidity gap:

- **Non-Maturing Deposits:** Regular savings (Total savings less High Yield Savings Accounts and Easy Savings Plus) and demand deposits are Non-Maturing Deposits (NMDs). A behavioral analysis is made to approximate the withdrawal pattern of NMDs. This is done by determining the rate of deposit outflow per time bucket using the historical end-of-day balances of NMD accounts. The deposit run-off rates are used as basis for slotting the NMD amount under the different tenors.
- **Term Deposits:** Term Deposit (TD) is a deposit product with a fixed contractual term. TDs were bucketed based on maturity with run-off assumption on the balance sheet. A behavioral analysis is conducted to approximate the early termination rate and the percentage of deposits that is likely to roll-over based on a historical deposit data. The early termination rate is used to estimate the amount of deposit that will be withdrawn before its maturity.

- **Fixed Rate Loans:** A behavioral analysis is conducted to estimate the percentage of loan balance that is likely to repay before the due date. The prepayment rate is computed using historical loan data.

The following table sets forth the asset-liability gap position over the detailed time period for the Bank as of December 31, 2020 based on actual amortization schedule which consider the effective maturities as indicated by the deposit retention history:

In P Million						
PARTICULARS	Due within 3 months	Due > 3 months to 6 months	Due > 6 months to 1 year	Due > 1 year to 5 years	Due > 5 years	Total
Financial Assets						
Cash & Due from Banks	326,800	2,128	2,233	184,769	0	515,930
Total Loans	215,062	104,002	82,041	395,008	201,585	997,698
Total Investments	119,822	105,847	106,428	486,394	284,152	1,102,643
Other Assets	158	9	2,161	2,921	259	5,508
Total Assets	661,842	211,986	192,863	1,069,092	485,996	2,621,779
Financial Liabilities						
Deposits	566,635	30,838	28,118	1,490,676	0	2,116,267
Borrowings	3,515	792	1,237	8,850	16,626	31,020
Other Liabilities & Unsecured Subordinated Debt	20,007	800	29,287	18,110	573	68,777
Total Liabilities	590,157	32,430	58,642	1,517,636	17,199	2,216,064
Gap Position	71,685	179,556	134,221	(448,544)	468,797	

As of December 31, 2020, the Parent has in its possession a comfortable level of highly liquid assets to cover for liquidity risk that may arise in the earlier tenor buckets. Most assets (particularly loans and investments) have long term maturities. Net gap is positive in all buckets except in the 'more than one year to five years' bucket. Maximum Cumulative Outflow (MCO) limit was not breached in the entire time bucket within the one-year horizon.

The Parent has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk, consistent with the nature and complexity of its business activities, overall level of risk and its risk appetite.

The MCO limit set by the Parent Board is one of the tools used to manage and control the liquidity risk in the Parent's gap report. MCO limits put a cap on the total amount of negative gaps in the '1 day to 1 year' time buckets.

2. Financial Ratio Analysis

Financial Ratio Analysis is another liquidity risk measurement tool that calculates and compares liquidity and leverage ratios derived from information on the Parent's financial statements against set liquidity/leverage limits.

The following table sets out the Parent's liquidity ratios as of the dates indicated:

In million except when expressed in percentage

PARTICULARS	31 December			
	2020	2019 (Restated)	2018 (Restated)	2017
Liquid Assets	P 1,474,378 ^{1/}	P 1,105,321 ^{1/}	P 1,032,595 ^{2/}	P 972,283 ^{2/}
Financial Ratios:				
Liquid Assets to Total Assets	62.36%	54.32%	55.01%	59.88%
Liquid Assets to Total Deposits	70.39%	61.99%	62.35%	68.21%

1/Note: High Quality Liquid Assets (HQLA) from LBP Liquidity Coverage Ratio (LCR) Report

2/Note: Liquid Assets include the following:

1. Cash and other Cash Items
2. Interbank Loans
3. Government Securities
4. Tradable non-Government securities and commercial paper

