**LAND BANK OF THE PHILIPPINES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022 AND 2021**

(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, 2022, 68 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 August 15, 2023 while those of the subsidiaries were approved for issue by their respective Board of Directors on various dates.

1. **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  2022 2021 | Functional  Currency |
| LBP Leasing and Finance Corporation | Philippines | Leasing | 100% 100% | Philippine peso |
| LBP Insurance Brokerage, Inc. | Philippines | Insurance brokerage | 100% 100% | Philippine peso |
| LBP Resources and Development Corporation | Philippines | Real estate | 100% 100% | Philippine peso |
| Masaganang Sakahan, Inc. | Philippines | Trading | 100% 100% | Philippine peso |
| Overseas Filipino Bank, Inc  United Coconut Planters Bank | Philippines  Philippines | Banking  Banking | 100% 100%  88.91% | Philippine peso  Philippine peso |
| UCPB Leasing and Finance Corporation  United Foreign Exchange Corporation  LANDBANK Securities, Inc  Green Homes Development, Inc  UCPB Savings Bank, Inc | Philippines  Philippines  Philippines  Philippines  Philippines | Leasing  Trading  Trading  Real estate  Banking | 100%  100%  100%  100%  97.55% | Philippine peso  Philippine peso  Philippine peso  Philippine peso  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 the United Coconut Planters Bank (UCPB) as Subsidiary and subsequent merger with LBP**

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

On September 24, 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 P4,038,227,868, 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 Group recognized a Gain on Bargain Purchase on acquisition date amounting to P11,999,456,312 while on merger date, the Parent recognized a Gain on Bargain Purchase amounting to P10,511,702,503, 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. The gain is 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 |
| Non-Controlling Interest, 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 |

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

|  |  |
| --- | --- |
| Fair value of identifiable net assets | P15,049,783,205 |
| Consideration transferred | (4,538,080,702) |
| Gain on bargain purchase | 10,511,702,503 |

**Consideration transferred**

The Parent issued the following COI to former owners of the UCPB:

* 20-year P12 billion face value COI with interest at a fixed rate of 1.75 per cent per annum based on outstanding balance issued to the PDIC on September 24, 2021, payable annually to mature in 2041, with fair value at the time of acquisition amounting to P4.038 billion computed based on the present value of the instrument discounted using the effective interest rate of 14.934 per cent.

The issuer, may, at its sole discretion, make a prepayment on the principal on any Payment Date beginning on the 3rd year from the date of issuance of the COI, and every three years thereafter.

The Issuer warrants and represents that, upon its issuance and until maturity, the COI shall be fully assignable and negotiable, and shall continue to possess the features and terms provided under the Deed of Absolute Sale.

In the event of default in the payment of principal and/or interest in the Payment Date, all the remaining unpaid obligations under the COI, regardless of Payment Schedule, shall be declared to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable without presentment, demand and protest or further notice of any kind, all of which are hereby expressly waived by the Issuer. The total outstanding obligation shall be subject to a penalty of ten per cent per annum from Payment Date until the said obligation shall have been paid in full.

As of December 31, 2022, the principal has an outstanding balance of P11.700 billion.

* 20-year P1.121 billion face value COI with interest at a fixed rate of 1.75 per cent per annum based on outstanding balance issued to the Republic of the Philippines, as represented by the Trust Fund Management Committee (TFMC) on May 25, 2022, payable annually to mature in 2042, with fair value at the time of acquisition amounting to P0.377 billion computed based on the present value of the instrument discounted using the effective interest rate of 14.934 per cent.

The Issuer warrants and represents that, upon its issuance and until maturity, the COI shall be fully assignable and negotiable, and shall continue to possess the features and terms provided under the Deed of Absolute Sale.

In the event of default in the payment of principal and/or interest in the Payment Date, all the remaining unpaid obligations under the COI, regardless of Payment Schedule, shall be declared to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable without presentment, demand and protest or further notice of any kind, all of which are hereby expressly waived by the Issuer. The total outstanding obligation shall be subject to a penalty of ten per cent per annum from Payment Date until the said obligation shall have been paid in full.

As of December 31, 2022, the principal has an outstanding balance of P0.377 billion.

**Identifiable assets acquired and liabilities assumed**

The Parent measured the net identifiable assets acquired and the liabilities assumed on acquisition date at provisional amounts amounting to P18,038,110,651. After the acquisition date, the Parent have reflected adjustments to the provisional amount on 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 is within one year from acquisition date. The Parent has determined the fair values of UCPB’s net identifiable assets and liabilities and the total acquisition/transaction related costs as at acquisition date and merger date. As of the merger date, fair value of the net identifiable assets and liabilities is at P15,049,783,205.

The Parent measures at the acquisition and merger dates 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 while at the merger date, all the non-controlling interests were acquired by the Parent by setting-up accounts payable to the non-controlling shareholders.

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.

2.4Adoption 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, 2022.

***Amendments to PFRS 3 – Business Combinations - Reference to the Conceptual Framework***

The amendments are intended to replace a reference to a previous version of the International Accounting Standards Board (IASB) *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.

This will have no significant impact on the Group as it only serves to update an outdated reference in PFRS 3 without significantly changing its requirements.

*Amendments to PAS 16 – Property, Plant and Equipment – Proceeds before Intended Use*

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.

This will have no impact on the Group’s Financial Statements as the assets of the Group are intended to be used in its operations and not to produce items.

***Amendments to PAS 37 – Onerous Contracts – Cost of Fulfilling a Contract***

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 adoption does not have material impact on the Group’s Financial Statements

***Annual Improvements to PFRS Standards* *2018 - 2020***

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 caused no effect in the Group’s Financial Statements.

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, 2023

*PAS 12 (Amendments), Deferred Tax related to Assets and Liabilities from a Single Transaction*

The amendments introduce an exception to the initial recognition exemption in PAS 12, narrowing its scope, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

***PAS 1 (Amendments) and PFRS Practice Statement 2, Disclosure Initiative – Accounting Policies)***

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

* Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies; and
* Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.

*PAS 8 (Amendments), Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

*PAS 1 (Amendments),* Presentation of Financial Statements, Non-current Liabilities with Covenants

The amendments clarify paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

* What is meant by a right to defer settlement
* That a right to defer must exist at the end of the reporting period
* That classification is unaffected by the likelihood that an entity will exercise its deferral right
* That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

*PFRS 16 (Amendments), Leases, Lease Liability in a Sale and Leaseback*

The amendment to PFRS 16 Leases specifies requirements for seller-lessees to measure the lease liability in a sale and leaseback transaction.

The amendment does not change the accounting for leases unrelated to sale and leaseback transactions.

The amendment applies to annual reporting periods beginning on or after 1 January 2024 and can be applied earlier.

***PFRS 17 – Insurance Contracts***

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

* A specific adaptation for contracts with direct participation features (the variable fee approach)
* A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the Financial and Sustainability Reporting Standards Council amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025, with comparative figures required. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB. Early application is permitted.

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:

1. Classification and Measurement
2. *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.

1. *Equity Financial Assets*

All equity financial assets are required to be measured at initial recognition at FVTPL unless an irrevocable designation is made to classify the instrument as financial asset measured at FVOCI. The FVOCI for equity category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss. Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

1. *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.

1. *Derivatives*

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

Expected Credit Loss (ECL) Assessment

ECL Assessment shall be applied to the following exposures:

1. Loans and receivables measured at amortized cost;
2. Investments in debt instruments that are measured at amortized cost;
3. Investments in debt instruments that are measured at fair value through other comprehensive income (FVOCI);
4. Due from Bangko Sentral ng Pilipinas and Due from Other Banks;
5. Credit commitments and financial guarantee contracts that are not measured at fair value though profit or loss; and
6. 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.

1. *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 SPPI 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.

1. *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:

1. 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
2. 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:

1. the Group’s right to receive payment of the dividend is established;
2. it is probable that the economic benefits associated with the dividend will flow to the entity; and
3. the amount of the dividend can be measured reliably.
4. *Financial Assets at Amortized Cost*

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

1. These are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and
2. 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 effective interest rate (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.

1. *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 amortized 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 derecognised 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 Assets and Financial Liabilities

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

Fiduciary Activities

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

Subsequent Events

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

Impairment of Property and Equipment, Investment Property and Other Resources

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

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

Investments in Subsidiaries

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

Investment in Associate

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

Property and Equipment

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

The initial cost of property and equipment comprises its purchase price, other expenditures incurred incident to the acquisition 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.

Subsequent costs pertaining to additions (extensions, enlargement or expansion made to an existing asset) shall be capitalized if it is probable that future economic benefits will flow to the Parent for more than one (1) year, and the costs of such additions, replacements and betterments is at least five per cent of the initial cost but should not be less that the set threshold which is P50,000.00 *(per COA Circular No 2022-004).*

Depreciation shall start on the month following the date that the asset is ready for use (even if not actually being used), which is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Parent, as certified by the Property Supply Officer and Department/Unit Head. Depreciation and amortization are 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.

