LAND BANK OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(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, 2021, 65 per cent 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 July 22, 2022 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).

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 subsidiaries:

Name	Country of Incorporation	Principal Activity	% of Ownership	Functional Currency
LBP Leasing and Finance Corporation	Philippines	Leasing	100%	Philippine peso
LBP Insurance Brokerage, Inc.	Philippines	Insurance brokerage	100%	Philippine peso
LBP Resources and Development Corporation	Philippines	Real estate	100%	Philippine peso
Masaganang Sakahan, Inc.	Philippines	Trading	100%	Philippine peso
Overseas Filipino Bank, Inc.	Philippines	Banking	100%	Philippine peso
United Coconut Planters Bank	Philippines	Banking	88.91%	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.

Acquisition of United Coconut Planters Bank (UCPB) as Subsidiary

United Coconut Planters Bank (UCPB), a universal bank incorporated in the Philippines on May 10, 1963. On May 2, 2012, a resolution was unanimously approved at a special meeting of stockholders, extending the life of the UCPB for another 50 years from and after May 10, 2013, and for this purpose, amending the UCPB's Articles of Incorporation. On August 14, 2012, the Philippine Securities and Exchange Commission (SEC) approved the extension of the UCPB's corporate life for another 50 years up to 2063.

On 25 June 2021, President Rodrigo R. Duterte signed Executive Order No. 142 entitled, "Approving the Merger of the Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the Acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB."

On 24 September 2021, the Parent acquired 12 Billion Special Preferred Shares of UCPB held by the PDIC by issuing a 20-year Certificate of Indebtedness (COI) with face value and fair value of at the time of acquisition amounting to P12 billion and P4.038 billion, respectively. The issuance of the COI represented 88.91 per cent of the total voting rights in UCPB.

At the acquisition date, the Parent classify/designate the identifiable assets acquired and liabilities assumed as necessary on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

LBP on boarded a total of 2,343 former UCPB employees; 101 reported in Head Office while majority in the field offices.

Gain on Bargain Purchase

The Parent recognized a Gain on Bargain Purchase amounting to P11,999,456,312 representing the excess of the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed over the aggregate of the consideration transferred recognized in the Profit/ Loss under Miscellaneous Income account.

Gain on Bargain Purchase arising from the acquisition has been recognized as follows:

Fair value (provisional) of identifiable net assets	P18,038,110,651
NCI, based on their proportionate interest in the recognized amounts of the assets and liabilities	(2,000,426,471)
Consideration transferred	(4,038,227,868)
Gain on bargain purchase	11,999,456,312

Consideration transferred

Certificate of Indebtedness issued

The fair value of the 20-year P12 billion face value Certificate of Indebtedness was based on the present value of the instrument discounted using the effective interest rate of 14.934 per cent.

Identifiable assets acquired and liabilities assumed

The parent measures the identifiable assets acquired and the liabilities assumed at provisional amounts. The provisional fair value of identifiable net assets amounted to P18,038,110,651. After the acquisition date, the Parent shall reflect adjustments to the provisional amount should there be new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. The measurement period shall be within one year from acquisition date. The Parent is still in the process of determining the fair values of UCPB's net identifiable assets and liabilities and the total acquisition/transaction related costs as at acquisition date.

The Parent measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets at provisional amounts. The non-controlling interest at acquisition date stood at 11.09 per cent or P2,000,426,471.

The Parent recognized net loss of UCPB amounting to P139,592,917 covering result of operations from the acquisition date included in the Statement of Comprehensive Income for the reporting period, while it recognized a combined entity net income for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period amounting to P18,513,178,686.

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, 2021. 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 pronouncement amended IFRS 16 Leases to provide lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. On issuance, the practical expedient was limited to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2021. On March 2021, IASB issued an extension that permits a lessee to apply the practical expedient regarding COVID-19 related rent concessions to rent concessions for which reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 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 Other Comprehensive Income (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.

<u>Expected Credit Loss (ECL) Assessment</u>

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 though 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 and equity securities 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 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 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 'Net unrealized gains/(losses) 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 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 observable market 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, 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 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; and
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 2021 amounts to P7.77 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.

<u>Revenues outside the scope of PFRS 15:</u>

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, 2022

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

The amendments are intended to replace a reference to a previous version of the IASB's *Conceptual Framework* (the 1989 *Framework*) with a reference to the current version issued in March 2018 (the *Conceptual Framework*) without significantly changing its requirements.

The amendments add an exception to the recognition principle of PFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope PAS 37 Provisions, Contingent Liabilities, and Contingent Assets or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

It is expected that the amendments will have no material effect on the Group's financial statements.

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). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under 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.

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.

PFRS 17 – Insurance Contracts (effective on or after 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 PFRSs 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.

<u>Impairment of Financial Assets</u>

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 is 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 on 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 P612,933,910,783 and P572,418,418,166 as of December 31, 2021 and P510,287,984,538 and P510,236,477,552 as of December 31, 2020 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 P12,918,193,121 and P10,460,334,388 as of December 31, 2021 and P10,668,890,454 and P10,292,234,440 as of December 31, 2020.

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, 2021 and 2020, the fair value hierarchy of the Parent's assets and liabilities are presented below:

	As of December 31, 2021				
	Book Value	Level 1	Level 2	Level 3	Total Fair Value
FINANCIAL ASSETS					
FVTPL	**31,367,078,592**	**27,256,480,770**	**3,048,888,317**	**1,061,709,505**	**31,367,078,592**
Debt Securities	27,256,480,770	27,256,480,770	0	0	27,256,480,770
Domestic	27,256,480,770	27,256,480,770	0	0	27,256,480,770
Equity Securities	1,061,709,505	0	0	1,061,709,505	1,061,709,505
Domestic	32,262,236	0	0	32,262,236	32,262,236
FX-Reg	1,029,447,269	0	0	1,029,447,269	1,029,447,269
Derivative w/ positive FV	3,048,888,317	0	3,048,888,317	0	3,048,888,317
PLFD	2,951,417,960	0	2,951,417,960	0	2,951,417,960
FX-Reg	2,431,833	0	2,431,833	0	2,431,833
FCDU	95,038,524	0	95,038,524	0	95,038,524
FVOCI	**565,359,387,987**	**568,925,388,026**	**0**	**3,493,030,140**	**572,418,418,166**
Debt Securities	556,390,940,527	554,008,498,202	0	0	554,008,498,202
Domestic	468,305,545,495	464,828,264,200	0	0	464,828,264,200
FX-Reg	11,435,607,154	11,553,196,464	0	0	11,553,196,464
FCDU	76,649,787,878	77,627,037,538	0	0	77,627,037,538
Equity Securities	8,968,447,460	14,916,889,824	0	3,493,030,140	18,409,919,964
Domestic	5,077,162,176	13,477,247,268	0	1,051,628,754	14,528,876,022
FX-Reg	3,891,285,284	1,439,642,556	0	2,441,401,386	3,881,043,942
HTC	**597,592,191,429**	**593,807,594,139**	**3,090,028,491**	**5,592,600,031**	**602,490,222,661**
Debt Securities	597,592,191,429	593,807,594,139	3,090,028,491	5,592,600,031	602,490,222,661
Domestic	565,972,562,023	564,589,163,767	3,090,028,491	19,441,268	567,698,633,526
FX-Reg	10,788,928,319	7,041,356,644	0	3,998,893,130	11,040,249,774
FCDU	20,830,701,087	22,177,073,728	0	1,574,265,633	23,751,339,361
Total	**1,194,318,658,008**	**1,189,989,462,936**	**6,138,916,808**	**10,147,339,675**	**1,206,275,719,419**
FINANCIAL LIABILITIES					
Bills Payable	**23,765,830,863**	**0**	**23,584,881,767**	**180,949,096**	**23,765,830,863**
BSP Rehabilitation Program	24,303,875	0	0	24,303,875	24,303,875
Domestic Borrowings (ODA thru BTr)	156,645,221	0	0	156,645,221	156,645,221
Foreign Borrowings (ODA)	23,584,881,767	0	23,584,881,767	0	23,584,881,767
Bonds Payable	**9,054,306,654**	**0**	**9,054,306,654**	**0**	**9,054,306,654**
Derivative Liabilities	**349,085,832**	**0**	**349,085,832**	**0**	**349,085,832**
Total	**33,169,223,349**	**0**	**32,988,274,253**	**180,949,096**	**33,169,223,349**

	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
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	**494,134,924,004**	**506,631,901,459**	**0**	**3,604,576,093**	**510,236,477,552**
Debt Securities	485,527,182,639	492,593,198,984	0	0	492,593,198,984
Domestic	412,966,779,573	417,280,090,457	0	0	417,280,090,457
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
HTC	**456,451,469,810**	**482,334,943,092**	**4,096,207,949**	**6,584,903,273**	**493,016,054,314**
Debt Securities	456,451,469,810	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	20,175,988,792	21,913,205,948	0	1,848,160,590	23,761,366,538
Total	**961,469,501,400**	**995,396,821,784**	**7,573,431,744**	**11,165,385,924**	**1,014,135,639,452**
FINANCIAL LIABILITIES					
Bills Payable	**27,006,374,753**	**0**	**26,812,500,340**	**194,819,384**	**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
Deposit Substitute-Repurchase Agreement	1,141,087,508	0	1,142,032,479	0	1,142,032,479
Bonds Payable	**5,000,324,175**	**0**	**5,000,324,175**	**0**	**5,000,324,175**
Derivative Liabilities	**9,652,138**	**0**	**9,652,138**	**0**	**9,652,138**
Total	**32,016,351,066**	**0**	**31,822,476,653**	**194,819,384**	**32,017,296,037**

5. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2021	2020	2021	2020
Cash on hand	53,806,886,456	47,467,335,540	47,361,365,672	47,466,285,540
Checks and other cash items	11,002,654	11,143,667	11,002,654	11,143,667
Returned checks and other cash items	50,955,047	42,723,012	50,955,047	42,723,012
Fx Currency Notes & Coins on Hand	429,725,250	0	0	0
Fx Currency Checks and Other Cash Items	41,216,387	0	0	0
Miscellaneous checks and other cash items	21,536	0	21,536	0
Petty cash fund	11,131,000	10,237,225	10,686,000	10,152,225
Revolving fund	0	217,092	0	217,092
Payroll fund	980,813	370,420	980,813	370,420
	54,351,919,143	47,532,026,956	47,435,011,722	47,530,891,956

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	
	2021	2020 As Restated	2021	2020
Deposit with local banks	3,166,750,040	609,896,289	2,964,388,024	2,425,703,429
Deposit with foreign banks	22,754,041,703	8,174,926,925	10,993,977,223	8,174,926,925
Allowance for Credit Losses	(1,854,100)	(4,614,412)	(1,854,100)	(4,614,412)
Accrued Interest Receivable	0	0	3,944,445	4,400,000
Allowance for Credit Losses	(1,072)	(2,772)	(1,072)	(2,772)
	25,918,936,571	8,780,206,030	13,960,454,520	10,600,413,170

The Group maintains nostro accounts on global basis with 20 foreign depository banks totaling 22 and 23 bank accounts in 2021 and 2020, respectively, the most significant of which are as follows:

2021	2020
1. The Bank of New York	1. Standard Chartered Bank, N.Y.
2. Standard Chartered Bank, N.Y.	2. Bank of America, N.Y.
3. Bank of America, N.Y.	3. JP Morgan Chase Bank
4. JP Morgan Chase Bank	4. Citibank N.Y.
5. Citibank, N.Y.	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, 2021 as follows:

	2021			2020		
Foreign	0.01%	to	0.15%	0.10%	to	1.62%

9. Securities Purchased under Agreements to Resell

This account consists of:

	Group		Parent	
	2021	2020	2021	2020
Domestic				
Reverse Repurchase-BSP	16,642,396,483	16,655,101,575	15,800,317,280	15,819,273,408
Accrued Interest Receivable	702,236	2,109,236	702,236	2,109,236
	16,643,098,719	16,657,210,811	15,801,019,516	15,821,382,644

Reverse Repurchase with BSP carry interest rate at 2.00 per cent as at December 31, 2021 and 2020.