3. Liquidity Stress Test

The Parent conducts regular stress testing and scenario analysis to further assess the Parent's vulnerability to liquidity risk. This activity supplements the risk models used by the Parent which simulates various probable to worst-case scenarios happening in the industry that would affect LBP. The following are the stress testing conducted by the Parent:

- Liquidity Stress Test/Scenario Analysis
- Fund Source Stress Test
- FX Regular Stress Test
- Foreign Currency Deposit Unit (FCDU) Stress Test

INTEREST RATE RISK IN THE BANKING BOOK

Interest Rate Risk in the banking book Management Framework

Interest Rate Risk in the Banking Book (IRRBB) arises from the Parent's core banking activities. The main source of this type of IRRBB is gap risk, which reflects the fact that assets and liabilities have different maturities and are priced at different interest rates. Thus, it can be said that the primary form of IRRBB at LBP arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of the Parent assets, liabilities and off-balance-sheet positions.

Based on LBP's Balance Sheet, the deposit accounts are the major sources of funding for loans and investments. Re-pricing mismatches of these accounts can expose the Parent's income and underlying economic value to unanticipated fluctuations as interest rates vary. Any mismatch would result to gaps that would mean additional interest cost or opportunity losses to the Parent due to interest rate changes.

The Parent manages IRRBB based on approved policies and guidelines, limit setting procedures and interest rate risk limits, application of interest rate risk measurement models and reporting standards such as Re-pricing Gap/Earning-at-Risk (EaR) and Economic Value of Equity-at-Risk (EVE) Report.

The Parent has established guidelines for interest rate limit setting to standardize the process framework. To control re-pricing risk, a limit has been set on the EaR, putting a cap on the magnitude of re-pricing gap in the balance sheet. The EaR limit defines the maximum level of loss in net interest income (NII) due to changes in interest rates. Breaching this limit would require adjustments to be made in the balance sheet profile of the Parent. Based on LBP historical transactions and market data, RMG-TRMD recommends interest rate limits in coordination with Asset and Liability Management Group (ALMG) and is approved by the ALCO, RISKCOM and the Board of Directors (BoD). On the economic value-based measure, the Parent compares the Equity level under various rate scenarios to the Equity at a base (or current) level to track change from base scenario.

The BoD defines LBP's risk appetite and approves the organizational and reporting structures for the management of IRRBB. It delegates to ALCO the management and optimization of the Parent's IRRBB position. The ALCO optimizes results within the risk appetite limit set by the Parent, takes decisions and allocates resources to manage IRRBB. The TIBS ensures that ALCO's decisions pertaining to the management of structural IRRBB are implemented.

IAG is tasked to do model validation of RM models. The validation involves the review and evaluation of the effectiveness of the system and, where necessary, ensures that appropriate revisions or enhancements to internal controls are made. The Parent may also employ the services of external consultants to validate the Parent's various models.

In addition, model review is also being done by the Risk Modeling and Quantitative Analytics Unit (RMQAU) of TRMD to check for any enhancements or calibrations needed to the models. This is a regular internal control measure in preparation of external/independent validation/audit.

As of this moment, the Parent does not engage in hedging transactions.

Interest Rate Risk in the Banking Book Measurement Models

The two complimentary measures of the potential impact of IRRBB are as follows:

- a. Earnings-Based Measure: The Parent uses the EaR Model to estimate changes in net interest income under a variety of rate scenarios over a 12-month horizon. EaR is a simulation method that analyzes the IRRBB in terms of earnings (accrual basis).