Effective CY 2022, the Parent adopted COA Circular No 2022-004 providing the guidelines on the increase of the capitalization threshold for tangible assets from P15,000.00 to P50,000.00 per Section 23 of the General Provisions of RA No. 11639 or the FY 2022 General Appropriations Act. The increase in capitalization threshold was envisioned to lead a more efficient utilization of funds in the procurement of goods. The Parent considered this as a change in accounting policy and any effect from the change was applied retrospectively i.e., the new capitalization threshold was applied for all tangible items purchased in CY 2022 onwards and in prior years, as follows:

* + 1. Tangible items with amounts below P50,000.00 previously classified as Property, Plant and Equipment (PPE) shall be recognized as expenses if acquired and issued to end-user in CY 2022; and
    2. Tangible items acquired prior to CY 2022 with amounts below P50,000.00 previously classified as PPE, the carrying amount of the property shall be recognized as an adjustment to the opening balance of Retained Earnings for CY 2022.

The effect of this change in accounting policy for each financial statement line item is presented as follows:

|  |  |  |
| --- | --- | --- |
|  | **2022** | **2021** |
| BPFFE | 0 | (1,901,466,126) |
| Miscellaneous Assets | 0 | (4,183,156) |
| Accumulated Depreciation  Allowance for Losses  Retained Earnings | 0  0  0 | (1,032,899,339)  (5,512,655)  (867,237,288) |

Investment Properties

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

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

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

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

1st - Fair value of the asset received;

2nd - Fair value of the asset given up;

3rd - Carrying amount of the asset given up, if the fair values of the assets received and asset given up cannot be determined.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss. Investment properties are derecognised 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 (NCAHS) 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. The sale is to be expected to qualify as completed sale within one year from date of reclassification to NCAHS; that, a minimum 10 per cent refundable earnest money based on the purchase price must be paid by the prospected buyer. 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:

1. 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.
2. 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:

1. 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.
2. 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 (Loss of Life and Disability Benefit Program) 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 2022 amounts to P7.697 million. The fund is being administered by the Provident Fund Department 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 which pertains to a lease term of 12 months or less, and leases of low-value assets amounting to P300,000 or less which shall be booked as “Rent Expense” and recognized on a straight-line basis or another systematic basis over the lease term which includes short-term leases of office spaces, transportation, photocopier and other equipment.

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.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If some or all of a provision to be reimbursed is expected and is certain, the reimbursement is recognized as a separate asset. The related expense is presented in the statement of income, net of any reimbursement. Where the effect of the time value of money is material, the amount of provisions recognized is the present value of the expenditures expected to be required to settle the obligation, determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as Interest Expense.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Revenue Recognition

A Revenue from Contract with Customers is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

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 when (or as) the entity satisfies a Performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. If an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time by measuring the progress towards complete satisfaction of that performance obligation. 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:

1. 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.

1. 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 ‘Gain/(Loss) on Sale/Derecognition of Asset’ 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 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 to ‘Fees and Commission Income – Others’ account when they are charged to cardholders.

Revenues outside the scope of PFRS 15:

*Interest income*

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

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

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

*Recovery on charged-off assets*

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

*Dividend income*

Dividend income is recognized in profit or loss when:

1. the Group’s right to receive payment of the dividend is established;
2. it is probable that the economic benefits associated with the dividend will flow to the entity; and
3. 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.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group’s chief operating decision-maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group’s products and service lines as disclosed in Note 12, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm’s length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, Operating Segments, are the same as those used in its consolidated financial statements.

1. **Significant Accounting Judgments and Estimates**

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Judgments**

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

Leases

*Group as Lessor*

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

*Group as Lessee*

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

*Extension and termination options*

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

*Estimating the Incremental Borrowing Rate for lease liabilities*

The Group uses the incremental borrowing rate (IBR) at the lease commencement date in calculating for the present value of lease payments because the interest rate implicit in the lease is not determinable. The IBR for lease liabilities is the rate of interest that the Group 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 Right of Use (ROU) asset in a similar economic environment.

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

Impairment of Financial Assets

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

1. Loans and receivables that are measured at amortized costs;
2. Investments in debt instruments that are measured at amortized cost;
3. Investments in debt instruments that are measured at FVOCI;

4. Credit commitments and financial guarantee contracts that are not measured at fair value through profit and loss (FVTPL);

5. Due from BSP and Due from Other Banks; and

6. Other financial assets measured at amortized costs.

To measure the ECL, for financial assets initial assessment is first done on a per security basis to assess its level of credit risk. The estimated ECL per instrument is based on credit losses that result from possible default events within the next 12 months if there is no significant increase of credit risk 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, 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:
3. Internal Credit Risk Rating - PD is estimated based on issuer/borrower rating grade produced by internal rating models adopted from the methodology for Loans.
4. External Credit Risk Rating - PD is based on issue/issuer rating grade provided by external ratings agencies such as Moody’s, Standard & Poor (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.
5. 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:
6. Based on Bloomberg peers where Parent uses the equivalent ratings of the comparable companies sourced from the Relative Valuation function in Bloomberg; and
7. 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

1. 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.

1. 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 P442,211,398,690 and P441,449,432,840 as of December 31, 2022 and P616,825,978,835 and P576,310,439,551 as of December 31, 2021 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.

1. *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 the Parent to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

1. *Useful lives of property and equipment*

The Group 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 P14,180,226,428 and P12,884,873,959 as of December 31, 2022 and P12,047,765,360 and P9,597,280,256 as of December 31, 2021, respectively.

1. *Allowance for Credit Loss*

The measurement of the allowance for ECL on debt financial assets at amortized cost and at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses).

1. **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

For assets and liabilities not listed in an active market, the Group uses valuation techniques such as net asset value and investment multiple that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Valuation Techniques:

1. Government debt securities

Government debt securities are financial instruments issued by sovereign governments and include both long-term bonds and short-term bills with fixed or floating rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification. When active market prices are not available, the Parent uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Parent classifies those securities as Level 2. The Parent does not have Level 3 government securities where valuation inputs would be unobservable.

2. Debt securities issued by financial institutions and other debt securities

While most of these instruments are standard fixed or floating rate securities, some may have more complex coupon or embedded derivative characteristics. The Parent uses active market prices when available, or other observable inputs in discounted cash flow models to estimate the corresponding fair value including credit default swap data of the issuer to estimate the relevant credit spreads. Municipal bonds and bonds issued by financial institutions are generally Level 1 and corporate bonds are generally Level 2 instruments as well as convertible bonds where usually there is not sufficient third-party trading data to justify Level 1 classification. Level 3 instruments are those where significant inputs cannot be referenced to observable data and, therefore, inputs are adjusted for relative tenor and issuer quality.

3. Equity Securities

The majority of equity instruments are actively traded in the Philippine Stock Exchange with readily available active prices on a regular basis. Such instruments are classified as Level1. Investments held in funds are measured based on their published net asset value (NAV), taking into account redemption and/or other restrictions. Such instruments are generally Level 2. Equity instruments in non-listed entities are initially recognized at transaction price and re-measured (to the extent information is available) and valued on a case-by-case and classified as Level 3. The Parent holds equity investments that are valued at cost due lack of reliable information to value them.

4. Loans and receivables at fair value through profit or loss

For loans and receivables designated at FVTPL and mandatorily required to be measured at FVTPL (those that did not meet the SPPI criteria), a discounted cash flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. The element of fair value attributable to the credit risk is calculated by determining the changes in credit spread implicit in the fair value of bonds issued by entities with similar credit characteristics. Classification between Level 2 and Level 3 is determined based on whether the assessment of credit quality is based on observable or unobservable data.

5. Foreign exchange contracts

Foreign exchange contracts include open spot contracts, foreign exchange forward and swap contracts and over-the-counter foreign exchange options. These instruments are valued by either observable foreign exchange rates, observable or calculated forward points and option valuation models. With the exception of contracts where a directly observable rate is available which are disclosed as Level 1, the Parent classifies foreign exchange contracts as Level 2 financial instruments when no unobservable inputs are used for their valuation or the unobservable inputs used are not significant to the measurement (as a whole).

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Parent determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each statement of financial position date. The Parent also determines the policies and procedures for both recurring fair value measurement, such as financial assets and liabilities at FVTPL, and for non-recurring measurement, such as investment properties.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Assets and Liabilities are valued based on quotes in an active market. In absence of active market quote, the Parent uses various valuation methodologies that maximizes reliance to observable market inputs. Relevant inputs may include the relevant yield curves, industry benchmarks, financial performance and condition of issuer, and other available information.

Valuation methodology to be used shall be agreed upon by the Front, Middle, and Back Office. In some cases, valuation methodology is also agreed upon by other holders of the same asset/liability.