10. Fair Value Thru Profit or Loss (FVTPL)

This consists of:

	Group		Parent	
	2021	2020	2021	2020
Government Securities – Domestic	27,256,480,770	5,825,111,174	27,256,480,770	5,825,111,174
Government Securities – Foreign	0	456,296,675	0	456,296,675
Private Securities – Domestic	725,276,101	184,768,603	32,262,236	184,768,603
Private Securities – Foreign	1,029,447,269	939,707,339	1,029,447,269	939,707,339
Derivative with positive fair value	3,048,888,317	3,477,223,795	3,048,888,317	3,477,223,795
Accrued Interest Receivable	1,454,951	12,925,069	1,454,951	12,925,069
	32,061,547,408	10,896,032,655	31,368,533,543	10,896,032,655

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

	2021			2020		
Domestic	2.375%	to	3.75%	3.50%	to	6.25%
Foreign	0.625%	to	6.375%	0.625%	to	10.625%

FVTPL includes the foreign exchange (FX) Risk Cover of the Parent's borrowings from multilateral agencies amounting to P2,951,417,960 and P3,276,212,400 in 2021 and 2020, 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 relent 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, 2021, the outstanding notional amount of the FX Risk Cover amounted to JPY20,343,323,217 and EUR22,596,730.

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 a decrease in the derivative asset amounting to P324,794,440 in 2021 and P1,151,312,972 in 2020.

The derivative with positive fair value comprise of the following:

	2021	2020
FX Risk Cover	2,951,417,960	3,276,212,400
Debt Warrants	95,038,524	89,492,637
Forward Contracts	2,431,833	111,518,758
	3,048,888,317	3,477,223,795

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	
	2021	2020 As Restated	2021	2020 As Restated
Domestic				
Government	493,408,574,296	417,331,597,443	464,828,264,200	417,280,090,457
Private securities	20,840,755,663	13,411,233,067	14,528,876,022	13,411,233,067
Foreign				
Government	92,873,862,220	75,313,108,527	89,180,234,002	75,313,108,527
Private securities	5,810,718,604	4,232,045,501	3,881,043,942	4,232,045,501
Accrued Interest Receivable	3,892,068,052	2,829,073,710	3,892,021,385	2,829,027,043
	616,825,978,835	513,117,058,248	576,310,439,551	513,065,504,595

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

	2021			2020		
Domestic	2.375%	To	6.375%	2.375%	To	6.375%
Foreign	0.125%	To	10.625%	1.50%	To	11.625%

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.

The LBP's Motion for Reconsideration of 25 March 2019 Decision (petition for indirect contempt) was denied by the Supreme Court in its 14 August 2019 Resolution.

Several meetings were conducted between the Office of the Government Corporate Counsels (OGCC) and the Bank to discuss the possible remedies available for the recovery of its unrestored 3,366,800 Meralco shares, including dividends. Among the remedies is the possibility of pursuing the refund of the value or monetary equivalent of the unrestored 3,366,800 Meralco shares and dividends from the Agrarian Reform Fund (ARF).

On 3 December 2019, LBP sent a letter to Department of Agrarian Reform (DAR) for a refund of the value of unrestored Meralco shares to be drawn from the ARF. However, the request was denied by DAR in its 28 July 2021 Letter. DAR argued that there is no legal basis for LBP to claim refund from the ARF since LBP is not a landowner whose landholding was expropriated under CARP or any other Agrarian Reform Law.

Without disregarding the possibility of recovering from the ARF, the OGCC and the LBP discussed other possible remedies available to the LBP. The following remedies were recommended by the OGCC:

a. File an action for revival of judgment in order to pursue further the decision of the Supreme Court in the case of LBP v. Suntay case (G.R. No. 188376);

b. File an action for specific performance before the Regional Trial Court (RTC), as commercial court, to: (i) compel Meralco to cancel the certificates of stock in relation to the remaining 3,366,800 shares of stock; (ii) pay LBP the dividends received on the shares from the moment of the illegal transfer;

c. File a civil action for restitution with damages against Meralco;

d. File a claim for reimbursement against the ARF[1], by filing of the proper case against the DAR before the Department of Justice (DOJ) under E.O. 292 or the Administrative Code of 1987.

Currently, the OGCC is in the process of drafting the action for revival of judgment to be filed within the prescriptive period provided for under the Rules. OGCC targets the filing of the action by September 2022.

[1] Despite the earlier denial by the DAR of LBP's letter request dated 3 December 2019, recovery through reimbursement from the ARF was still recommended. OGCC anchors its recommendation on the explicit provisions of the law (RA 9700 (which amended 6657 or the Comprehensive Agrarian Reform Law of 1988), which provides that "all just compensation payments to landowners, including execution of judgments therefor, shall only be sourced from the Agrarian Reform Fund." However, OGCC recognizes that the since the ARF is limited only to the satisfaction of a "judgment for just compensation", the process of "reimbursing" the value of LBP's Meralco shares through the ARF will be the first of its kind.

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 P20.77 million in 2021. 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 \$20,185,636.37 (P1,029,447,269.23) in MRTC preference shares and \$47,861,285.77 (P2,440,877,712.98) 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 Metro Rail Transit (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 Light Rail Transit System (LRTS) 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, 2021 (In US Dollars)	Book Value As of December 31, 2021 (In US Dollars)	Percentage in MRTC
▪ MRT III Bonds	43,382,299	109,279,765	
▪ MRT III Preferred Shares	54,000,000	20,185,636	
Securitized ERPs	97,382,299	129,465,401	26.65%
Unsecuritized ERPs	41,189,893	47,861,286	11.12%
	138,572,192	177,326,687	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 P7,059,030,179 and P16,101,553,551 as of December 31, 2021 and 2020, respectively.

Outstanding equity securities at FVOCI as of December 31, 2021 and 2020 generated dividends amounting to P0.93 billion and P1.08 billion, respectively for the Parent. Dividends amounting to P0.59 million and P0.14 million were recognized in 2021 and 2020, respectively, for the disposed securities at FVOCI.

Fair Value of FVOCI-Equity Securities as of December 31, 2021, as follows:

FVOCI Equity Securities	**Fair Value**
Listed Stocks	14,827,259,824
Shares in Sports Clubs	89,630,000
Rural Banks	3,957,060
INMES	3,489,073,080
	18,409,919,964

12. Hold to Collect (HTC)

This account consists of:

	Group		Parent	
	2021	2020	2021	2020
Government				
Domestic	585,966,522,045	427,056,215,585	562,488,718,774	426,130,525,226
Foreign	24,665,207,759	18,209,726,397	24,665,207,759	18,209,726,397
Private				
Domestic	4,713,045,130	4,221,483,249	3,483,843,249	4,201,483,249
Foreign	6,954,421,647	7,909,734,938	6,954,421,647	7,909,734,938
Allow. For Credit Losses	(695,543,887)	(711,589,786)	(695,136,405)	(711,359,174)
Accrued Interest Receivable	4,716,290,055	3,446,375,831	4,716,290,055	3,446,375,831
Allow. For Credit Losses	(8,791,938)	(8,871,900)	(8,791,938)	(8,871,900)
	626,311,150,811	460,123,074,314	601,604,553,141	459,177,614,567

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

	2021	2020
Domestic	2.375% to 18.25%	2.625% to 18.25%
Foreign	0.125% to 10.625%	6.375% to 11.625%

13. Loans and Receivables

This account consists of:

	Group		Parent	
	2021	2020 As Restated	2021	2020
Interbank loans receivable	13,007,175,852	18,974,987,726	12,190,900,389	18,974,987,726
Allowance for credit losses	(335,689,575)	(458,731,882)	(335,689,575)	(458,731,882)
	12,671,486,277	18,516,255,844	11,855,210,814	18,516,255,844
Loans to Government	130,535,074,943	107,944,980,546	124,381,361,453	109,101,572,260
Allowance for credit losses	(2)	(23,070,344)	(2)	(23,070,344)
	130,535,074,941	107,921,910,202	124,381,361,451	109,078,501,916
Agrarian Reform and other Agriculture Loans	174,248,961,607	146,090,385,332	158,603,887,831	146,090,385,330
Allowance for credit losses	(5,728,995,640)	(3,773,870,954)	(4,576,583,428)	(3,773,870,952)
	168,519,965,967	142,316,514,378	154,027,304,403	142,316,514,378
Microfinance Loans	18,709,057,048	18,834,813,798	18,611,649,679	18,834,813,798
Allowance for credit losses	(625,388,572)	(558,477,445)	(603,761,282)	(558,477,445)
	18,083,668,476	18,276,336,353	18,007,888,397	18,276,336,353
SME/MSE Loans	64,382,982,594	54,559,652,177	55,408,574,300	54,088,163,391
Allowance for credit losses	(4,001,185,418)	(3,144,690,134)	(2,849,416,048)	(3,007,962,708)
	60,381,797,176	51,414,962,043	52,559,158,252	51,080,200,683
Contract to Sell	25,638,407,286	792,684,677	744,169,523	792,684,677
Allowance for credit losses	(408,923,575)	(204,190,740)	(172,295,478)	(204,190,740)
	25,229,483,711	588,493,937	571,874,045	588,493,937
Loans to Private Corporation	527,715,089,940	441,288,754,940	466,696,192,994	439,055,395,485