The following table sets the Re-pricing Gap position of the Parent as of December 31, 2020 and the increase/decline in earnings for upward and downward interest rate shocks in the banking book:

PARTICULARS	0<=1D	1D<=1M	1<=3M	3<=6M	6<=9M	In P Million 9M<=1Y
<u>Financial Assets</u>						
Liquid Assets	0	207,041	0	0	0	0
Total Investments	0	36,902	72,704	111,851	88,311	11,911
Total Loans	0	225,181	315,953	71,878	19,236	15,958
Other Assets	0	22	156	8	10	12
Total Financial Assets	0	469,146	388,812	183,738	107,558	27,881
<u>Financial Liabilities</u>						
Deposits	0	334,932	231,703	36,654	10,034	12,267
Bills Payable	0	1,144	2,250	12,644	429	171
Others	0	0	0	0	0	0
Total Financial Liabilities	0	336,076	233,952	49,299	10,463	12,438
<u>Off-Balance Sheet</u>						
Commitments	0	0	0	0	0	(1,708)
Total Off-Balance Sheet	0	0	0	0	0	(1,708)
Re-pricing Gap	0	133,070	154,860	134,439	97,095	13,734

Change in Interest Rates - in basis points (bps)								In P Million
EaR	-300	-200	-100	-50	+50	+100	+200	+300
	-11,362	-7,575	-3,787	-1,894	1,894	3,787	7,575	11,362

- b. Economic Value-Based Measure: The Parent uses the EVE Model to assess the potential long-term effects of changes in interest rates over the remaining life of its holdings. This model also measures the change in the Parent's EVE for specified changes in interest rates.

The table below shows the increase (decline) in economic value for upward and downward rate shocks using the EVE Model.

Change in Interest Rates - in bps In P Million				
Interest Rate Scenario	Basis	Interest Rate Scenario		EVE-at-Risk
		Peso	Dollar	
Parallel Shift - Up	BIS-IRRBB Calculation	+267	+200	21,705
	5-year Historical Data (Year-on-Year Change on Average Rates at 99% Level Confidence Level)	+179	+100	14,954
	5-year Historical Data (Year-on-Year Change on Average Rates at 95% Level Confidence Level)	+127	+100	,433
Parallel Shift - Down	Market Sentiment	-75	-75	-4,851
	Market Sentiment	-200	-100	-15,996
	5-year Historical Data (Year-on-Year Change on Average Rates at 95% Level Confidence Level)	-127	-100	-8,964

Change in Interest Rates - in bps In P Million				
Interest Rate Scenario	Basis	Interest Rate Scenario		EVE-at-Risk
		Peso	Dollar	
	5-year Historical Data (Year-on-Year Change on Average Rates at 99% Level Confidence Level)	-179	-100	-13,439
	BIS-IRRBB Calculation	-267	-200	-10,563
Non-parallel Shift	Flattener			23,384
	Steepener			-17,067
	Short Rate Up			25,988
	Short Rate Down			1,353

Both viewpoints are assessed to determine the full scope of the Parent's IRRBB exposure (especially if the Parent has significant long-term or complex in IRRBB positions).

Moreover, IRRBB is not managed in isolation. IRRBB measurement systems are integrated into the Parent's general risk measurement system and results from models are interpreted in coordination with other risk exposures.

The interest rate risk exposures of the Bank are measured and reported to the ALCO and RISKCOM on a weekly and monthly basis, respectively.

Key Behavioral and Modeling Assumptions

Behavioral analysis enables the Parent to analyze how an instrument's actual maturity or re-pricing behavior may vary from the instrument's contractual terms because of behavioral options. LBP has established the following behavioral and modeling assumptions in the quantification of IRRBB:

1. Current Account and Savings Account (CASA) Repayment

Behavioral assumptions for deposits that have no specific maturity/ re-pricing date such as NMDs can be a major determinant of IRRBB exposures under the economic value and earnings-based measures. To determine the actual behavior of NMDs and capture the Parent's actual IRRBB exposure, the Parent analyzed its deposit base to estimate the proportion of core and non-core deposits. The volatile part is assumed to have a short maturity, while the stable part is assigned a longer maturity.

2. Term Deposit (TD) subject to Early Termination

TD were bucketed based on maturity with run-off assumption on the balance sheet, such as existing banking book positions amortized and are not replaced by any new business. A behavioral analysis is conducted to approximate the early termination rate based on a historical deposit data. The early termination rate is used to estimate the amount of deposit that will be withdrawn before its maturity.