As of December 31, 2022 and 2021, the fair value hierarchy of the Parent’s assets and liabilities are presented below:

|  |  | **As of December 31, 2022** | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Book** |  |  |  | **Total** |
|  | | **Value** | **Level 1 a/** | **Level 2 b/** | **Level 3 c/** | **Fair Value** |
|  |  |  |  |  |  |  |
| **FINANCIAL ASSETS:** | |  |  |  |  |  |
| **FVTPL** | | **18,902,001,459** | **13,568,165,624** | **4,210,632,911** | **1,123,202,924** | **18,902,001,459** |
|  | Debt Securities | **13,568,165,624** | **13,568,165,624** | **0** | **0** | **13,568,165,624** |
|  | Domestic | 10,795,034,454 | 10,795,034,454 | 0 | 0 | 10,795,034,454 |
|  | FCDU | 2,773,131,170 | 2,773,131,170 | 0 | 0 | 2,773,131,170 |
|  | Equity Securities | **1,123,202,924** | **0** | **0** | **1,123,202,924** | **1,123,202,924** |
|  | Domestic | 31,262,235 | 0 | 0 | 31,262,235 | **31,262,235** |
|  | FX-Reg | 1,091,940,689 | 0 | 0 | 1,091,940,689 | **1,091,940,689** |
|  | Derivative w/ positive FV | **4,210,632,911** | 0 | **4,210,632,911** | 0 | **4,210,632,911** |
|  | FX-Reg | 1,473,475,579 | 0 | 1,473,475,579 | 0 | 1,473,475,579 |
|  | PLFD | 2,593,563,842 | 0 | 2,593,563,842 | 0 | 2,593,563,842 |
|  | FCDU | 143,593,490 | 0 | 143,593,490 | 0 | 143,593,490 |
|  |  |  |  |  |  |  |
| **FVOCI** | | **450,498,166,234** | **435,582,795,564** | **0** | **2,657,382,541** | **438,240,178,105** |
|  | Debt Securities | **441,534,452,086** | **421,009,813,422** | **0** | **0** | **421,009,813,422** |
|  | Domestic | 353,842,394,719 | 339,720,919,799 | 0 | 0 | 339,720,919,799 |
|  | FX-Reg | 11,979,944,437 | 11,203,489,944 | 0 | 0 | 11,203,489,944 |
|  | FCDU | 75,712,112,930 | 70,085,403,679 | 0 | 0 | 70,085,403,679 |
|  | Equity Securities | **8,963,714,148** | **14,572,982,142** | **0** | **2,657,382,541** | **17,230,364,683** |
|  | Domestic | 5,471,507,854 | 13,855,734,927 | 0 | 884,934,335 | **14,740,669,262** |
|  | FX-Reg | 3,492,206,294 | 717,247,215 | 0 | 1,772,448,206 | **2,489,695,421** |
|  |  |  |  |  |  |  |
| **HTC** | | **839,980,279,650** | **776,831,002,102** | **5,548,985,485** | **4,417,335,164** | **786,797,322,751** |
|  | Debt Securities | **839,980,279,650** | **776,831,002,102** | **5,548,985,485** | **4,417,335,164** | **786,797,322,751** |
|  | Domestic | 788,065,395,690 | 730,300,436,049 | 5,548,985,485 | 26,351,206 | 735,875,772,740 |
|  | FX-Reg | 20,151,870,535 | 16,116,999,729 | 0 | 3,146,656,441 | 19,263,656,170 |
|  | FCDU | 31,763,013,425 | 30,413,566,324 | 0 | 1,244,327,517 | 31,657,893,841 |
| **Total** | | **1,309,380,447,343** | **1,225,981,963,290** | **9,759,618,396** | **8,197,920,629** | **1,243,939,502,315** |
|  |  |  |  |  |  |  |
| **FINANCIAL LIABILITIES:** | |  |  |  |  |  |
| **Bills Payable** | | **31,593,982,866** | **0** | **31,425,871,026** | **168,111,840** | **31,593,982,866** |
|  | BSP Rehabilitation Programs | 24,303,875 | 0 | 0 | 24,303,875 | 24,303,875 |
|  | Domestic Borrowings (ODA thru BTr) | 143,807,965 | 0 | 0 | 143,807,965 | 143,807,965 |
|  | Foreign Borrowings/ODA | 15,299,984,049 | 0 | 15,299,984,049 | 0 | 15,299,984,049 |
|  | Deposit Substitute-Repurchase Agreement | 16,125,886,977 | 0 | 16,125,886,977 | 0 | 16,125,886,977 |
| **Bonds Payable** | | **4,543,923,875** | **0** | **4,543,923,875** | **0** | **4,543,923,875** |
| **Derivative Liabilities** | | **8,570,935** | **0** | **8,570,935** | **0** | **8,570,935** |
|  | |  |  |  |  |  |
|  |  | **36,146,477,676** | **0** | **35,978,365,836** | **168,111,840** | **36,146,477,676** |

|  |  | **As of December 31, 2021** | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Book** |  |  |  | **Total** |
|  | | **Value** | **Level 1 a/** | **Level 2 b/** | **Level 3 c/** | **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** |
|  | FX-Reg | 2,431,833 | 0 | 2,431,833 | 0 | 2,431,833 |
|  | PLFD | 2,951,417,960 | 0 | 2,951,417,960 | 0 | 2,951,417,960 |
|  | 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** | **1,189,989,462,935** | **6,138,916,808** | **10,147,339,676** | **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 Programs | 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** |
|  |  | **33,169,223,349** | **0** | **32,988,274,253** | **180,949,096** | **33,169,223,349** |
|  |  |  |  |  |  |  |
|  | a/ Level 1 - quoted market price in active markets for identical assets or liabilities | | | | |  |
|  | b/ Level 2 - those involving 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)  c/ Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) | | | | |  |
|  |  |
|  |  | | | |  |  |

The Bank follows the Fair Value Hierarchy provided by PFRS 13. As a general rule, Assets and Liabilities are valued using Level 1 Inputs. However, for the following cases, a Level 2 or 3 Inputs are used in determining the fair value:

1. No available quote in the market/not traded in market

2. Traded in a market but is not active

The choice of Level 2 or 3 inputs will depend on the next best available data, or if there is any agreement between holders of the same asset/liability as to what fair valuation methodology to be used.

1. **Cash and Other Cash Items**

This account consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
|  |  |  |  |  |
| Cash on hand | 49,942,061,031 | 53,806,886,456 | 49,288,805,284 | 47,361,365,672 |
| Checks and other cash items | 32,956,379 | 11,002,654 | 32,956,379 | 11,002,654 |
| Returned checks and other cash items | 1,103,187,002 | 50,955,047 | 1,103,187,002 | 50,955,047 |
| Fx Currency Notes & Coins on Hand | 0 | 429,725,250 | 0 | 0 |
| Fx Currency Checks and Other Cash Items | 0 | 41,216,387 | 0 | 0 |
| Miscellaneous checks and other cash items | 2,800 | 21,536 | 2,800 | 21,536 |
| Petty cash fund | 15,300,694 | 11,131,000 | 15,200,694 | 10,686,000 |
| Payroll fund | 401,773 | 980,813 | 401,773 | 980,813 |
|  | 51,093,909,679 | 54,351,919,143 | 50,440,553,932 | 47,435,011,722 |

1. **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.

This account consists of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Parent** | |
|  | **2022** | **2021** | **2022** | **2021** |
| Due from BSP- Regular-DDA | 190,997,450,516 | 198,877,050,887 | 190,294,744,608 | 165,356,988,592 |
| Due from BSP- Regular-ODA | 336,784,000,000 | 190,405,000,000 | 336,200,000,000 | 158,000,000,000 |
| Due from BSP- Regular-TDA | 40,997,000,000 | 85,720,212,765 | 40,000,000,000 | 70,000,000,000 |
| Due from BSP- Small Enterprises | 2,136,312 | 2,136,312 | 2,136,312 | 2,136,312 |
| Due from BSP- Others | 8,648,969 | 7,700,000 | 8,648,969 | 7,700,000 |
| Accrued Interest Receivable | 135,462,977 | 18,792,537 | 134,520,000 | 17,920,000 |
|  | 568,924,698,774 | 475,030,892,501 | 566,640,049,889 | 393,384,744,904 |

1. **Due from Other Banks**

This account consists of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Parent** | |
|  | **2022** | **2021** | **2022** | **2021** |
| Deposit with local banks | 552,040,967 | 3,166,750,040 | 2,425,303,594 | 2,964,388,024 |
| Deposit with foreign banks | 18,061,337,232 | 22,754,041,703 | 18,061,337,232 | 10,993,977,223 |
| Allowance for Credit Losses | (4,802,892) | (1,854,100) | (4,802,892) | (1,854,100) |
| Accrued Interest Receivable | 5,535 | 0 | 19,222,222 | 3,944,445 |
| Allowance for Credit Losses | (2,902) | (1,072) | (2,902) | (1,072) |
|  | 18,608,577,940 | 25,918,936,571 | 20,501,057,254 | 13,960,454,520 |

The Group maintains nostro accounts on global basis with 36 foreign depository banks totaling 37 and 22 bank accounts in 2022 and 2021, respectively, the most significant of which are as follows:

| **2022** | **2021** |
| --- | --- |
|  |  |
| 1. JP Morgan Chase Bank  2. Deutsche Bank | 1. The Bank of New York  2. Standard Chartered Bank, N.Y. |
| 3. Wells Fargo | 3. Bank of America, N.Y. |
| 4. Standard Chartered Bank, N.Y. | 4. JP Morgan Chase Bank |
| 5. Clearstream Bank | 5. Citibank, N.Y. |