	Group		Parent	
	2021	**2020 As Restated**	**2021**	**2020**
Allowance for credit losses	(13,487,345,362)	(10,358,554,932)	(11,344,913,043)	(10,142,883,802)
	514,227,744,578	430,930,200,008	455,351,279,951	428,912,511,683
Loans to Individuals for Housing Purposes	32,957,729,110	5,655,206,483	5,530,113,823	5,655,206,483
Allowance for credit losses	(1,319,843,136)	(338,244,921)	(53,446,644)	(338,244,921)
	31,637,885,974	5,316,961,562	5,476,667,179	5,316,961,562
Loans to Individual for Consumption	57,766,812,929	38,977,767,077	37,354,349,029	38,977,767,077
Allowance for credit losses	(3,255,721,034)	(822,199,038)	(851,931,630)	(822,199,038)
	54,511,091,895	38,155,568,039	36,502,417,399	38,155,568,039
Loans to Individual for Other Purposes	1,053,656,327	1,462,982,888	895,887,575	1,383,781,585
Allowance for credit losses	(56,423,003)	(76,528,462)	(18,457,596)	(57,330,503)
	997,233,324	1,386,454,426	877,429,979	1,326,451,082
Loans & Receivable-Others-non-residents-FCDU	364,424,911	0	0	0
General loan loss provision	(6,370,397,901)	(6,569,860,356)	(5,888,396,120)	(6,539,488,976)
	1,010,789,459,329	**808,253,796,436**	**853,722,195,750**	**807,028,306,501**
Accrued interest receivable	12,468,767,513	11,143,126,673	9,123,562,162	11,101,051,355
Allowance for credit losses	(587,726,104)	(542,882,614)	(570,475,978)	(542,493,804)
	11,881,041,409	10,600,244,059	8,553,086,184	10,558,557,551
Accounts receivable	2,648,615,790	2,119,060,442	1,808,525,958	1,613,685,519
Allowance for credit losses	(1,897,752,435)	(1,629,135,065)	(1,581,631,665)	(1,452,616,007)
	750,863,355	489,925,377	226,894,293	161,069,512
Sales contract receivable	1,745,077,752	632,017,703	772,783,090	614,570,118
Allowance for credit losses	(159,133,383)	(4,456,447)	(113,864,846)	(4,439,926)
	1,585,944,369	627,561,256	658,918,244	610,130,192
Due from ARF	263,903,249	202,405,194	263,903,249	202,405,194
Lease contract receivable	1,918,929,737	1,604,503,580	0	0
Allowance for credit losses	(216,304,439)	(135,947,943)	0	0
	1,702,625,298	1,468,555,637	0	0
	1,026,973,837,009	**821,642,487,959**	**863,424,997,720**	**818,560,468,950**

The Parent's interest rates on loans in 2021 range from 2.00 per cent to 15.00 per cent for peso denominated loans and from 2.25 per cent to 4.50 per cent for foreign currency denominated loans.

Allowance for credit losses

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

	2021	**2020**
Balance, January 1	25,926,451,311	17,289,002,914
Provision	1,935,042,336	8,644,151,342
Write-offs	(338,505,487)	(24,736,280)
Transfers and other adjustments	(828,097,314)	18,033,335
Balance, December 31	26,694,890,846	25,926,451,311

As of December 31, 2021 and 2020, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2021		2020	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	95,277,421,675	10.82	94,197,805,367	11.31
Various guarantees	220,840,047,539	25.08	214,305,643,985	25.72
Various mortgages	251,587,625,081	28.58	251,368,269,078	30.18
	567,705,094,295	64.48	559,871,718,430	67.21
Unsecured loans	312,711,992,301	35.52	273,083,039,382	32.79
Gross loan at amortized cost	880,417,086,596	100.00	832,954,757,812	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.

	2021	2020
Total NPLs	27,757,301,539	25,613,645,864
Allowance for credit losses	(8,791,496,775)	(13,704,767,892)
Net NPLs	18,965,804,764	11,908,877,972

14. Investment in Subsidiaries

This account consists of the following investments in subsidiaries which are controlled by the Parent and are accounted for at cost:

Name	2021	2020
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
United Coconut Planters Bank	4,038,227,868	0
Total	6,178,002,875	2,139,775,007
Allowance for credit losses	(814,658,295)	(766,985,461)
Net	5,363,344,580	1,372,789,546

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 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.

The parent measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

15. Investment in Associates

This account represents the Parent's 20.91 per cent ownership of the capital stock of Small Business Corporation (SBC) as of CY 2020. However, in November 2020, the National Government, pursuant to Section 10.e(f) of R.A. No. 11494 known as the "Bayanihan to Recover as One Act", infused an additional capital to SBC amounting to P8.08 billion, thereby diluting LBP's ownership in SBC from 20.91 to 3.95 per cent. With the said reduction, the Bank's investment was reclassified from Investment in Associate to FVOCI.

16. Investment Property

This account consists of:

	Group					
	2021			2020		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	7,077,173,949	6,794,834,435	13,872,008,384	4,735,114,801	3,394,055,490	8,129,170,291
Additions/(Disposals)	435,047,328	214,975,574	650,022,902	169,861,964	760,214,945	930,076,909
Transfers/Adjustment	(59,764,208)	81,483,782	21,719,574	556,184	0	556,184
At December 31	7,452,457,069	7,091,293,791	14,543,750,860	4,905,532,949	4,154,270,435	9,059,803,384
Accumulated depreciation and impairment						
At January 1	270,327,872	3,146,235,985	3,416,563,857	288,335,934	858,854,082	1,147,190,016
Depreciation	0	358,423,084	358,423,084	0	253,753,774	253,753,774
Transfers/Adjustment	0	(221,932,123)	(221,932,123)	(1)	(98,009,751)	(98,009,752)
Impairment Loss	516,103,062	(41,610,095)	474,492,967	(18,008,061)	98,324,880	80,316,819
At December 31	786,430,934	3,241,116,851	4,027,547,785	270,327,872	1,112,922,985	1,383,250,857
Net book value	6,666,026,135	3,850,176,940	10,516,203,075	4,635,205,077	3,041,347,450	7,676,552,527

	Parent					
	2021			2020		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	4,814,354,595	4,073,087,127	8,887,441,722	4,643,936,446	3,312,872,182	7,956,808,628
Additions/(Disposals)	388,561,800	328,094,455	716,656,255	170,418,149	760,214,945	930,633,094
At December 31	5,202,916,395	4,401,181,582	9,604,097,977	4,814,354,595	4,073,087,127	8,887,441,722
Accumulated depreciation and impairment						
At January 1	263,990,356	1,064,031,136	1,328,021,492	281,998,417	811,082,218	1,093,080,635
Depreciation	0	278,897,100	278,897,100	0	252,633,789	252,633,789
Transfers/Adjustment	0	(126,315,818)	(126,315,818)	0	(98,009,751)	(98,009,751)
Impairment Loss	110,092,062	(45,682,915)	64,409,147	(18,008,061)	98,324,880	80,316,819
At December 31	374,082,418	1,170,929,503	1,545,011,921	263,990,356	1,064,031,136	1,328,021,492
Net book value	4,828,833,977	3,230,252,079	8,059,086,056	4,550,364,239	3,009,055,991	7,559,420,230

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

As of December 31, 2021 and 2020, the carrying value of investment properties still subject to redemption amounted to P933,194,228 and P1,588,948,805, respectively, for the Parent. Investment properties with on-going cases amounted to P583,984,233 and P289,034,406 as of December 31, 2021 and 2020, respectively. Properties amounting to P38,394,724 and P43,079,661 as of December 31, 2021 and 2020, respectively, are agricultural lands covered by the government's agrarian reform program.

In 2021 and 2020, the rental income (included under 'Rent' in the Statements of Comprehensive Income) on investment properties, which are leased out under operating leases, amounted to P88,690 and P721,808, respectively, for the Parent. In 2021 and 2020, 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 P278,897,101 and P252,633,789, respectively.

17. Property and Equipment

This account consists of:

	Group									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Right of Use Assets	Total 2021
At Cost										
At January 1,	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**
Additions	290,448,348	159,542,199	1,879,966,778	1,416,123,189	312,740,081	3,279,234,062	0	216,226,268	1,630,677,636	**9,184,958,561**
Disposals	0	0	(66,128,809)	(88,175,199)	(96,011,039)	(258,871,721)	0	(4,001,620)	(14,571,324)	**(527,759,712)**
Transfers	(7,464,911)	(118,871,895)	1,847,910	(47,188,025)	196,218	(233,208,100)	(95,638,572)	(145,760,285)	389,898,245	**(256,189,415)**
At December 31	2,107,567,183	193,518,659	7,118,361,579	2,605,025,446	319,836,310	11,887,037,607	613,978,103	1,131,744,313	4,277,912,986	**30,254,982,186**
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	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**
Depreciation & amortization	0	0	267,403,151	187,167,185	35,190,106	872,570,971	15,642,930	292,606,736	859,787,562	**2,530,368,641**
Disposals	0	0	(7,397,171)	(62,932,021)	(87,450,526)	(252,461,295)	0	(1,380,973)	(23,693,640)	**(435,315,626)**
Transfers/Adjustments	0	0	1,751,388,583	1,020,127,753	209,054,932	1,692,454,244	(1,665,358)	(161,703,618)	(462,363,456)	**4,047,293,080**
At December 31	0	0	4,718,816,497	1,781,429,189	242,558,880	8,358,071,046	396,896,452	266,449,720	1,485,937,872	**17,250,159,656**
Allow for Losses	0	0	41,469,224	1,518,838	8,008,122	41,002,322	0	(5,369,097)	0	**86,629,409**
Net book value	2,107,567,183	193,518,659	2,358,075,858	822,077,419	69,269,308	3,487,964,239	217,081,651	870,663,690	2,791,975,114	**12,918,193,121**

	Group									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportatio n Equipment Under Lease	Others	Right of Use Assets	Total 2020
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	(363,399490)
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 &	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

	Group									
	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	Total 2020
amortization										
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

	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	Total 2021
At Cost										
At January 1	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
Additions	198,370,022	154,226,713	270,543,408	135,824,735	2,093,000	533,372,089	0	211,180,242	0	1,505,610,209
Disposals	0	0	(66,128,809)	(32,941,532)	(1,546,653)	(144,371,023)	0	(2,687,640)	(14,571,324)	(262,246,981)
Transfers	(7,464,911)	(118,871,895)	(52,420,713)	(44,715,303)	658,153	165,280,406	0	(145,760,285)	402,687,371	199,392,823
At December 31	1,873,698,857	188,203,173	5,428,428,345	1,381,178,530	73,775,463	9,464,134,183	407,105,647	1,107,001,591	2,656,097,990	22,579,623,779
Accumulated Depreciation and Amortization										
At January 1	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	10,767,486,460
Depreciation and amortization	0	0	194,753,748	108,713,434	3,605,127	732,927,781	12,033,862	291,233,695	430,076,625	1,773,344,272
Disposals	0	0	(7,397,171)	(8,084,061)	(1,546,150)	(136,180,375)	0	(1,128,137)	(23,693,640)	(178,029,534)
Transfers/Adjustments	0	0	511,434,212	(43,641,409)	(10,998,792)	(160,560,719)	(1,665,358)	(161,703,618)	(462,363,456)	(329,499,140)
At December 31	0	0	3,327,955,319	692,899,106	55,301,719	6,319,322,810	336,051,348	248,673,638	1,053,098,118	12,033,302,058
Allow for Losses	0	0	41,469,224	1,518,838	8,008,122	40,482,156	0	(5,491,007)	0	85,987,333
Net book value	1,873,698,857	188,203,173	2,059,003,802	686,760,586	10,465,622	3,104,329,217	71,054,299	863,818,960	1,602,999,872	10,460,334,388

	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	Total 2020
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
Accumulated Depreciation and Amortization										
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	9,288,794,301
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	1,594,571,746
Disposals	0	0	29,825,325	(1,890,660)	(3,268,956)	(121,415,125)	0	(3,568,247)	(32,790,438)	(133,108,101)
Transfers/Adjustments	0	0	(100,341,143)	(18,131,448)	(7,438,337)	(173,670,954)	(105,340)	(144,397,854)	461,313,590	17,228,514
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	10,767,486,460
Allow for Losses	0	0	41,469,224	1,401,407	7,987,971	31,510,823	0	(5,491,007)	268,409	77,146,827
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	10,292,234,440

Depreciation and amortization of the Group amounting to P2,530,368,641 and P1,621,168,062 and of the Parent amounting to P1,773,344,272 and P1,594,571,746 in 2021 and 2020, 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 P149,521,389 and P220,374,029 in 2021 and 2020, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P25,156,598 and P24,246,285 in 2021 and 2020, 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, 2021 for the Parent is as follows:

	Within 1 Year	After 1 Year but not more than 5 Years	More than 5 Years	Total
Finance Charge	130,546,851	263,732,956	102,841,518	497,121,325
Lease Liability	470,149,753	1,031,627,871	428,034,369	1,929,811,993
Lease Payment	600,696,604	1,295,360,827	530,875,887	2,426,933,318

As of December 31, 2021, the Parent recognized interest expense on lease liabilities (included in the Statements of Comprehensive Income) amounting to P128,951,849 and rent expense from short-term leases and leases of low-value assets amounting to P835,027,550.