3. Fixed Rate Loans subject to Prepayment

A behavioral analysis is conducted to estimate the percentage of loan balance that is likely to repay before the due date. The prepayment rate is computed using historical loan data. The computed monthly prepayment rate for loan product shall be considered in the computation of cash flows for fixed rate loans.

Stress Testing and Scenario Analysis

The Parent regularly undertakes static simulation. The cash flows arising solely from the Parent's current on- and off-balance sheet positions are assessed. For assessing the exposure of earnings, simulations estimating the cash flows and resulting earning streams over the one-year horizon are conducted based on one or more assumed interest rate scenarios.

The Parent also examines several possible situations, usually probable case and worst-case scenarios. The Parent does Interest Rate Stress Testing using EaR and EVE Models. Results of scenario analysis help the Parent focus on coming up with contingency measures to reduce impact of IRRBB.

OPERATIONAL RISK MANAGEMENT

The Operational Risk Management (ORM) system of the Parent underwent a thorough review and validation to ensure adherence with BSP Circular 900 (Guidelines on Operational Risk Management), BSP Circular 951 (Guidelines on Business Continuity Management (BCM), BSP Circular 808 (IT Risk Management), BSP Circular 982 (Information Security Risk Management) and other operational risk-related regulations.

The ORM frameworks aim to establish and implement risk management strategies and best practices to effectively address and manage operational risk that are embedded in the day-to-day operations of the Parent. These ORM frameworks were found to be substantially compliant to the minimum requirements of the BSP.

The risk management culture of the Parent is further reinforced with the conduct of risk awareness cascading and sharing sessions on ORM, BCM, IT and Information Security. Dissemination of operational risk management programs are clearly communicated through continued briefings and seminars using various channels and platforms available in the Parent. Intensive workshops and technical working group discussion reinforces the awareness and learning avenues conducted to all employees of the Parent and subsidiaries for them to effectively perform their duties in managing operational risks.

The ORM function is strengthened with the hiring, training, coaching, mentoring, movement and promotion of ORM personnel. Major ORM programs for the year involved enhancement of ORM manuals, frameworks, policies and tools.

The Parent has a BCM Program which is compliant with BSP Circular 951 and aligned with the ISO 22301:2012 (Business Continuity Management System). The BCM Framework emphasizes the Parent's BCM Governance and Process. BCM tools are continuously enhanced to conform to industry best practices.

As part of the Parent's BCM process, the Parent conducts annual Business Impact Analysis (BIA) and Business Continuity Risk Assessment (BCRA) to prioritize risks and implement corresponding controls, and identify and prioritize the Parent's most critical functions and IT systems in case of disruptions. Also, Business Continuity Plan (BCP) components are being reviewed, updated and tested annually to ensure validity and effectiveness of the Plans. Lessons learned and best practices implemented during the onslaught of Typhoons Rolly and Ulysses in November 2020 were considered in the review and updating of the Business Continuity Plans.

Despite the threat of the COVID-19 pandemic, the Parent was able to continuously provide its services while ensuring the health and safety of its personnel and clients. Various emergency preparedness and business continuity measures consistent with the Parent's BCP were implemented. The challenges encountered by business units nationwide and the lessons learned during the unprecedented pandemic were also considered in the review and enhancement of the Parent's BCP.

The Parent ensure that business and risk management activities, including the operational risk management function, are carried out by adequate and qualified staff with the necessary experience, technical capabilities, and competence. The Parent supports the continuing education of officers and staff of Risk Management Group (RMG) through the certification programs where employees were licensed as Certified Risk Analysts (CRAs), Certified Risk Manager (CRM) and Bank Risk Management certification exams of Asian Institute of Chartered Banks (AICB).