1. **Interbank Loans Receivables**

This account consists of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Parent** | |
|  | **2022** | **2021** | **2022** | **2021** |
|  |  |  |  |  |
| Foreign Banks | 14,663,565,000 | 11,474,775,000 | 14,663,565,000 | 11,474,775,000 |
| Allow. For Credit Losses | (41,608) | 0 | (41,608) | 0 |
| Accrued Interest Receivable | 10,974,597 | 29,466 | 10,974,597 | 29,466 |
| Allow. For Credit Losses | (17) | 0 | (17) | 0 |
|  | 14,674,497,972 | 11,474,804,466 | 14,674,497,972 | 11,474,804,466 |

The interbank loans receivable will mature within 30 days from date of investment with range of interest rates at December 31, as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2022** | | |  | **2021** | | |
|  |  |  |  |  |  |  |  |
| Foreign | 0.01% | to | 4.35% |  | 0.01% | to | 0.15% |

1. **Securities Purchased under Agreements to Resell**

This account consists of:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Parent** | |
|  | **2022** | **2021** | **2022** | **2021** |
|  |  |  |  |  |
| Domestic |  |  |  |  |
| Reverse Repurchase-BSP | 26,536,835,743 | 16,642,396,483 | 26,084,420,709 | 15,800,317,280 |
| Repo Lending-Private | 2,650,860,167 | 0 | 2,650,860,167 | 0 |
| Accrued Interest Receivable | 12,068,194 | 702,236 | 11,979,345 | 702,236 |
|  | 29,199,764,104 | 16,643,098,719 | 28,747,260,221 | 15,801,019,516 |

Reverse Repurchase with BSP carry interest rate at 5.50 per cent and 2.00 per cent as at December 31, 2022 and 2021, respectively. Reverse Repurchase with Private carries an interest rate at 7.00 per cent as at December 31, 2022.

1. **Fair Value Thru Profit or Loss (FVTPL)**

This consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
|  |  |  |  |  |
| Government Securities – Domestic | 10,795,034,454 | 27,256,480,770 | 10,795,034,454 | 27,256,480,770 |
| Government Securities – Foreign | 2,773,131,170 | 0 | 2,773,131,170 | 0 |
| Private Securities – Domestic | 174,694,885 | 725,276,101 | 31,262,235 | 32,262,236 |
| Private Securities – Foreign | 1,091,940,689 | 1,029,447,269 | 1,091,940,689 | 1,029,447,269 |
| Derivative with positive fair value | 4,210,632,911 | 3,048,888,317 | 4,210,632,911 | 3,048,888,317 |
| Accrued Interest Receivable | 23,733,383 | 1,454,951 | 22,593,939 | 1,454,951 |
|  | 19,069,167,492 | 32,061,547,408 | 18,924,595,398 | 31,368,533,543 |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2022** | | |  | **2021** | | |
|  |  |  |  |  |  |  |  |
| Domestic | 2.375% | To | 6.25% |  | 2.375% | to | 3.75% |
| Foreign | 1.541% | To | 4.193% |  | 0.625% | to | 6.375% |

FVTPL includes the foreign exchange (FX) Risk Cover of the Parent's borrowings from multilateral agencies amounting to P2,593,563,842 and P2,951,417,960 in 2022 and 2021, 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, 2022, the outstanding notional amount of the FX Risk Cover amounted to JPY18,271,147,737 and EUR21,712,730.

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 P357,854,118 in 2022 and P324,794,440 in 2021.

The derivative with positive fair value comprises of the following:

|  |  |  |
| --- | --- | --- |
|  | **2022** | **2021** |
| FX Risk Cover | 2,593,563,842 | 2,951,417,960 |
| Debt Warrants | 143,593,490 | 95,038,524 |
| Forward Contracts | 1,473,475,579 | 2,431,833 |
|  | 4,210,632,911 | 3,048,888,317 |

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.

Financial assets representing the Parent's equity infusions in countryside financial institutions and preference shares in Metro Rail Transit Corporation that are assessed as debt securities but failed the SPPI test are classified as designated at FVTPL.

1. **Fair Value Through Other Comprehensive Income (FVOCI)**

This account consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
|  |  |  |  |  |
| Government |  |  |  |  |
| Domestic | 336,141,217,103 | 493,408,574,296 | 335,503,574,825 | 464,828,264,200 |
| Foreign | 78,852,324,548 | 92,873,862,220 | 78,852,324,548 | 89,180,234,002 |
|  |  |  |  |  |
| Private |  |  |  |  |
| Domestic | 19,081,409,475 | 20,840,755,663 | 18,958,014,237 | 14,528,876,022 |
| Foreign | 4,926,264,496 | 5,810,718,604 | 4,926,264,496 | 3,881,043,942 |
| Accrued Interest Receivable | 3,210,245,828 | 3,892,068,052 | 3,209,317,494 | 3,892,021,385 |
| Allow. For Credit | (62,760) | 0 | (62,760) | 0 |
|  | 442,211,398,690 | 616,825,978,835 | 441,449,432,840 | 576,310,439,551 |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2022** | | |  | **2021** | | |
|  |  |  |  |  |  |  |  |
| Domestic | 2.375% | To | 8.125% |  | 2.375% | To | 6.375% |
| Foreign | 0.125% | To | 10.625% |  | 0.125% | To | 10.625% |

In 2022, the Parent disposed equity securities at FVOCI with total carrying value of P619,739,476 and recognized a gain on disposal charged against Retained Earnings of P394,927,884. The Parent sold its investments in equity securities as the target fair value of the listed stocks based on discounted cash flow model has been reached. Likewise, disposition of equity investment in countryside financial institution was made to recover the Parent's matured principal investment.

The net gains or losses on FVOCI equity securities classified as FVOCI amounted to P8,266,650,534 and P9,441,472,503 as of December 31, 2022 and 2021, respectively.

Domestic – Private securities

* + 1. Manila Electric Company (MERALCO) shares

LBP and SMC Global entered into a Share Purchase Agreement (SPA) on December 2, 2008. Under the SPA, LBP will transfer and convey 46,596,596 MERALCO shares to SMC Global for a consideration of P4,193,693,640.00 (priced at P90 per share) and a fixed term interest of P553,847,140.06. The SPA was not implemented because the shares were levied on execution on a just compensation case against LBP.

On December 14, 2011, the Supreme Court directed MERALCO to reinstate the shares in LBP’s name. LBP was only able to recover 38,635,950 shares.

For failure of the Bank to implement the SPA, SMC Global filed before the Regional Trial Court (RTC) a Complaint for Specific Performance and Damages against LBP on July 3, 2014.

On March 18, 2021, the RTC rendered its decision in favor of SMC Global, ordering LBP and other defendants, jointly and severally, to:

1. Immediately implement the Share Purchase Agreement;

2. Pay SMC Global attorney’s fees in the amount of Five Million (₱5,000,000.00) and for damages in the amount of Five Million (₱5,000,000.00) plus six per cent (6%) legal interest from date LBP is adjudged in delay in the implementation of the Share Purchase Agreement until fully paid;

3. Pay the costs of suits.

On April 30, 2021, LBP filed its Notice of Appeal.

LBP filed its Appellant’s Brief before the Court of Appeals (CA) on July 27, 2022. On November 3, 2022, the CA rendered its Decision affirming the RTC. LBP filed its Motion for Reconsideration (MR) on December 2, 2022.

On March 20, 2023, the CA rendered a Resolution denying LBP’s MR.

On May 26, 2023, LBP filed a Petition for Review on Certiorari before the Supreme Court.

* + 1. 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 P73,540,436 in 2022. No gain or loss was recognized on the disposal of the said equity securities.

Foreign – Private securities

Metro Rail Transit Corporation (MRTC) preference shares

Total FVOCI accounts of the Parent include investment of $19,584,623.61 (P1,091,940,689.38) in MRTC preference shares and $31,780,317.76 (P1,771,911,616.71) 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, 2022  (In US Dollars ) | Book Value  As of December 31,  2022  (In US Dollars ) | Percentage in MRTC |
| --- | --- | --- | --- |
|  |  |  |  |
| * MRT III Bonds | 29,682,609 | 78,696,489 |  |
| * MRT III Preferred Shares | 54,000,000 | 19,584,624 |  |
| Securitized ERPs | 83,682,609 | 98,281,113 | 26.65% |
| Unsecuritized ERPs | 29,775,167 | 31,780,318 | 11.12% |
|  | 113,457,776 | 130,061,431 | 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 LBP 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 LBP and DBP in early 2011 representing Accrued ERPs.

The Parent’s Accumulated market gains/losses on FVOCI government and private issues amounted to (P12,250,519,914) and P7,059,030,178 as of December 31, 2022 and 2021, respectively.

Outstanding equity securities at FVOCI as of December 31, 2022 and 2021 generated dividends amounting to P1.05 billion and P0.93 billion, respectively for the Parent. Dividends amounting to P0.01 million and P0.59 million were recognized in 2022 and 2021, respectively, for the disposed securities at FVOCI.

Fair Value of FVOCI-Equity Securities as of December 31, 2022, as follows:

| **FVOCI Equity Securities** | **Fair Value** |
| --- | --- |
| Listed Stocks | 14,284,962,142 |
| Shares in Sports Clubs. | 288,020,000 |
| Rural Banks | 3,457,059 |
| INMES | 2,653,925,482 |
|  | **17,230,364,683** |

The Parent enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as ‘pass through’ transfers that result in derecognition if the Parent:

• Has no obligation to make payments unless it collects equivalent amounts from the assets;

• Is prohibited from selling or pledging the assets; and

• Has an obligation to remit any cash it collects from the assets without material delay.