Lease Liability can be found in Note 24 - Other Liabilities, presented as part of the item 'Others'.

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 P17,379,553 and P23,495,890 in 2021 and 2020, respectively.

Future minimum rentals receivable under non-cancellable operating leases as at December 31, 2021 are as follows:

	Within 1 Year	After 1 Year but not more than 5 Years	More than 5 Years	Total
Operating Lease	3,198,526	5,995,882	40,000	9,234,408

19. Other Intangible Assets

This account consists of:

	Group		Parent	
	2021	**2020**	**2021**	**2020**
Balance at the beginning of the year	**1,139,733,223**	**1,162,906,170**	**1,124,727,370**	**1,138,144,879**
Addition	804,792,999	346,968,853	345,535,504	343,561,666
Amortization for the year	(174,351,140)	(359,468,300)	(280,827,867)	(356,305,675)
Balance at the end of the year	**1,770,175,082**	**1,150,406,723**	**1,189,435,007**	**1,125,400,870**
Allow for Losses	(10,673,500)	(10,673,500)	(673,500)	(673,500)
Net book value at end of year	**1,759,501,582**	**1,139,733,223**	**1,188,761,507**	**1,124,727,370**

20. Other Assets

This account consists of:

	Group		Parent	
	2021	2020 As Restated	2021	2020
Sundry debits	2,319,848,834	1,344,607,815	2,234,392,803	1,338,239,975
Prepaid expenses	633,743,761	654,847,918	445,848,592	638,021,055
Documentary stamps	996,940,509	843,954,151	902,921,991	843,041,507
Stationery & supplies on hand	118,616,804	143,841,872	113,963,697	139,203,589
Accounts receivable-net	174,731,405	21,648,507	174,607,895	13,546,968
Inter-office float items	27,465,690	242,552	20,062	242,552
Deferred Charges	127,488,684	0	0	0
Others	4,118,434,173	1,751,385,168	3,025,791,357	1,651,221,229
Allowance for credit losses	(28,035,599)	(28,035,599)	(28,035,599)	(28,035,599)
	8,489,234,261	4,732,492,384	6,869,510,798	4,595,481,276

21. Allowance for Credit Losses and Impairment Losses

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

	2021	2020
Balance at beginning of year:		
Loans	25,926,451,311	17,289,002,914
Investments	1,487,216,535	2,198,651,682
Receivables from customers and Other assets	2,608,053,807	2,150,663,062
Contingent	290,595,757	409,006,907
	30,312,317,410	22,047,324,565
Provisions charged to operations	2,456,430,325	8,285,481,838
Accounts charged off and others	(837,261,681)	(25,041,114)
Transfer/adjustments	(287,146,665)	4,552,121
	1,332,021,979	8,264,992,845
Balance December 31	31,644,339,389	30,312,317,410
Balance at end of year:		
Loans (Note 13)	26,694,890,846	25,926,451,311
Investments (Note 12,14)	1,518,586,638	1,487,216,535
Receivables from customers and other assets (Note 7,13,16,17,19,20)	2,939,688,817	2,608,053,807
Contingent	491,173,088	290,595,757
	31,644,339,389	30,312,317,410

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:

	2021	2020
Loans	1,935,042,336	8,644,151,342
Investments	31,450,065	(713,911,242)
Receivables from customers and other assets	483,978,142	473,652,888
Contingent	5,959,782	(118,411,150)
	2,456,430,325	8,285,481,838

The calculated ECL for Treasury Exposures as of September 2021 decreased from P724.85 million to P705.78 million. The table shows the computed ECL for the periods September 2021 and December 2020:

INVESTMENTS	TOTAL		STAGE 1		STAGE 2		STAGE 3	
(In Thousand ₱)	2021*	2020	2021*	2020	2021*	2020	2021*	2020
Due from BSP and SPURA	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Due from Other Banks	**1,855.17**	**4,617.18**	**1,852.89**	**4,585.22**	**2.28**	**31.96**	**0**	**0**
Due from Foreign Banks	1,569.00	2,618.99	1,569.00	2,618.99	0	0	0	0
Due from Local Banks & FIs	244.33	1,894.56	242.05	1,862.60	2.28	31.96	0	0
Inter-bank loan & receivables	41.84	103.63	41.84	103.63	0	0	0	0
FVOCI debt investments	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Local Debt Securities	0	0	0	0	0	0	0	0
Foreign Debt Securities	0	0	0	0	0	0	0	0
HTC investments	**703,928.35**	**720,231.07**	**7,312.80**	**10,753.41**	**2,071.73**	**12,236.50**	**694,543.82**	**697,241.16**
Local Debt Securities	0	0	0	0	0	0	0	0
Foreign Debt Securities	0	0	0	0	0	0	0	0
Private Securities								
Local	697,788.17	712,883.33	2,354.99	5,218.96	889.36	10,423.21	694,543.82	697,241.16
Foreign	6,140.18	7,347.74	4,957.81	5,534.45	1,182.37	1,813.29	0	0
TOTAL	**705,783.52**	**724,848.25**	**9,165.69**	**15,338.63**	**2,074.01**	**12,268.46**	**694,543.82**	**697,241.16**

**Note: Result for the ECL calculation of Treasury exposures as of September 2021 is the basis for the allowance for 2021.*

22. Deposit Liabilities

This account consists of:

	Group		Parent	
	2021	2020	2021	2020
Domestic				
Demand deposits	1,278,620,364,019	1,067,839,637,115	1,205,400,842,027	1,068,477,682,342
Savings deposits	1,081,636,637,172	906,190,504,838	940,301,551,394	905,915,136,347
Time certificate of deposits	85,988,072,872	416,349,835	1,006,895,586	418,748,973
Long Term Negotiable Certificate of Deposits	0	6,000,000,000	0	6,000,000,000
	2,446,245,074,063	1,980,446,491,788	2,146,709,289,007	1,980,811,567,662
Foreign				
Savings deposit –FCDU/EFCDU	17,872,343,844	19,313,285,277	17,873,029,149	19,313,408,190
Time certificate of deposit-CDU/EFCDU	103,838,060,573	94,520,336,003	103,838,060,573	94,520,238,806
	121,710,404,417	113,833,621,280	121,711,089,722	113,833,646,996
	2,567,955,478,480	2,094,280,113,068	2,268,420,378,729	2,094,645,214,658

The Parent's domestic deposit liabilities earn annual fixed interest rates ranging from 0.05 to 0.75 per cent and 0.05 to 0.75 per cent in 2021 and 2020, respectively. Foreign deposit rates range from 0.025 to 0.50 per cent and from 0.10 to 1.50 per cent in 2021 and 2020, respectively. In 2021 and 2020, P1,472,045,372,443 or 65 per cent and P1,317,621,116,982 or 63 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	
	2021	2020	2021	2020
Bangko Sentral ng Pilipinas	24,303,875	25,336,905	24,303,875	25,336,905
Domestic borrowings	2,173,401,546	2,895,208,866	156,645,221	1,310,569,987
Foreign borrowings	23,584,881,767	25,670,467,861	23,584,881,767	25,670,467,861
	25,782,587,188	28,591,013,632	23,765,830,863	27,006,374,753

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

Creditor/Funder	2021	2020
World Bank/IBRD	13,374,620,390	13,892,367,999
Asian Development Bank (ADB)	248,831,513	333,503,256
Japan International Cooperation Agency (JICA)	8,649,986,547	10,064,282,951
Kreditanstalt fur Wiederaufbau (KfW)	1,311,443,317	1,380,313,655
	23,584,881,767	25,670,467,861

The total foreign borrowings of P23,584,881,767 is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P10,305,580,821 are provided with foreign exchange (FX) Risk Cover by the National Government. This has historical value of P10,475,411,400. 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 2021 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	
	2021	2020 As Restated	2021	2020 As Restated
Accrued interest, fringe benefits, taxes and other expense payable	9,322,173,752	7,553,659,820	8,224,002,617	7,758,469,904
Accounts payable	48,053,503,115	33,631,866,295	43,989,185,917	33,302,614,011
Due to Agrarian Reform Fund	175,428,263	151,966,341	175,428,263	151,966,341
Sundry credits	2,014,178,210	4,126,323,782	1,933,086,445	4,119,269,716
Unearned income	458,199,574	384,439,207	12,094,504	12,316,446
Withholding tax payable	423,457,916	295,806,388	284,230,947	291,653,902
Miscellaneous liabilities	8,561,322,937	3,726,798,360	5,619,699,920	3,688,835,584

	Group		Parent	
	2021	2020 As Restated	2021	2020 As Restated
Provision for estimated credit losses	491,173,088	290,595,757	491,173,088	290,595,757
Others	6,767,174,110	5,011,672,302	4,438,653,704	4,813,688,575
	76,266,610,965	55,173,128,252	65,167,555,405	54,429,410,236

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 either Provision for or (Benefit from) Income Tax.

On March 26, 2021, Republic Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law, was signed into law and amended certain provisions of the National Internal Revenue Code of 1997 effective July 1, 2020. Among major changes brought about by the CREATE Law that are relevant to and considered by the Bank and its subsidiaries includes reduced Normal Income Tax (NIT) rate from 30 per cent to 25 per cent, Minimum Corporate Income Tax (MCIT) rate from 2 per cent to 1 per cent and allowable deduction for interest expense is reduced from 33 per cent to 20 per cent of the interest income subjected to final tax.

Under the Tax Code, as amended, the income tax to be paid by a taxpayer is the higher between NIT at a rate of 25 per cent or the MCIT at a rate of 1 per cent. For taxable year 2021, the Bank paid its income tax based on MCIT computation since it resulted to a higher tax payable than NIT computation.