Embedding of ORM across the institution is manifested with the Business Units (BUs) becoming aware of the specific operational risks they are confronted with. Taking a proactive stance in managing and escalating breaches as soon as they occur strengthens governance and enhances the oversight of these risks. BUs conduct self-assessment using various RM tools to quantify potential operational losses which serve as their dashboard in monitoring operational risk. RMG regularly monitors and escalates to Senior Management and RiskCom the results of ORM processes.

Operational Risk Exposure

LBP uses the Basic Indicator Approach in calculating the capital charge for operational risk under Pillar 1. The average Gross Revenue of the Parent for the last three years is used to calculate the Operational RWA. Thus, with the Gross Revenue of the Parent consistently increase with business expansion, the Operational RWA has also been increasing annually. As of December 31, 2020, the Parent's Total Operational RWA using the Basic Indicator Approach was P98,377 million or 10.5 per cent of the Parent's Aggregate RWA of P940,041 million.

Cognizant that Gross Revenues (BSP proxy data) are but a shadow indicator of operational risks in the Basic Indicator Approach, LBP conducts a simulation of the computation of the estimated losses using the Parent's actual historical losses and estimated probability of occurrence to determine the variance from the Basic Indicator Approach model. Self-risk assessment of the five sub-risks of operational risk (people, process, IT systems/Infor Sec, event and legal risks) shows that the total estimated loss is way below the Total Operational RWA under the Basic Indicator Approach.

The Parent is firm in its resolve to fortify operational risk management system including the development of an internal economic capital measurement model to better capture the Parent's operational vulnerabilities and be able to provide a more reliable support for the overall strategic objectives of the Parent.

Based on an intensive self-assessment on the readiness of Parent to adopt the Basel Committee on Banking Supervision (BCBS) d424 *Basel III: Finalizing Post-Crisis Reforms* for measuring operational risk capital charge under the Standardized Measurement Approach (SMA), the Parent put in place the enhanced operational risk framework, loss data gathering, models and processes including the adoption of the SMA for Pillar 1 capital charge and enhanced internal model for calculating operational risk weighted assets using the Advanced Measurement Approach (AMA)-based Internal Capital Assessment (ICA) for Pillar 2 capital assessment. The Parent has also engaged the services of a third-party professional consultant to validate these endeavors.

The results of these capital exercises further ratify that the actual operational risk of the Parent is much lower than what it currently charges for its Pillar 1 capital as both models have consistently resulted in lower figures than the Basic Indicator Approach.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM (CPRMS)

In compliance with BSP Circular 1048 "BSP Regulation on Financial Consumer Protection; Guidelines and Procedures Governing the Consumer Assistance and Management System of BSP-Supervised Financial Institutions; and Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions", LBP continuous to update the Customer Protection Risk Management System (CPRMS) as part of the LBP's enterprise-wide risk management system. It identifies, measures, monitors, and controls consumer protection risks inherent in the delivery of financial services to the general public. The Parent ensures to readily assist customers' needs and concerns across all channels and guarantee consumer protection practices, address and prevent or mitigate identified or associated risk of financial harm to the Parent and its clientele (depositors, borrowers and other clients).

As part of oversight function on CPRMS, RMG ensures that board-approved CPRMS policies and procedures are in place, complaints management are strictly implemented, escalation of CPRMS-related issues are within the set timeline and training of Parent personnel are undertaken. Periodic reports are submitted to the Management Committee and the Risk Oversight Committee. RMG also conducts risk assessment of new, modified, or expanded products, programs, services, electronic banking channels, processes and other activities, including outsourcing from third party service providers to deliver quality service and protect LBP's clients.

The CPRMS Oversight Framework is aligned with and adheres to the Financial Consumer Protection Standards of Conduct prescribed under BSP Circular 1048. LBP understands that financial literacy and inclusion begins with responsive and excellent customer service. The Parent is committed to protect our customers' rights as consumers of financial products and services. To protect clients' information, RMG implements a bank-wide risk management program to manage information security risk and data privacy. The CPRMS is also subject to audit and compliance testing.