Debt securities furnished by the Bank Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

As of December 31, 2022, government securities aggregating P18,170,337,471 are used as security for bills payable of the LBP relative of the outstanding repurchase agreement with various foreign banks amounting P16,125,886,977.

1. **Segment Information**

**Business Segments**

The Parent’s operating businesses are recognized and managed separately according to the nature of services provided and the different markets served by each segment representing a strategic business unit. The Parent derives revenues from the following main operating business segments:

1. Branch Banking Sector (BBS) and Digital Banking Sector (DBS)

These two sectors oversee the operation of the Parent’s branches and ATM networks, which are the primary sales and distribution platforms for products and services. Its primary tasks are to: solicit deposits; cross-sell and distribute all of the Parent Bank’s products and services, as allowed by regulation; generate sales leads for specialized products; and manage customer relationships.

1. National Development Lending Sector (NDLS)

The NDLS manages the growth of the largest asset of the Parent which is the loan portfolio targeting both consumer loan market and the corporate and institutional loan markets.

1. Treasury and Investment Banking Sector (TIBS)

The TIBS manages the Parent’s assets and liabilities. TIBS leads the Asset and Liability Committee (ALCO), it recommends the pricing strategy for deposits and loans to ensure that deposit-taking units offer competitive yields to generate the funding requirements of the Parent, and the lending units, in turn, offer rates that will attract the targeted borrowers. In addition, TIBS manages the regulatory reserve requirements of the Parent as well as ensures compliance to required liquidity position. The TIBS also engages in trading of fixed income securities and foreign exchange.

1. Other Segments

This segment includes other segments that provide support to its core activities. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income before income tax, which is measured in a manner consistent with that in the Statement of Comprehensive Income. The Parent’s assets producing revenues are located in the Philippines (i.e., one geographical location), therefore, geographical segment information is no longer presented. The Parent has no significant customers which contribute 10 per cent or more of the consolidated revenue, net of interest expense. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Parent’s cost of capital. There are no other material items of income or expense between business segments.

| **Statement of Income and Expense** |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **December 31, 2022** | |  |  |  |  |
|  |  |  |  |  |  |
| **A C C O U N T S** | **TOTAL** | **BBS** | **NDLS** | **TIBS** | **OTHERS** |
|  |  |  |  |  |  |
| **Income** |  |  |  |  |  |
| Loans | 50,509,917,546 | 66,299,820 | 22,768,615,656 | 936,312,823 | 26,738,689,247 |
| Investments | 37,147,455,991 | 23,090,301 | 0 | 37,124,365,690 | 0 |
| FX Profit/(Loss) | 4,018,157,075 | 90,492,526 | 55,670,811 | 766,687,964 | 3,105,305,774 |
| Others | 20,714,442,047 | 1,153,707,495 | 1,013,176,635 | 2,984,296,780 | 15,563,261,137 |
| **Total Income** | **112,389,972,659** | **1,333,590,142** | **23,837,463,102** | **41,811,663,257** | **45,407,256,158** |
| **Expenses:** |  |  |  |  |  |
| Financial Expenses |  |  |  |  |  |
| Interest on Deposits | 13,461,189,046 | 1,714,713,591 | 0 | 0 | 11,746,475,455 |
| Interest on Borrowed Funds | 1,027,101,194 | 0 | 828,565,532 | 198,030,588 | 505,074 |
| Other Financial Costs | 1,010,697,840 | 21,653,033 | 0 | 0 | 989,044,807 |
| **Total Financial Expenses** | **15,498,988,080** | 1,736,366,624 | 828,565,532 | 198,030,588 | 12,736,025,336 |
| **Manpower Costs** |  |  |  |  |  |
| **Salaries and Wages** |  |  |  |  |  |
| Basic | 12,996,829,232 | 3,108,061,977 | 859,566,542 | 155,072,086 | 8,874,128,627 |
| Contractual | 308,526,316 | 32,828,236 | 7,097,462 | 2,648,178 | 265,952,440 |
| Fringe Benefits | 6,025,348,008 | 1,286,962,878 | 298,466,229 | 37,461,463 | 4,402,457,438 |
| Overtime | 246,942,263 | 63,089,319 | 2,614,815 | 56,904 | 181,181,225 |
| Seminars and Trainings | 27,604,309 | 6,558,184 | 1,567,666 | 448,957 | 19,029,502 |
| **Total Manpower Costs** | **19,605,250,128** | 4,497,500,594 | 1,169,312,714 | 195,687,588 | 13,742,749,232 |
| **Other Operating Expenses** |  |  |  |  |  |
| Taxes & Insurances | 18,783,784,393 | 5,635,491,562 | 2,316,945,412 | 2,534,172,580 | 8,297,174,839 |
| Fees & Other Charges | 1,757,136,965 | 132,463,571 | 19,222,877 | 80,616,482 | 1,524,834,035 |
| Utilities | 4,765,272,536 | 1,332,414,644 | 40,402,898 | 5,648,823 | 3,386,806,171 |
| Business Development | 403,281,450 | 9,983,054 | 2,763,463 | 583,863 | 389,951,070 |
| Information Technology Expenses | 1,170,818,400 | 150,218,153 | 68,906 | 16,588 | 1,020,514,753 |
| Litigation/Asset Acquired Expenses | 280,738,697 | 0 | 26,552,304 | 0 | 254,186,393 |
| Miscellaneous Expenses | 118,620,044 | 159,174,205 | 24,751,148 | 53,135 | (65,358,444) |
| Provision/Depreciation/Amortization | 11,242,702,203 | 48,919,660 | 46,538,451 | (3,761,432) | 11,151,005,524 |
| **Total Other Operating Expenses** | **38,522,354,688** | 7,468,664,849 | 2,477,245,459 | 2,617,330,039 | 25,959,114,341 |
| **TOTAL COSTS** | **73,626,592,896** | **13,702,532,067** | **4,475,123,705** | **3,011,048,215** | **52,437,888,909** |
| **TOTAL BANK NET INCOME/LOSS** | **38,763,379,763** | **(12,368,941,925)** | **19,362,339,397** | **38,800,615,042** | **(7,030,632,751)** |

1. **Hold to Collect (HTC)**

This account consists of:

|  | **Group** | | | **Parent** | |
| --- | --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | | **2021** |
|  |  |  |  | |  |
| Government |  |  |  | |  |
| Domestic | 784,936,365,866 | 585,966,522,045 | 781,798,711,553 | | 562,488,718,774 |
| Foreign | 46,011,832,463 | 24,665,207,759 | 46,011,832,463 | | 24,665,207,759 |
| Private |  |  |  | |  |
| Domestic | 6,422,778,831 | 4,713,045,130 | 6,266,684,137 | | 3,483,843,249 |
| Foreign | 5,903,051,497 | 6,954,421,647 | 5,903,051,497 | | 6,954,421,647 |
| Allow. For Credit Losses | (709,599,758) | (695,543,887) | (709,115,405) | | (695,136,405) |
| Accrued Interest Receivable | 6,306,663,011 | 4,716,290,055 | 6,300,710,739 | | 4,716,290,055 |
| Allow. For Credit Losses | (8,903,350) | (8,791,938) | (8,903,350) | | (8,791,938) |
|  | 848,862,188,560 | 626,311,150,811 | 845,562,971,634 | | 601,604,553,141 |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2022** | | | **2021** | | |
|  |  |  |  |  |  |  |
| Domestic | 2.375% | to | 18.25% | 2.375% | to | 18.25% |
| Foreign | 0.125% | to | 11.625% | 0.125% | to | 10.625% |

In 2021, a gain of P71,896 was recognized due to the early redemption of San Miguel Corporation corporate securities while there was no similar transaction in 2022.