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	
	2021	2020	2021	2020
Current:				
Normal	491,729,763	3,461,936,969	235,636,891	3,247,261,661
	491,729,763	3,461,936,969	235,636,891	3,247,261,661
Deferred	634,586,469	(3,045,059,745)	539,236,793	(2,937,214,210)
	1,126,316,232	416,877,224	774,873,684	310,047,451

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

	Group		Parent	
	2021	2020	2021	2020
Statutory income tax	7,453,531,827	6,099,894,604	6,432,906,952	5,981,559,020
Additions to (reductions in) income taxes arising from:				
Non-deductible interest expense	2,042,120,372	2,630,740,771	2,042,033,070	2,630,565,248
Other deductible/Non-deductible expense	553,570,096	514,154,685	528,013,193	516,257,765
FCDU income	(739,370,720)	(834,015,747)	(764,378,177)	(834,015,747)
Tax exempt & tax paid income	(8,557,691,785)	(8,520,388,066)	(8,567,629,725)	(8,509,352,328)
Others	374,156,442	526,490,977	1,103,928,371	525,033,493
	1,126,316,232	416,877,224	774,873,684	310,047,451

The net deferred income tax asset reported by the Parent amounted to P6,571,947,725 and P7,111,184,519 for CY 2021 and 2020, respectively while the subsidiaries recognized deferred tax assets of P3,122,815,977 and P165,067,505 for CY 2021 and 2020, 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	
	2021	2020
Deferred tax asset:		
Allowance for credit and impairment losses	5,085,233,312	5,945,724,382
Excess MCIT over NIT	188,517,229	0
Accrued expenses	557,167,437	1,264,057,576
Unrealized foreign exchange loss	1,165,460,137	91,498,271
Unrealized loss on financial assets and liabilities - FVTPL	148,290,578	294,101,101
	7,144,668,693	7,595,381,330
Deferred tax liability:		
Unrealized gain on financial assets and liabilities - FVTPL	0	107,395,807
Unrealized foreign exchange gain	572,720,968	376,801,004
	572,720,968	484,196,811
Net Deferred Tax Asset	6,571,947,725	7,111,184,519

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, 2021, the Parent reported the following revenues and expenses for income tax purposes:

Revenues	
Services/operations	38,000,520,726
Non-operating and taxable other income:	
Trading and securities gain	(707,287,676)
Service charges, fees and commissions	2,134,410,262
Profit from assets sold	511,225,298
Income from trust operations	218,995,426
Others	1,299,014,983
	3,456,358,293
Total Revenues	41,456,879,019
Expenses	
Cost of services:	
Compensation and fringe benefits	6,590,358,063
Others	11,302,831,833
Total cost of services	17,893,189,896
Itemized deductions:	
Compensation and fringe benefits	6,531,110,706
Taxes and Licenses	5,034,207,484
Documentary Stamps Used	5,358,007,561
Depreciation and amortizations	1,031,954,406
Security, messengerial and janitorials	978,956,908
Information Technology Expenses	899,241,044
Bad Debts	837,261,681
Fees and Commission	598,125,839
Communications, Light and Water	512,942,083
Litigation/Asset Acquired Expenses	232,872,362
Miscellaneous	196,258,522
Management and professional fees	176,295,192
Office Supplies	168,278,586
Rent	144,413,759
Representation and entertainment	141,308,255
Transportation and Travel	101,370,856
Insurance	96,986,036
Repairs and Maintenance	78,118,158
Donations and Charitable Contribution	67,314,826
Advertising	57,069,705
Fuel and Oil	55,098,226
Freight Expense	45,217,600
Trainings and seminars	17,432,325
Membership Fees and Dues	8,462,652
Directors Fee	6,654,100
Fines. Penalties & Other Charges	217,987
Periodicals and Magazines	33,617
	23,375,210,476
Total expenses	41,268,400,372
Net taxable income	188,478,647

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 2021 are as follows:

Documents / transactions	DST Paid
Debt instruments, bonds, certificate of time deposits	7,303,695,686
Mortgages, pledges, deed of assignments/trust	632,510,310
Original issue of shares of stocks	275,000,000
Foreign bills of exchange, letters of credit	94,955,785
Banks, checks, drafts and telegraphic transfer/others	81,141,667
Acceptance of bills of exchange payable in the Phils	64,386,886
On assignments and renewal of certain instruments	6,269,557
Bills of exchanges, certificates, leases and insurance policies	251,463
Total DST Paid	8,458,211,354

II. All other taxes, local and national, paid for the tax period 2021:

National	
Percentage taxes (GRT)	4,423,440,089
Fringe benefits tax	646,154
National taxes	5,264,542
	4,429,350,785
Local	
Real estate tax	54,514,403
Local business tax	69,118,339
Mayor’s Permit/Municipal License/Other Regulatory Fees/License Permit	151,205,135
Other local taxes	11,670,604
	286,508,481
	4,715,859,266

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

Tax on Compensation and benefits	1,297,046,224
Creditable withholding taxes	426,761,295
Final withholding taxes	1,655,533,442
	3,379,340,961

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

Tax Credits against Income Tax	1,898,346,689
Tax Credits against Gross Receipts Tax	172,972,952
	2,071,319,641

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 2021 and 2020 amounted to P1,144,057,161 and P1,121,432,757, 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, 2021 amounted to P97,098,519,506 of which P96,848,156,636 are government borrowings covered by BSP Circular No. 547.

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

	2021				2020			
	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	18,653,270	962,288,293	97,079,866,236	98,060,807,799	25,044,813	1,285,282,136	96,677,173,344	97,987,500,293
Deposit liabilities		557,644,759	0	557,644,759		921,775,857	0	921,775,857
Other liabilities		667,265,893	0	667,265,893		564,410,013	0	564,410,013
	18,653,270	2,187,198,945	97,079,866,236	99,285,718,451	25,044,813	2,771,468,006	96,677,173,344	99,473,686,163

The following are the percentage of DOSRI loans:

	2021	2020
DOSRI to Total Loans	11.03%	11.61%
Unsecured DOSRI to Total DOSRI	0.01%	0.02%

The following are the significant transactions with subsidiaries:

	2021	2020
Interest income	60,202,894	86,679,990
Interest expense	(7,768,596)	(87,525,238)
Other income	1,242,771	584,134
Other expenses	(583,758,989)	(714,460,027)

Transactions with other related parties:

Compensation of key management personnel:

	Group		Parent	
	2021	2020	2021	2020
Short-term employee benefits	166,996,822	152,706,807	139,807,877	125,592,539
Post-employment benefits	34,293,119	34,356,235	33,560,013	33,876,262
Other long-term benefits	9,297,965	59,767,344	9,297,965	59,767,344
	210,587,906	246,830,386	182,665,855	219,236,145

Terms and conditions of transactions with related parties:

The Parent's related party transactions with its subsidiaries as of December 31, 2021 and December 31, 2020 amounted to P99,285,718,451 and P99,473,686,163, respectively. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2021 and 2020, 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 P373,873,463,976 and P348,175,073,332 as of December 31, 2021 and 2020, respectively.

Summary of Assets under Management is as follows:

	2021 (Unaudited)	2020 (Unaudited)
Special Purpose Trust	13,978,586	417,110,371
Other Fiduciary Accounts	330,664,036,232	304,713,118,094
Agency	32,923,573,482	33,195,449,985
Trust	10,271,875,676	9,849,394,882
	373,873,463,976	348,175,073,332

In compliance with the requirements of the General Banking Law, government securities with total face value of P950,000,000 both in 2021 and 2020, respectively, 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, 2021, the Parent's outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P35,429,255,000 with market value of P35,776,669,009. There was no currency bought forward for the period.

Over the Counter Interest Rate Option Contract Bought

As of December 31, 2021, the Parent's outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P78,589,548 with market value of P95,038,524.

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, 2021, the Parent's outstanding notional amount of the FX Risk Cover amounted to JPY20,343,323,217 and EUR22,596,730.

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	
	2021	**2020**
Trust Department accounts	373,873,463,976	348,175,073,332
Commitments	131,491,488,755	83,243,429,970
Standby/commercial letters of credit	10,485,624,640	9,282,597,552
Derivatives	46,108,219,720	35,357,061,206
Outstanding guarantees	1,871,283,728	504,809,589
Spot exchange contracts	509,990,000	2,881,380,000
Late deposits received	65,463,114	319,346,253
Outward bills for collection	110,622,734	40,961,550
Liability Indemnity Fund	69,950,227	1,371,785,084
Others	17,264,330,343	15,565,994,757
	581,850,437,237	496,742,439,293

<u>Municipal Development Fund</u>

The Municipal Development Fund (MDF) is a special revolving fund for re-lending to Local Government Units (LGUs) created through Presidential Decree (PD) No. 1914 on 29 March 1984. It became an effective mechanism that enabled LGUs to avail of financial assistance from local and international sources for the implementation of various social and economic development projects. The MDF is administered by the Department of Finance (DOF) - Bureau of Local Government Finance (BLGF) and the Department of Public Works and Highways (DPWH) - Central Project Office (CPO).

In order to simplify credit administration and tighten managerial control of the MDF, Executive Order No. 41 was issued on 20 November 1998 creating the Municipal Development Fund Office (MDFO) under DOF.

Section 4 (ttt) of the Republic Act (RA) No. 11494 provides that any unutilized or unreleased balance of the MDF, including investments and undrawn portions of all loans shall be considered to have their purpose abandoned and the remaining assets of MDFO shall be immediately transferred to Parent. These Funds shall be utilized and are hereby automatically appropriated to LGU loans and borrowings from the Government Financial Institutions.

Transfer of the funds was assigned by MDFO to LBP through the executed Deed of Assignment dated December 15, 2020, as follows:

Assets		**Amount** *(in Peso)*
Cash in Bank (LBP Account Nos:1772-1007-91 and 1772-1008-05		1,711,657,604.51
Loan Balances assigned to LANDBANK		
Loans Receivable	9,426,900,233.47	
Interest Receivable	84,203,942.90	
Other Receivables	79,293,457.57	9,590,397,633.94
Government Securities (GS)		
Treasury Bills (ISIN PIBL1220B052)	84,615,000.00	
Treasury Bonds (ISIN PIID10261057)	73,407,000.00	158,022,000.00
		11,460,077,238.45

Total Loan Balances assigned to LBP amounting P9.590 billion were booked as Miscellaneous Contingent Asset (MCA) Account.

As of December 31, 2021, the breakdown of MDFO Fund balance amounting to P11.811 billion is shown below:

Assets	**Amount** *(in Peso)*	**Recorded in LBP book** *(Account Name)*
Funds in LANDBANK Trust	1,260,035,849.38	
Operating Fund	1,057,948,351.32	Accounts Payable – Government Entities
Net Loan Balance		
Loans Receivables	9,344,330,439.45	MCA
Interest Receivables	21,818,778.87	MCA
Other Receivables (Penalty)	57,316,794.63	MCA
Other Payables (Excess Payment of LGUs)	(4,001,871.44)	MCA
Government Securities		
Treasury Bonds	73,407,000.00	
	11,810,855,342.21	

LBP collects a Management Fee (MF) of 3 per cent per annum for the administration of the Fund which is booked under Miscellaneous Income. MF is computed every end of semester based on the quarterly average loan balance.

32. Financial Performance

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

	2021	2020 As Restated
Net interest margin ratio	2.85%	3.15%
Return on average assets	1.01%	1.04%
Return on average equity	12.62%	14.04%

33. Equity

As of December 31, 2021, 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 P53.79 billion equivalent to 537,907,777 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 RA No. 7656 or the dividend law which requires GOCCs and Government Financial Institutions (GFIs) to remit cash dividends annually to the National Government (NG). However, to comply with regulatory requirements, the Parent has to preserve its capital, improve its capital ratios and request the Department of Finance (DOF) for dividend reliefs for its annual net earnings.