1. **Loans and Receivables**

This account consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
|  |  |  |  |  |
| Interbank loans receivable | 34,823,016,846 | 13,007,175,852 | 34,823,016,845 | 12,190,900,389 |
| Allowance for credit losses | (161,720,381) | (335,689,575) | (161,720,380) | (335,689,575) |
|  | 34,661,296,465 | 12,671,486,277 | 34,661,296,465 | 11,855,210,814 |
| Loans to Government | 166,996,728,111 | 130,535,074,943 | 168,240,149,593 | 124,381,361,453 |
| Allowance for credit losses | (13,619,142) | (2) | (13,619,142) | (2) |
|  | 166,983,108,969 | 130,535,074,941 | 168,226,530,451 | 124,381,361,451 |
| Agrarian Reform and other Agriculture Loans | 161,505,941,826 | 174,248,961,607 | 160,708,163,442 | 158,603,887,831 |
| Allowance for credit losses | (5,415,396,490) | (5,728,995,640) | (5,385,139,726) | (4,576,583,428) |
|  | 156,090,545,336 | 168,519,965,967 | 155,323,023,716 | 154,027,304,403 |
| Microfinance Loans | 19,458,496,584 | 18,709,057,048 | 19,458,496,505 | 18,611,649,679 |
| Allowance for credit losses | (442,409,375) | (625,388,572) | (442,409,296) | (603,761,282) |
|  | 19,016,087,209 | 18,083,668,476 | 19,016,087,209 | 18,007,888,397 |
| SME/MSE Loans | 63,262,431,451 | 64,382,982,594 | 61,187,795,137 | 55,408,574,300 |
| Allowance for credit losses | (4,282,967,919) | (4,001,185,418) | (3,402,707,764) | (2,849,416,048) |
|  | 58,979,463,532 | 60,381,797,176 | 57,785,087,373 | 52,559,158,252 |
| Contract to Sell | 21,650,117,146 | 25,638,407,286 | 20,880,757,539 | 744,169,523 |
| Allowance for credit losses | (2,804,931,234) | (408,923,575) | (2,619,770,858) | (172,295,478) |
|  | 18,845,185,912 | 25,229,483,711 | 18,260,986,681 | 571,874,045 |
| Loans to Private Corporation | 582,571,972,127 | 527,715,089,940 | 577,130,188,661 | 466,696,192,994 |
| Allowance for credit losses | (22,323,986,097) | (13,487,345,362) | (21,193,886,295) | (11,344,913,043) |
|  | 560,247,986,030 | 514,227,744,578 | 555,936,302,366 | 455,351,279,951 |
| Loans to Individuals for Housing Purposes | 32,005,972,067 | 32,957,729,110 | 28,863,675,506 | 5,530,113,823 |
| Allowance for credit losses | (3,346,984,525) | (1,319,843,136) | (3,260,376,990) | (53,446,644) |
|  | 28,658,987,542 | 31,637,885,974 | 25,603,298,516 | 5,476,667,179 |
| Loans to Individual for Personal  Use | 59,582,786,407 | 57,766,812,929 | 55,461,876,979 | 37,354,349,029 |
| Allowance for credit losses | (1,611,986,017) | (3,255,721,034) | (1,442,810,141) | (851,931,630) |
|  | 57,970,800,390 | 54,511,091,895 | 54,019,066,838 | 36,502,417,399 |
| Loans to Individual for Other Purposes | 3,321,538,796 | 1,053,656,327 | 1,419,576,565 | 895,887,575 |
| Allowance for credit losses | (123,495,206) | (56,423,003) | (62,815,282) | (18,457,596) |
|  | 3,198,043,590 | 997,233,324 | 1,356,761,283 | 877,429,979 |
| Loans & Receivable-Others-non-residents-FCDU | 310,567,773 | 364,424,911 | 310,567,773 | 0 |
| Allowance for credit losses | (12,031,852) | 0 | (12,031,852) | 0 |
|  | 298,535,921 | 364,424,911 | 298,535,921 |  |
| General loan loss provision | (10,951,755,319) | (6,370,397,901) | (10,810,822,225) | (5,888,396,120) |
|  | 1,093,998,285,577 | 1,010,789,459,329 | 1,079,676,154,594 | 853,722,195,750 |
| Accrued interest receivable | 12,088,621,223 | 12,468,767,513 | 11,825,132,061 | 9,123,562,162 |
| Allowance for credit losses | (1,357,723,092) | (587,726,104) | (1,296,657,178) | (570,475,978) |
|  | 10,730,898,131 | 11,881,041,409 | 10,528,474,883 | 8,553,086,184 |
| Accounts receivable | 3,379,706,142 | 2,649,891,531 | 2,256,442,796 | 1,808,525,958 |
| Allowance for credit losses | (1,958,852,797) | (1,897,752,435) | (1,504,637,828) | (1,581,631,665) |
|  | 1,420,853,345 | 752,139,096 | 751,804,968 | 226,894,293 |
| Sales contract receivable | 1,939,092,929 | 1,745,077,752 | 1,737,645,840 | 772,783,090 |
| Allowance for credit losses | (95,995,649) | (159,133,383) | (87,927,419) | (113,864,846) |
|  | 1,843,097,280 | 1,585,944,369 | 1,649,718,421 | 658,918,244 |
| Due from ARF | 183,288,712 | 263,903,249 | 183,288,712 | 263,903,249 |
| Lease contract receivable | 2,824,360,854 | 1,918,929,737 | 0 | 0 |
| Allowance for credit losses | (196,524,168) | (216,304,439) | 0 | 0 |
|  | 2,627,836,686 | 1,702,625,298 | 0 | 0 |
|  | **1,110,804,259,731** | **1,026,975,112,750** | **1,092,789,441,578** | **863,424,997,720** |

The Parent’s interest rates on loans in 2022 range from 0.01 per cent to 20.58 per cent for peso denominated loans and from 3.42 per cent to 8.39 per cent for foreign currency denominated loans.

Allowance for credit losses (ACL)

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

|  |  |  |
| --- | --- | --- |
|  | **2022** | **2021** |
| Balance, January 1 | 26,694,890,846 | 25,926,451,311 |
| Provision | 9,569,055,661 | 1,935,042,336 |
| Write-offs | (991,024,350) | (338,505,487) |
| Transfers and other adjustments | 13,535,187,794 | (828,097,314) |
| Balance, December 31 | 48,808,109,951 | 26,694,890,846 |

As of December 31, 2022 and 2021, the breakdown of Gross Loans as to secured and unsecured follows:

|  | **Parent** | | | |
| --- | --- | --- | --- | --- |
|  | **2022** | | **2021** | |
|  | **Amount** | **%** | **Amount** | **%** |
| Secured loans: |  |  |  |  |
| Guarantee of the Republic of the Philippines | 107,506,146,959 | 9.53 | 95,277,421,675 | 10.82 |
| Various guarantees | 280,993,365,855 | 24.90 | 220,840,047,539 | 25.08 |
| Various mortgages | 303,802,457,987 | 26.92 | 251,587,625,081 | 28.58 |
|  | 692,301,970,801 | 61.35 | 567,705,094,295 | 64.48 |
| Unsecured loans | 436,182,293,744 | 38.65 | 312,711,992,301 | 35.52 |
| Gross loan at amortized cost | 1,128,484,264,545 | 100.00 | 880,417,086,596 | 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.

|  | **2022** | **2021** |
| --- | --- | --- |
| Total NPLs | 58,723,557,050 | 27,757,301,539 |
| Allowance for credit losses | (18,522,358,922) | (8,791,496,775) |
| Net NPLs | 40,201,198,128 | 18,965,804,764 |

1. **Investment in Subsidiaries**

This account consists of the following investments in subsidiaries which are 100 per cent owned by the Parent except for UCPB Savings Bank which is 97.55 per cent owned and are accounted for at cost:

|  |  |  |
| --- | --- | --- |
| **Name** | **2022** | **2021** |
| Overseas Filipino Bank, Inc. | 2,108,992,000 | 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 |
| UCPB | 0 | 4,038,227,868 |
| UCPB Leasing & Finance Corp. | 1,393,465,252 | 0 |
| UCPB Savings Bank, Inc. | 1,981,688,477 | 0 |
| LANDBANK Securities, Inc. | 237,550,439 | 0 |
| Green Homes Development Inc. | 334,831,317 | 0 |
| Total | 6,495,302,492 | 6,178,002,875 |
| Allowance for credit losses | (840,934,784) | (814,658,295) |
| Net | **5,654,367,708** | **5,363,344,580** |

Overseas Filipino Bank (OFB)

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 P1,701,000,000 into Overseas Filipino Bank (OFB). The initial infusion in the amount of P428,992,000 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.

In 2022 LBP Board of Directors and as affirmed by the Corporate Secretary dated March 28, 2022, the LBP Board Resolution (LBR) No. 18-886 dated November 13, 2018 superseded the LBR 18-119, and mentioning that the capital infusion of P1,680,000,000 is on top of the P428,992,000, capital infused initially by the Parent last July 06, 2018 or prior to the release of LBR No. 18-886. Acting on the letter of OFB for the capital infusion plan sent to the Parent and through the instruction of Investment Banking Group, the remaining balance and final tranche amounting to P407,992,000 was released and booked last May 26, 2022.

United Coconut Planters Bank (UCPB)

In 2021, through Presidential Directive under Executive Order No. 142 Series of 2021, the Parent acquired the Philippine Deposit Insurance Corporation’s (PDIC) Special Preferred Shares totaling 88.91 per cent in the amount of P4,038,227,868 for the voting shares in the UCPB with total par value of P12.00 billion.

Following the full acquisition of UCPB and the issuance of Certificate of Indebtedness to PDIC, the same was reversed thru the Parent's Accounting Transaction Unit on March 02, 2022 for proper consolidation of books.

The resulting full acquisition of UCPB, its subsidiaries namely UCPB Savings Bank, UCPB Leasing and Finance Corporation, UCPB Securities, Inc., now LANDBANK Securities, Inc., and Green Homes Development Inc. were eventually transferred to the Parent and booked on July 18, 2022. All are 100 per cent owned by the Parent except for UCPB Savings Bank which is at 97.55 per cent.