The Parent requested dividend relief for its 2020 and 2021 net earnings which was favorably endorsed by the DOF to the Office of the President (OP) in February 2022 and June 2022, respectively. Due to the change in the administration, the requests are currently pending and subject for re-endorsement by DOF to the OP 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	
	2021	2020	2021	2020 As Restated
	(Amounts in Millions)			
Reserve for trust business	5,045.00	5,103.99	5,045.00	5,103.99
Reserve for contingencies	5,032.50	5,032.50	5,002.50	5,002.50
Reserve for PPE and software acquisition	335.48	53.07	0.00	0.00
Reserve for retirement fund and insurance	0.00	32.00	0.00	0.00
Reserve for business expansion	1,070.00	1,135.00	0.00	0.00
Reserve for others	74,356.45	74,381.52	74,320.95	74,261.96
	85,839.43	85,738.08	84,368.45	84,368.45

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

	Group			
	Re-measurement of retirement benefit obligation	Net Unrealized Gain/(loss) on AFS securities	Translation Adjustment and Others	Total
Balances, as of January 1, 2021	(12,916,370)	16,156,970,541	(100,130,251)	16,043,923,920
Increase/decrease in CY 2021	3,358,616	(9,554,055,012)	200,047,801	(9,350,648,595)
Balance, as of December 31, 2021	(9,557,754)	6,602,915,529	99,917,550	6,693,275,325

	Parent		
	Net Unrealized Gain/(loss) on AFS securities	Translation Adjustment and Others	Total
Balances, as of January 1, 2021	16,101,553,551	(100,130,251)	16,001,423,300
Increase/(decrease) in CY 2021	(9,042,523,372)	201,280,413	(8,841,242,959)
Balance, as of December 31, 2021	7,059,030,179	101,150,162	7,160,180,341

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 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	
	2021	**2020**	**2021**	**2020**
	(Amounts in Millions)			
Tier 1 Capital	215,460	164,231	204,031	163,215
Tier 2 Capital	10,765	8,285	9,082	8,264
Less: Required Deductions	25,132	19,814	25,833	21,089
Total Qualifying Capital	201,093	152,702	187,280	150,390
Risk Weighted Assets	1,203,958	940,041	1,032,945	936,923
Common Equity Tier 1 Ratio (CET1)	15.81%	15.36%	17.25%	15.17%
Total Capital Adequacy Ratio (CAR)	16.70%	16.24%	18.13%	16.05%

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 December 23, 2020 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 the maturity of the equity securities on August 14, 2025.

In support of the Bayanihan Law, BSP issued Memorandum No. M-2020-034 reducing the Credit Risk Weight for Loans to Micro-, Small-, and Medium-sized Enterprises (MSMEs) from 75 per cent to 50 per cent until December 31, 2021.

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, 2021
(Amounts in Millions)

Item		Leverage Ratio Framework	
		Group	**Parent**
1.	Total consolidated assets as per published financial statements	2,921,667.351	2,586,099.112
2.	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside 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	1,072.898	1,063.411
5.	Adjustments for securities financial transactions (i.e., repos and similar secured lending)	0.000	0.000
6.	Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	76,699.271	72,289.740
7.	Other adjustments	-17,968.962	-19,140.300
8.	**Leverage ratio exposure**	2,981,470.558	2,640,311.963

Basel III Leverage Ratio Common Disclosure Template
As of December 31, 2021
(Amounts in Millions; Ratios in Percent)

Item		Leverage Ratio Framework	
		Group	Parent
	On-balance sheet exposures		
1.	On-balance sheet items 1/	2,925,022.032	2,589,486.218
2.	Asset amounts deducted in determining Basel III Tier 1 Capital	-25,132.327	-25,833.116
3.	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	2,899,889.705	2,563,653.101
	Derivative exposures		
4.	Replacement cost associated with all derivatives transactions	3,342.445	3,305.711
5.	Add-on amounts for Potential Future Exposure associated with all derivative transactions	1,072.898	1,063.411
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)**	**4,415.343**	**4,369.122**
	Securities financing transaction exposures		
12.	Gross SFT assets (with no recognition of netting)	466.239	0.000
13.	Netted amounts of cash payables and cash receivables of gross SFT assets 2/		
14.	CCR exposures for SFT assets	0.000	0.000
15.	Agent transaction exposures 3/	0.000	0.000
16.	**Total securities financing transaction exposures (sum of lines 12 to 15)**	466.239	0.000
	Other off-balance sheet exposures		
17.	Off-balance sheet exposure at gross notional amount	174,539.279	161,459.190
18.	Adjustments for conversion to credit equivalent amounts	0.000	0.000
19.	**Off-balance sheet items**	**76,699.271**	**72,289.740**
	Capital and total exposures		
20.	**Tier 1 capital**	190,327.834	178,198.002
21.	**Total exposures (sum of lines 3, 11, 16 and 19)**	2,981,470.558	2,640,311.963
	Leverage ratio		
22.	**Basel III leverage ratio**	**6.38%**	**6.75%**

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 2021 the Parent made adjustments to its financial statements as of December 31, 2020 as a result of accruals for Separation Incentive Program which were carried out due to the expected separation of employees brought about by the consolidation/merger of operations of UCPB with LBP, pursuant to Malacañang Executive Order No. 142 dated June 25, 2021, but pending approval of the required Organizational Realignment and Rationalization Plan.

The effects of these restatements in the financial statements as of and for the year ended December 31, 2020 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 (FVOCI)	513,124,494,450	(58,989,855)	513,065,504,595
Liability			
Accrued Other Expenses Payable	7,610,374,524	(1,406,612,604)	6,203,761,920
Equity			
Retained Earnings Reserve	84,427,443,865	(58,989,855)	84,368,454,010
Changes in the Statement of Other Comprehensive Income			
Expenses			
Compensation and Fringe Benefits	13,388,832,681	(1,406,612,604)	11,982,220,077

35. Miscellaneous Income

This account is composed of:

	Group		Parent	
	2021	2020	2021	2020
Gain from sale/derecognition of non-financial assets	692,297,232	1,260,800,766	601,412,711	505,572,278
Rent income	110,881,722	43,448,565	17,379,563	23,495,890
Miscellaneous income	12,874,854,611	777,484,828	513,407,912	722,289,467
Recovery on charged-off assets	80,950,878	34,487,283	80,950,878	34,487,283
	13,758,984,443	2,116,221,442	1,213,151,064	1,285,844,918

36. Investment Income

The Investment Income of the Parent consists of:

a. Interest Income

	2021	2020
FVOCI	11,839,605,052	9,512,897,779
FVTPL	70,337,166	165,815,812
HTC	19,028,427,423	17,474,974,016
	30,938,369,641	27,153,687,607

b. Gain/(Loss) on Sale/Redemption/Derecognition of Financial Assets and Liabilities for FVOCI amounting to P69,480 and P1,789,642,014 in CY 2021 and CY 2020, respectively.

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

	2021	2020
Realized Gain/(Loss) from Sale/Derecognition	229,134,632	510,874,777
Unrealized Gain/(Loss)-Mark-to-Market	(593,162,312)	(1,073,703,066)
Realized Gain/(Loss) from Sale/Derecognition-Derivative-FX	(1,721,655,239)	861,596,462
Realized Gain/(Loss) from Foreign Exchange Transactions-Derivative	239,072,166	353,340,217
	(1,846,610,753)	652,108,390

37. Miscellaneous Expenses

This account is composed of:

	Group		Parent	
	2021	2020 As Restated	2021	2020
Finance Charges	276,083	200,191	0	0
Management and other professional fees	206,940,597	197,944,634	177,460,933	169,998,451
Supervision fees	649,750,423	574,277,611	648,204,870	573,050,028
Fines, penalties and other charges	264,952	2,875,461	212,472	2,874,284
Insurance	5,017,718,123	3,955,825,661	4,791,488,486	3,940,746,328
Fees and commission expense	618,742,850	397,085,360	621,467,692	391,655,023
Litigation/asset acquired expenses	470,933,974	123,612,519	316,455,209	120,339,817
Bad debts written-off	0	77,753	0	77,753
Other Expenses	10,839,250,074	9,102,629,189	9,720,194,526	8,749,052,940
	17,803,877,076	14,354,528,379	16,275,484,188	13,947,794,624

38. Events After Reporting Period

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

LBP and UCPB shall become a single corporation, with LANDBANK as the surviving entity, and continue its corporate existence under Republic Act No. 3844, as amended. Meanwhile, UCPB shall cease to exist and its legal personality shall be terminated.

The merger of LBP and UCPB will better equip the National Government (NG) with a stronger, more resilient and unified banking institution to promote inclusive and sustainable rural development and broaden financial inclusion among Filipinos, especially those in the countryside who belong to the underserved and unbanked sectors. The merged bank will have a wider network of touchpoints in the countryside, thus providing more convenient banking services to farmers and fishers, including the coconut farmers. It will also have stronger financial muscle and technical expertise to expand its agricultural loan portfolio, including loans to coconut farmers.

LBP is more than capable of absorbing the financial impact of the merger with UCPB. Its ratios will remain comfortably above the standards set by the Bangko Sentral ng Pilipinas (BSP). Based on LBP's projections on the merger, Common Equity Tier 1 (CET1) ratio by end-2021 will remain higher than the 11 per cent regulatory requirement of the BSP.

The merger will follow the 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.

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

On 29 December 2021, all requirements for the merger were submitted to BSP and through Resolution No. 61 dated January 13, 2022, the Monetary Board approved the merger of LBP and UCPB, with the former as the Surviving Bank.

The legal merger between UCPB and LBP took effect on 01 March 2022 which resulted in UCPB ceasing its operations and combining its net assets to Parent.

Dividend Payment to the National Government

On 03 June 2022, the Parent remitted as special cash dividend to the National Government (NG) the amount of P8.45 billion which represents the net gain realized from the acquisition of UCPB. This special remittance will augment the unprogrammed NG revenues needed to fund expenditures benefiting the vulnerable sectors of society and strengthen the Government's capability to assist the agriculture sector.