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

**National Livelihood Development Corporation (NLDC)’s Investment in Northern Foods Corporation (NFC)**

* On September 02, 2015 pursuant to Memorandum Order (MO) No. 85, NLDC was abolished and directed that all of its assets and liabilities be transferred to LBP. The liquidation and winding up of NLDC’s operations were undertaken until December 31,2017 and the transfer of its assets and liabilities to LBP was completed on June 29, 2018. NLDC’s investment in NFC totaled to P84,905,000 representing 81.21 per cent of ownership of NLDC. The said investment has been fully provided with allowance for credit losses resulting to zero value in the books of NLDC based on the terminal audit report of COA as of December 31, 2017. Hence, the NFC investment was not part of the total assets that was transferred to LBP.
* On December 09, 2020, COA issued an Audit Observation Memorandum (AOM) recommending the recognition of the correct cost of equity investment in NFC, the corresponding allowances for credit losses in the books of LBP and provide the sufficient and required disclosures in the Parent’s FS.
* On February 02, 2023, a meeting was conducted attended by representatives from LBP, COA and Governance Commission for Government-Owned or Controlled Corporations (GCG) to discuss the cited COA AOM. In the said meeting LBP emphasized its position on not to book said investment due to its zero value and NFC’s abolition pursuant to MO No. 58 series of 2021 where LBP will eventually request for write-off of this investment. Further, per Section 376-A of the MORB, limits the equity ownership in NFC, a non- allied enterprise to just 35 per cent. However, COA pointed out that in compliance with existing auditing rules, the recording of the subject equity investments in the books of LBP should be made. In view of diverse opinions, LBP, COA and GCG agreed to seek for BSP’s regulatory guidance pertaining to the subject investment.
* On March 10, 2023, LBP wrote BSP requesting for guidance on the recognition of NFC investment in the books of LBP and clarification on the prescribed limit under Section 376-A of the MORB.
* On May 12, 2023, LBP received the response from BSP with the following comments on the matter:

1. BSP agrees with COA to:
2. record the equity investment and the corresponding allowance for credit losses in the books of LBP;
3. provide the required disclosures on the investment in NFC in the Notes to Financial Statements (FS) of LBP;
4. cause the transfer of NFC shares of stocks to LBP, subject to compliance with the ceiling under Section 376-A of the Manual of Regulations for Banks (MORB).
5. write-off the equity investment in NFC, subject to compliance with the provision of Section 143 of the MORB, considering the abolition of NFC per MO No. 58 dated December 01, 2021.
6. On compliance with the prescribed ceiling on equity investment, BSP stated that LBP can only acquire 35 per cent of the total equity of NFC and the same should not exceed 35 per cent of NFC’s voting stock. This is pursuant to Section 27 of the General Banking Law (GBL) as implemented by Section 376-A of the MORB.
7. With respect to the remaining 65 per cent of the equity investment of NFC, BSP suggested to refer the same to the Technical Working Group (TWG) which was created to resolve issues on the transfer of equity investment of the defunct NLDC in NFC taking into consideration of the above cited prescribed limit.

* On May 23, 2023, LBP provided copy of the letter from BSP to GCG referring to the TWG the necessary actions to be undertaken relative to the remaining 65 per cent of the equity of NFC.
* LBPs investment in NFC will be consolidated in the group when the decision/action of the TWG on the issues concerning NLDC’s equity investment in NFC is rendered.

1. **Investment in Associates**

This account represents the Group’s significant influence over UCPB Coconut Industry Investment Fund Finance and Development Corporation (UCFDC), Legaspi Oil Company, Inc. (LOCI), San Pablo Manufacturing Corporation (SPMC), Southern Luzon Coconut Oil Mills, Inc. (SLCOMI), and Granexport Manufacturing Corporation (GMC) through UCPB’s direct ownership in such investee companies and the exercise of its fiduciary functions as administrator of the UCPB Coconut Industry Investment Fund (CIIF) amounting to P121,775,654 as of December 31, 2021. However, relative to the transfer of the equity investments in private institutions of the UCPB to LBP due to merger in 2022, the Investment in Associate was reclassified to FVOCI.

1. **Investment Property**

This account consists of:

| **Group** | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2022** | | |  | **2021** | | | |
|  | **Land** | **Building** | **Others** | **Total** | **Land** | **Building** | **Others** | **Total** |
| **At Cost** |  |  |  |  |  |  |  |  |
| At January 1 | 7,452,457,069 | 7,091,293,791 | 0 | 14,543,750,860 | 7,077,173,949 | 6,794,834,435 | 0 | 13,872,008,384 |
| Additions/(Disposals) | 3,427,096,658 | 5,975,640,474 | 40,952,720 | 9,443,689,852 | 435,047,328 | 214,975,574 | 0 | 650,022,902 |
| Transfers/Adjustment | (2,159,516,158) | (2,608,928,901) | 0 | (4,768,445,059) | (59,764,208) | 81,483,782 | 0 | 21,719,574 |
| At December 31 | **8,720,037,569** | **10,458,005,364** | **40,952,720** | **19,218,995,653** | **7,452,457,069** | **7,091,293,791** | **0** | **14,543,750,860** |
| **Accumulated depreciation and impairment** |  |  |  |  |  |  |  |  |
| At January 1 | 786,430,934 | 3,241,116,851 | 0 | 4,027,547,785 | 270,327,872 | 3,146,235,985 | 0 | 3,416,563,857 |
| Depreciation | 0 | 713,233,072 | 33,226,499 | 746,459,571 | 0 | 358,423,084 | 0 | 358,423,084 |
| Transfers/Adjustment | (406,011,000) | 496,886,343 | 0 | 90,875,343 | 0 | (221,932,123) | 0 | (221,932,123) |
| Impairment Loss | 373,558,751 | 238,129,152 | 72,587 | 611,760,490 | 516,103,062 | (41,610,095) | 0 | 474,492,967 |
| At December 31 | **753,978,685** | **4,689,365,418** | **33,299,086** | **5,476,643,189** | **786,430,934** | **3,241,116,851** | **0** | **4,027,547,785** |
| **Net book value** | **7,966,058,884** | **5,768,639,946** | **7,653,634** | **13,742,352,464** | **6,666,026,135** | **3,850,176,940** | **0** | **10,516,203,075** |

| **Parent** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2022** | | | **2021** | | |
|  | **Land** | **Building** | **Total** | **Land** | **Building** | **Total** |
| **At Cost** |  |  |  |  |  |  |
| At January 1 | 5,202,916,395 | 4,401,181,582 | 9,604,097,977 | 4,814,354,595 | 4,073,087,127 | 8,887,441,722 |
| Additions/(Disposals) | 2,897,869,299 | 5,327,545,183 | 8,225,414,482 | 388,561,800 | 328,094,455 | 716,656,255 |
| At December 31 | **8,100,785,694** | **9,728,726,765** | **17,829,512,459** | **5,202,916,395** | **4,401,181,582** | **9,604,097,977** |
| **Accumulated depreciation**  **and impairment** |  |  |  |  |  |  |
| At January 1 | 374,082,418 | 1,170,929,503 | 1,545,011,921 | 263,990,356 | 1,064,031,136 | 1,328,021,492 |
| Depreciation | 0 | 609,042,753 | 609,042,753 | 0 | 278,897,101 | 278,897,101 |
| Transfers/Adjustment | 0 | 2,517,061,858 | 2,517,061,858 | 0 | (126,315,819) | (126,315,819) |
| Impairment Loss | 359,468,714 | 232,873,793 | 592,342,507 | 110,092,062 | (45,682,915) | 64,409,147 |
| At December 31 | **733,551,132** | **4,529,907,907** | **5,263,459,039** | **374,082,418** | **1,170,929,503** | **1,545,011,921** |
| **Net book value** | **7,367,234,562** | **5,198,818,858** | **12,566,053,420** | **4,828,833,977** | **3,230,252,079** | **8,059,086,056** |

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

As of December 31, 2022 and 2021, the carrying value of investment properties still subject to redemption amounted to P568,718,439 and P933,194,228, respectively, for the Parent. Investment properties with on-going cases amounted to P1,417,601,587 and P583,984,233 as of December 31, 2022 and 2021, respectively. Properties amounting to P96,585,504 and P38,394,724 as of December 31, 2022 and 2021, respectively, are agricultural lands covered by the government’s agrarian reform program.

In 2022 and 2021, the rental income (included under ‘Rent’ in the Statements of Comprehensive Income) on investment properties, which are leased out under operating leases, amounted to P1,865,432 and P88,690, respectively, for the Parent. In 2022 and 2021, 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 P609,042,753 and P278,897,101, respectively.