39. Financial Risk Management

CREDIT RISK MANAGEMENT

Credit risk arises from the failure of 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	2021 (In Millions)							
	CEA	0%	20%	50%	75%	100%	150%	CRWA
Cash on Hand	**54,238**	**54,238**						**-**
Checks & Other Cash Items (COCI)	**52**		**52**					**10**
Due from Bangko Sentral ng Pilipinas (BSP)	**472,790**	**472,790**						**-**
Due from Other Banks	**25,335**		**10,115**	**15,170**		**50**		**9,658**
Financial Assets Designated at FVTPL	**1,054**					**1,054**		**1,054**
Available-for-Sale (AFS) Financial Assets	**595,431**	**500,788**	**6,748**	**84,631**		**3,263**		**46,928**
Held-to-Maturity (HTM) Financial Assets	**625,126**	**595,738**	**6,205**	**18,402**		**4,781**		**15,223**
Loans & Receivables	**922,176**		**11,163**	**102,873**		**774,156**	**33,984**	**878,801**
1. Interbank Loans Receivables	24,133		6,427	5,865		11,792	49	16,083
2. Loans & Receivables - Others								-
a. LGUs & Public Sector Entities	52,609					52,609		52,609
b. Government Corporation	2,064					2,064		2,064
c. Corporates	653,098		4,485			648,613		649,510
d. Microfinance/Small & Medium Enterprise	72,717		251	72,374			92	36,375
e. Loans to individuals	80,012			24,634		55,378		67,695
3. Defaulted Exposures	37,543					3,700	33,843	54,465
Other Loans and Receivables [1/]	**16,643**	**16,643**						**-**
Sales Contract Receivable (SCR)	**1,639**					**670**	**969**	**2,124**
Real & Other Properties Acquired (ROPA)	**13,400**						**13,400**	**20,100**
Total Exposures Excluding Other Assets	**2,727,884**	**1,640,197**	**34,283**	**221,076**	**-**	**783,974**	**48,353**	**973,898**
Add: Other Assets	**27,371**	**347**				**27,024**		**27,024**
Total On-BS RWA covered by CRM								**1,683**
Total On-BS Exposures	**2,755,255**	**1,640,544**	**34,283**	**221,076**	**-**	**810,998**	**48,353**	**1,002,605**

1/ Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions

Off-BS Items	2021 (In ₱ Millions)							
	CEA	0%	20%	50%	75%	100%	150%	CRWA
A. Direct credit substitutes	**2,832**					**2,832**		**2,832**
B. Transaction-related contingencies	**69,542**	**666**				**68,876**		**68,876**
C. Trade-related contingencies	**2,124**			**642**		**1,482**		**1,803**
D. Other commitments								
Total Off-BS Exposures	**74,498**	**666**	**-**	**642**	**-**	**73,190**	**-**	**73,511**
Counterparty RWA In The Banking Book	**CEA**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**CRWA**
Derivative Exposures								
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Counterparty RWA In The Trading Book	**CEA**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**CRWA**
Derivative Exposures	**36**	**36**						**-**
Exchange Rate Contracts	**4,017**	**3,660**				**357**		**357**
TOTAL	**4,053**	**3,696**	**-**	**-**	**-**	**357**	**-**	**357**
Less: General Loan Loss Provision (in excess of the amount permitted to be included in Tier 2)								**601**

On-Balance Sheet (BS) Items	2021 (In Millions)							
	CEA	0%	20%	50%	75%	100%	150%	CRWA
TOTAL	2,833,806	1,644,906	34,283	221,718	-	884,545	48,353	1,075,872

CEA: **C**redit **Equivalent A**mount **CRM**: **C**redit **R**isk **M**itigant **RWA**: **R**isk **W**eighted **A**ssets **CRWA**: Credit Risk Weighted Assets

Credit Exposures and Credit-Related Commitments

As of December 31, 2021, Parent's Gross Loans & Receivables (GLR) amounted to P922,176 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 P653,098 million (70.82 per cent), followed by Micro, Small & Medium Enterprises (MSMEs) at P72,717 million (7.89 per cent), Local Government Units (LGUs)/Public Sector Entities/Government Corporations at P52,609 million (5.70 per cent) and Loans to Individuals at P80,012 million (8.68 per cent). The Parent also holds substantial receivables arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions amounting to P16,643 million. The P73,511 million credit risk weighted asset of net Off-balance Sheet exposures of P74,498 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 P878,801 million following the Standardized Approach. This represents 81.68 per cent of the Total Credit RWA of P1,075,872 million. Further, total Credit RWA represents 89.36 per cent of the Parent's Aggregate RWA of P1,203,958 million.

Concentration of Credit Risk

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

In Million ₱

Location	2021	2020
Philippines	1,559,530.50	1,385,338.50
USA	17,998.46	18,135.02
Indonesia	32,710.22	21,812.23
Asia	14,538.57	8,961.19
Europe	9,107.94	1,762.50
Others	5.18	2.20
Total	**1,633,890.87**	**1,436,011.64**

Credit Risk Exposures

The Parent is guided by its investment policy in its treasury activities, and 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								

The Parent considers instruments that are rated 'investment grade' to have low credit risk. The tables below present the credit quality of the Bank's treasury exposure:

INVESTMENTS *(As of September 2021)*	**EXPOSURE-AT-DEFAULT** *(In Million P)*			
	TOTAL	**STAGE 1**	**STAGE 2**	**STAGE 3**
Due from BSP and SPURA				
External Credit Rating				
Baa2 or equivalent	410,244.70	410,244.70	-	-
Due from Other Banks				
External Credit Rating				
Aaa or equivalent	3,989.98	3,989.98	-	-
Aa1 or equivalent	51.10	51.10	-	-
Aa2 or equivalent	9,657.82	9,657.82	-	-
Aa3 or equivalent	4,886.87	4,886.87	-	-
A1 or equivalent	6,959.33	6,959.33	-	-
A2 or equivalent	2,155.87	2,155.87	-	-
Baa1 or equivalent	11.59	11.59	-	-
Baa2 or equivalent	7.09	7.09	-	-
Ba2 or equivalent	0.65	-	0.65	-
Benchmarking				
Baa1 or equivalent	2,022.60	2,022.60	-	-
Unrated	9.52	9.52		-
FVOCI debt investments				
External Credit Rating				
Aaa or equivalent	13,613.84	13,613.84	-	-
Baa2 or equivalent	597,233.35	597,233.35	-	-
Unrated	746.40	746.40	-	-
HTC investments				
Internal Credit Rating				
High Grade	1,013.46	1,013.46	-	-
External Credit Rating				
Aaa or equivalent	719.46	719.46		
Baa2 or equivalent	571,988.57	571,988.57	-	-
Benchmarking				
A3 or equivalent	83.51	83.51	-	-
Baa1 or equivalent	7,066.46	7,066.46	-	-
Baa3 or equivalent	208.10	208.10	-	-

INVESTMENTS (As of September 2021)	EXPOSURE-AT-DEFAULT (In Million P)			
	TOTAL	STAGE 1	STAGE 2	STAGE 3
Ba1 or equivalent	358.78		358.78	-
Ba2 or equivalent	610.80	-	-	610.80
Ba3 or equivalent	167.28	-	167.28	-
Unrated	83.74	0.00	-	83.74
TOTAL	**1,633,890.87**	**1,632,669.62**	**526.71**	**694.54**

INVESTMENTS (As of December 2020)	EXPOSURE-AT-DEFAULT (In Million ₱)			
	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	0.64	-	0.64	-
Benchmarking				
Baa1 or equivalent	2,004.40	2,004.40	-	-
Unrated	16.90	16.18	0.72	-
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	732.64	732.64	-	-
HTC investments				
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	511.50	-	-
Ba1 or equivalent	2,100.36	282.73	1,817.63	-
Ba2 or equivalent	707.58	-	96.78	610.80
Ba3 or equivalent	165.13	-	165.13	-
Unrated	86.75	0.00	-	86.75

INVESTMENTS (As of December 2020)	EXPOSURE-AT-DEFAULT (In Million ₱)			
	TOTAL	STAGE 1	STAGE 2	STAGE 3
TOTAL	**1,436,011.64**	**1,433,233.19**	**2,080.90**	**697.55**

As of September 30, 2021, the Parent's total treasury exposure is P1,633.89 billion. Due from BSP and SPURA decreased from P460.09 billion to P410.24 billion while Due from Other Banks increased from P19.63 billion to P29.75 billion. The Parent's FVOCI debt investments grew from P496.39 billion to P611.59 billion. Moreover, HTC investments increased from P459.90 billion to P582.30 billion.

The Parent's exposure classified as Stage 1, Stage 2, and Stage 3 amounted to P1,632.67 billion, P0.53 billion, and P0.69 billion, respectively. No exposure was transferred from Stage 1 to Stage 2. The table below presents the Parent's exposure for the periods September 2021 and December 2020:

INVESTMENTS (In Million ₱)	TOTAL		STAGE 1		STAGE 2		STAGE 3	
	2021	2020	2021	2020	2021	2020	2021	2020
Due from BSP & SPURA	410,244.70	460,086.79	410,244.70	460,086.79	-	-	-	-
Due from Other Banks	29,752.42	19,632.43	29,751.77	19,631.07	0.65	1.36	-	-
FVOCI debt investments	611,593.59	496,394.57	611,593.59	496,394.57	-	-	-	-
HTC investments	582,300.16	459,897.85	581,079.56	457,120.76	526.06	2,079.54	694.54	697.55
TOTAL	**1,633,890.87**	**1,436,011.64**	**1,632,669.62**	**1,433,233.19**	**526.71**	**2,080.90**	**694.54**	**697.55**

Management of Credit Risk

Credit Risk Management (RM) 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 Bank'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 a Management-level Committee, the Investment & Loan Committee (ILC) 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. As the Parent's middle office for credit risk, the Credit Risk

Management Department 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 Dec. 31, 2021, the Parent's net Non-Performing Loan (NPL) stood at P27,771 million or 3.06 per cent of the total loan portfolio of P907,757 million.

Credit Risk Rating

Parent'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 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 has developed and implemented the following statistical-based credit scoring models using CRES:

- Application Scoring Model for Individual Home Buyers
- Application Scoring Model for Salary Loan Availers
- Behavioral Scoring Model for LGUs
- Behavioral Scoring Model for MSMEs
- Behavioral Scoring Model for Large Enterprise
- Behavioral Scoring Model for Cooperatives
- Application Scoring Model for Credit Card
- Behavioral Scoring Model for Partner Financial Institutions (PFIs)

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

Credit Risk Monitoring

The Parent has continuously adopted a formal reporting system for the Parent's Board 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, Expected Credit Loss (ECL) calculation, ROPA, PFIs, and compliance with Uniform Stress Testing and Real Estate Stress Test (REST) are intensively monitored by the Asset and Liability Committee (ALCO), ILC and the Risk Oversight Committee (ROC). The recovery of written-off accounts is also within the radar of the LBP Board, ROC 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 LBP'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 ROC.

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, 2021, the Parent's qualifying capital covering credit risk is P187.280 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P60.159 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, 2021, and 2020, the Parent does not have credit concentration in any particular industry.

As of December 31, 2021 and 2020, information on the concentration of credit as to industry based on carrying amount is shown below:

	Parent			
	2021		2020	
	Amount	%	Amount	%
Financial intermediation	72,722,947,356	8	77,253,031,205	9
Agriculture, hunting and forestry	74,720,261,239	9	74,979,514,763	9
Real estate, renting and business activities	93,641,341,591	11	84,689,477,541	10
Public administration and defense	90,970,465,540	10	87,492,768,998	11
Manufacturing	67,097,902,164	8	60,623,218,561	7
Community, social and personal services	15,813,041,160	2	16,426,788,136	2
Electricity, gas and water	130,844,149,397	15	126,904,026,206	15
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	78,008,342,482	9	78,594,502,062	10
Transport, storage and communication	97,852,939,679	11	77,912,524,066	10
Construction	74,161,197,896	8	61,085,100,135	7
Private households	37,350,774,148	4	39,196,128,350	5
Hotel and restaurant	11,420,099,594	1	10,994,873,797	1
Others	35,813,624,350	4	36,802,803,992	4
	880,417,086,596	100	832,954,757,812	100
Allowance for losses	(26,694,890,846)		(25,926,451,311)	
	853,722,195,750		**807,028,306,501**	

MARKET RISK MANAGEMENT

Market Risk Management Framework

Parent 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, Common Equity Tier 1 (CET1) ratio and capital metrics to manage market risks and establish limits. The LBP Board, ROC and the ALCO, define and set the various market risk limits for each trading portfolio. The Treasury and Investment Banking Sector (TIBS), particularly the Financial Markets Group 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 RM system and processes in place.

Market Risk Weighted Assets

As of December 31, 2021, the LBP's Total Market RWA stood at P15,955 million, broken down as follows:

PARTICULARS	AMOUNT (In Millions)
Interest Rate Exposure	3,262
Equity Exposure	114
FX Exposure	2,230
Options	10,349
Total Market RWA	15,955

The Total Market RWA represents 1.33 per cent of the Parent's Aggregate RWA of P1,203,958 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. Parent continues to manage interest rate risk in trading activities through factor sensitivities and the use of VaR and stress testing. Government Securities and Foreign Securities are subject to daily mark-to-market and controlled through risk limits such as position, VaR, MATs and Stop Loss.

2. Equity Price Risk Management

LBP 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 mark-to-market and controlled through risk limits such as position, VaR, MATs and Stop Loss.

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.

Market Risk Measurement and Validation Tools

1. Value-at-Risk (VaR)

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 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 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

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 Market Risk Stress Test 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, and FX risk.

Results are also simulated in the CET1 Ratio computation to be able to assess its impact said ratio set at 11.00 per cent by BSP for LBP as Domestic Systemically Important Banks (DSIB) for 2021.

3. Back-Test

LBP 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 (MTM) 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:

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

Back-testing results are presented to the ALCO and the ROC 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

RM models for market risk are subjected to independent model validation. The Internal Audit Group (IAG) is tasked to do model validation of RM models.

LIQUIDITY RISK MANAGEMENT

Liquidity Risk Management Framework

The Parent’s liquidity RM process is consistent with its general RM framework covering risk identification, measurement, monitoring and control. The policies and procedures that govern liquidity RM are reviewed and endorsed on a regular basis by ALCO and ROC for approval of the LBP Board of Directors. The liquidity policy of the LBP 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.
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. 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 LBP Board exercises oversight through ROC and has delegated the responsibility of managing the overall liquidity of the LBP to the ALCO. The ALCO and the TIBS are responsible for the daily implementation and monitoring of relevant variables affecting the LBP's liquidity position. The ALCO review 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 Risk Management Group (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 ROC 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 TRMD - Risk Modeling & Quantitative Analytics Unit (RMQAU) and by the IAG.

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.
   TRMD prepares RBU (Peso and FX Regular), FCDU, Solo (Parent) LGR on a weekly and monthly basis to ALCO and ROC, respectively. Parent and Subsidiary LGR is prepared on a quarterly basis.

   The following behavioral assumptions are used in measuring the Parent’s liquidity gap:

   - <u>Non-Maturing Deposits (NMD)</u>: Using historical balances of NMD accounts, a behavioral analysis is conducted to determine the rate of deposit outflow per time bucket. The calculated deposit run-off rates are the basis for the withdrawal pattern or actual behavior of NMDs.

- Term Deposits (TDs): 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.

- Drawing Pattern of Non-Maturing Loans: A behavioral model to capture and estimate the drawing pattern for credit cards and credit line products.

The following table sets forth the asset-liability gap position over the detailed time period for the Parent as of December 31, 2021 based on actual amortization schedule:

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	343,343	2,568	503	105,849	0	452,263
Total Loans	218,621	102,036	85,352	425,662	249,307	1,080,978
Total Investments	97,600	34,063	175,431	595,736	458,322	1,361,152
Other Assets	8	4	1,830	3,491	169	5,502
Total Assets	659,572	138,671	263,116	1,130,738	707,798	2,899,895
Financial Liabilities						
Deposits	807,347	49,548	14,107	1,415,110	0	2,286,112
Borrowings	2,706	788	1,103	8,188	15,942	28,727
Other Liabilities & Unsecured Subordinated Debt	24,127	1,194	27,611	25,583	165	78,680
Total Liabilities	834,180	51,530	42,821	1,448,881	16,107	2,393,519
Gap Position	(174,608)	87,141	220,295	(318,143)	691,691	

As of December 31, 2021, 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 ‘due within 3 months’ and ‘more than 1 year to 5 years’ buckets.

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 Maximum Cumulative Outflow (MCO) limit set by the LBP Board is one of the tools used to manage and control the liquidity risk in the Bank’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. 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
   - FX Regular Stress Test
   - Foreign Currency Deposit Unit (FCDU) Stress Test

3. Liquidity Coverage Ratio (LCR)

   The LCR is reported monthly to BSP to ensure that the Parent maintains an adequate level of unencumbered High Quality Liquid Assets (HQLA) to meet liquidity needs for a 30 calendar-day liquidity stress scenario.

   The Parent computes the LCR using the BSP prescribed formula:

$$LCR = \frac{Stock\ of\ HQLA}{Total\ Net\ Cash\ Outflow\ over\ the\ next\ 30\ calendar\ days}$$

   Where:

   <u>HQLA</u> - Refer to assets that can be converted easily and immediately into cash at little or no loss of value in private markets to meet the Parent's liquidity needs during times of stress.

   <u>Total Net Cash Outflows</u> - Pertains to the sum of the stressed outflow amounts less the sum of the stressed inflow amounts, with the inflow amounts limited to 75 per cent of outflow amounts.

PARTICULARS	31 December (In ₱ Million)	
	2021	2020
High Quality Liquid Assets	1,591,389	1,474,378
Total Net Cash Outflows	714,858	677,929
LCR	222.62%	217.48%

   As of December 31, 2021, the Parent's LCR is higher than the 100 per cent minimum requirement for the CY 2021.

CREDIT RISK ON INVESTMENTS

The Parent adopts a forward-looking Expected Credit Loss (ECL) parameter-based estimation approach as an impairment approach, as prescribed by PFRS 9. ECL Assessment shall be applied to the following treasury exposures:

a. Investments in debt instruments that are measured at amortized cost;
b. Investments in debt instruments that are measured at FVOCI; and

c. Due from Bangko Sentral ng Pilipinas and Due from Other Banks.

To measure the ECL, 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 twelve months if there is no significant increase of credit risk 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.

INTEREST RATE RISK IN THE BANKING BOOK

Interest Rate Risk in the Banking Book Management Framework

Interest Rate Risk in the Banking Book (IRRBB) is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect banking book positions. LBP's IRRBB arises from the core banking activities. The main source of this type of IRRBB is gap risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of the LBP assets, liabilities and off-balance-sheet positions.

The Parent manages IRRBB based on approved policies and procedures. LBP uses Re-pricing Gap/Earning-at-Risk (EaR) and Economic Value of Equity-at-Risk (EVE) to analyze the impact of changes in interest rates to both future earnings and net worth.

The Parent has established guidelines for IRRBB limit setting. 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 LBP. RMG-TRMD recommends interest rate limits in coordination with ALMG and is approved by the ALCO, ROC and the LBP Board. 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 LBP Board defines the Parent's risk appetite and approves business strategies relative to the management of IRRBB. It delegates to ALCO the establishment and management of the Parent's IRRBB position. The ALCO decides and allocates resources to manage IRRBB within the risk appetite set by the Parent. 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.

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.

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

Interest Rate Risk in the Banking Book Measurement Models

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

1. Earnings-Based Measure: The Parent uses the (EaR) to estimate changes in net interest income under a variety of interest rate scenarios over a 12-month horizon. As of December 31, 2021, the NII impact of change in interest rates amounted to P2,204.44 million.

2. Economic Value-Based Measure: The Parent uses the (EVE) to assess the impact of changes in interest rates over the remaining life of its assets, liabilities and off-balance sheet items. As of December 31, 2021, the EVE impact of change in interest rates amounted to P7,608.66 million.

Both measures are assessed to determine the full scope of the Parent's IRRBB exposure. Moreover, IRRBB is not managed in isolation. IRRBB measurement systems are integrated into the Parent's general risk measurement system and results from EaR and EVE models are interpreted in coordination with other risks.

The interest rate risk exposures of the Parent are measured and reported to the ALCO and ROC on a weekly and monthly basis. Parent and Subsidiary EaR and EVE are prepared on a quarterly basis.

Key Behavioral and Modelling Assumptions

Behavioral assumptions enable the Parent to analyze how an instrument's actual maturity or re-pricing may vary from its 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, the Bank analyzed its deposits for the past 10 years to estimate the proportion of core (stable) and non-core (non-stable) deposits.

2. Term Deposits subject to Early Termination

   A behavioral analysis to estimate the amount of term deposits that will be withdrawn before its maturity.

3. Fixed Rate Loans subject to Prepayment

   A behavioral analysis to estimate the percentage of loan balances that is likely to repay before the due date.

4. Drawing Pattern of Non-maturing Loans

Behavioral methodology to capture and estimates the drawing pattern for credit cards and credit line products.

Interest Rate Shocks and Stress Scenarios

The Parent has a wide range of static interest rate shocks consisting of parallel and non-parallel shifts in the yield curve including but not limited to the Market Outlook of the LBP Economist, interest rate volatility for the past five years and standardized rate shocks prescribed under Basel Committee on Banking Supervision (BCBS) framework on IRRBB.

The Parent conducts Interest Rate Stress Testing using EaR and EVE. 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 MORB 146 (Circular 900) Operational Risk Management (ORM), BSP MORB 149 (Circular 951) Business Continuity Management (BCM), BSP MORB 148 (Circular 808) IT 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 MORB 149 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 regulations and 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 Bank's most critical functions and Information Technology (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.

Despite the threat of the COVID-19 pandemic, the Parent was able to continuously conduct business and provide services while ensuring the health and safety of 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 called Pandemic Response Plan.

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 Parent's Risk Management certification exams of Asian Institute of Chartered Banks (AICB).

Embedding of ORM across the institution is manifested with the 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 ROC the results of ORM processes.

Operational Risk Exposure

LBP currently uses the Basic Indicator Approach for calculating the capital charge for operational risk under Pillar 1. The formula is based on the average Gross Revenues of the Parent for the last three years to calculate the Operational Risk Weighted Assets (ORWA). As of 31 December 2021, the Parent's Total ORWA using the Basic Indicator Approach was P112,130 million or 9.31 per cent of the Parent's Aggregate Risk Weighted Assets (RWA) of P1,203,958 million.

Gross Revenues of the Parent continue to grow relative to its expanding business operations and as a result of which, ORWA is expected to increase annually.

LBP 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 LBP 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 proposal to adopt the advanced approaches was submitted to BSP in 2020.

In addition, the simulation conducted by the Parent for 2021 using its historical loss data resulted in a lower operational capital charge by P6.92 billion and P8.62 billion using the SMA and AMA-based ICA, respectively, compared to the computed operational capital charge of P12.45 billion using the BIA.

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 (SMA and AMA-based ICA) have consistently resulted in lower figures than the BIA. The lower capital charge will allow LBP to lend more to its mandated sector especially small farmers and fishers, micro, small and medium enterprises, countryside financial institutions and local government units.

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.