1. **Property and Equipment**

This account consists of:

|  | | **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** | |
| **2022** | |
| **At Cost** |  |  |  |  |  |  |  |  |  |  |  |
| At January 1, | 2,107,567,183 | 193,518,659 | 7,118,361,578 | 1,504,963,466 | 319,261,716 | 9,952,644,019 | 613,934,687 | 1,126,668,288 | 4,277,912,986 | 27,214,832,582 | |
| Additions | 256,073,558 | 279,270,632 | 1,800,402,909 | 1,416,669,777 | 476,607,312 | 3,118,575,450 | 61,756,236 | 270,034,800 | 761,613,547 | 8,441,004,221 | |
| Disposals | (636,128,000) | 0 | (878,103,213) | (21,425,938) | (242,623,218) | (224,551,779) | 0 | (444,552) | (7,921,981) | (2,011,198,681) | |
| Transfers | 1,244,757,329 | (63,507,763) | (1,965,954,905) | (1,174,656,300) | 127,005,782 | (2,949,654,319) | 8,773,146 | (170,086,773) | 161,100,411 | (4,782,223,392) | |
| At December 31 | **2,972,270,070** | **409,281,528** | **6,074,706,369** | **1,725,551,005** | **680,251,592** | **9,897,013,371** | **684,464,069** | **1,226,171,763** | **5,192,704,963** | **28,862,414,730** | |
| **Accumulated Depreciation, Amortization & Impairment loss** |  |  |  |  |  |  |  |  |  |  |  |
| At January 1 | 0 | 0 | 4,718,816,497 | 685,802,359 | 241,997,680 | 7,294,301,861 | 396,867,157 | 262,227,042 | 1,485,937,872 | 15,085,950,468 | |
| Depreciation & amortization | 0 | 418,875 | 277,075,754 | 234,303,195 | 5,686,907 | 954,493,370 | 49,909,181 | 467,590,328 | 627,039,444 | 2,616,517,054 | |
| Disposals | 0 | 0 | (646,636,587) | (724,743) | (169,419,183) | (258,572,691) | 0 | (3,474,867) | (1,109,484) | (1,079,937,555) | |
| Transfers/Adjustments | 0 | 0 | (628,836,712) | (54,151,179) | 306,937,132 | (972,015,520) | (38,468,311) | (257,048,552) | (371,846,876) | (2,015,430,018) | |
| At December 31 | **0** | **418,875** | **3,720,418,952** | **865,229,632** | **385,202,536** | **7,018,207,020** | **408,308,027** | **469,293,951** | **1,740,020,956** | **14,607,099,949** | |
| Allow for Losses | 0 | 0 | 34,521,440 | 494,553 | 8,127,493 | 28,642,653 | 0 | 3,302,214 | 0 | **75,088,353** | |
| **Net book value** | **2,972,270,070** | **408,862,653** | **2,319,765,977** | **859,826,820** | **286,921,563** | **2,850,163,698** | **276,156,042** | **753,575,598** | **3,452,684,007** | **14,180,226,428** | |

|  | | **Group**  **RESTATED** | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **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, | 1,824,583,746 | 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) | 1,847,909 | (1,147,250,005) | (378,376) | (2,167,601,688) | (95,681,988) | (150,836,310) | 389,898,245 | (3,296,339,019) | |
| At December 31 | **2,107,567,183** | **193,518,659** | **7,118,361,578** | **1,504,963,466** | **319,261,716** | **9,952,644,019** | **613,934,687** | **1,126,668,288** | **4,277,912,986** | **27,214,832,582** | |
| **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 | (75,499,077) | 208,493,732 | 628,685,059 | (1,694,653) | (165,926,296) | (462,363,456) | 1,883,083,892 | |
| At December 31 | **0** | **0** | **4,718,816,497** | **685,802,359** | **241,997,680** | **7,294,301,861** | **396,867,157** | **262,227,042** | **1,485,937,872** | **15,085,950,468** | |
| Allow for Losses | 0 | 0 | 41,469,224 | 1,436,742 | 8,008,122 | 35,571,763 | 0 | (5,369,097) | 0 | **81,116,754** | |
| **Net book value** | **2,107,567,183** | **193,518,659** | **2,358,075,857** | **817,724,365** | **69,255,914** | **2,622,770,395** | **217,067,530** | **869,810,343** | **2,791,975,114** | **12,047,765,360** | |

|  | | **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** | | |
| **2022** | | |
| **At Cost** |  | |  |  |  |  |  |  |  |  |  | |  |
| At January 1 | 1,873,698,857 | | 188,203,173 | 5,428,428,345 | 1,368,491,503 | 73,410,688 | 7,575,763,274 | 407,062,231 | 1,107,001,591 | 2,656,097,990 | 20,678,157,652 | | |
| Additions | 234,165,636 | | 273,491,508 | 1,651,518,819 | 1,247,140,601 | 471,304,067 | 2,907,089,844 | 0 | 250,734,478 | 0 | 7,035,444,953 | | |
| Disposals | (636,128,000) | | 0 | (878,103,213) | (21,425,938) | (240,533,558) | (223,313,547) | 0 | (444,552) | (7,921,981) | (2,007,870,789) | | |
| Transfers | 1,338,353,655 | | (58,192,277) | (327,813,721) | (1,038,184,337) | 348,473,983 | (694,646,765) | 8,773,146 | (157,726,719) | 1,813,448,172 | 1,232,485,137 | | |
| At December 31 | **2,810,090,148** | | **403,502,404** | **5,874,030,230** | **1,556,021,829** | **652,655,180** | **9,564,892,806** | **415,835,377** | **1,199,564,798** | **4,461,624,181** | **26,938,216,953** | | |
| **Accumulated Depreciation and Amortization** |  | |  |  |  |  |  |  |  |  |  |  | |
| At January 1 | **0** | | **0** | 3,327,955,319 | 684,647,229 | 54,936,953 | 5,295,069,408 | 336,022,053 | 248,673,638 | 1,053,098,118 | 11,000,402,718 | | |
| Depreciation and amortization | **0** | | **0** | 245,506,269 | 132,040,073 | 3,737,419 | 775,239,152 | 49,909,181 | 465,752,437 | 573,978,623 | 2,246,163,154 | | |
| Disposals | **0** | | **0** | (646,636,587) | (724,743) | (168,214,951) | (257,192,375) | 0 | (1,904,447) | (1,109,484) | (1,075,782,587) | | |
| Transfers/Adjustments | **0** | | **0** | 682,333,087 | (52,996,049) | 477,302,941 | 919,516,581 | (14,229,626) | (260,112,526) | 56,104,776 | 1,807,919,184 | | |
| At December 31 | **0** | | **0** | **3,609,158,088** | **762,966,510** | **367,762,362** | **6,732,632,766** | **371,701,608** | **452,409,102** | **1,682,072,033** | **13,978,702,469** | | |
| Allow for Losses | **0** | | **0** | 34,521,440 | 494,553 | 8,127,493 | 28,316,735 | 0 | 3,180,304 | 0 | **74,640,525** | | |
| **Net book value** | **2,810,090,148** | | **403,502,404** | **2,230,350,702** | **792,560,766** | **276,765,325** | **2,803,943,305** | **44,133,769** | **743,975,392** | **2,779,552,148** | **12,884,873,959** | | |

|  | | **Parent**  **RESTATED** | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **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) | (57,402,330) | 293,378 | (1,723,090,502) | (43,416) | (145,760,285) | 402,687,371 | (1,702,073,303) | | |
| At December 31 | **1,873,698,857** | | **188,203,173** | **5,428,428,345** | **1,368,491,503** | **73,410,688** | **7,575,763,274** | **407,062,231** | **1,107,001,591** | **2,656,097,990** | **20,678,157,652** | | |
| **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 | 108,713,435 | 3,605,127 | 732,927,781 | 12,033,862 | 291,233,695 | 430,076,625 | 1,773,344,273 | | |
| Disposals | 0 | | 0 | (7,397,171) | (8,084,062) | (1,546,150) | (136,180,375) | 0 | (1,128,137) | (23,693,640) | (178,029,535) | | |
| Transfers/Adjustments | 0 | | 0 | 511,434,212 | (51,893,286) | (11,363,558) | (1,184,814,121) | (1,694,653) | (161,703,618) | (462,363,456) | (1,362,398,480) | | |
| At December 31 | **0** | | **0** | **3,327,955,319** | **684,647,229** | **54,936,953** | **5,295,069,408** | **336,022,053** | **248,673,638** | **1,053,098,118** | **11,000,402,718** | | |
| Allow for Losses | 0 | | 0 | 41,469,224 | 1,436,742 | 8,008,122 | 35,051,597 | 0 | (5,491,007) | 0 | **80,474,678** | | |
| **Net book value** | **1,873,698,857** | | **188,203,173** | **2,059,003,802** | **682,407,532** | **10,465,613** | **2,245,642,269** | **71,040,178** | **863,818,960** | **1,602,999,872** | **9,597,280,256** | | |

During the acquisition of UCPB, LBP acquired property and equipment amounting to P4,552,580,338.

Depreciation and amortization of the Group amounting to P2,616,517,054, and P2,530,368,641 and of the Parent amounting to P2,246,163,154 and P1,773,344,273 in 2022 and 2021, 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 P55,689,218 and P178,521,604 in 2022 and 2021, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P44,829,089 and P25,136,734 in 2022 and 2021, respectively, while the carrying amount of fully depreciated assets still in use are P191,716,377 and P441,664,954 in 2022 and 2021, respectively.

1. **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, 2022 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 | 230,809,235 | 388,625,609 | 125,905,672 | 745,340,516 |
| Lease Liability | 978,359,653 | 1,827,163,237 | 582,184,563 | 3,387,707,453 |
| Lease Payment | 1,209,168,888 | 2,215,788,846 | 708,090,235 | 4,133,047,969 |

As of December 31, 2022, the Parent recognized interest expense on lease liabilities (included in the Statements of Comprehensive Income) amounting to P199,404,154 and rent expense from short-term leases and leases of low-value assets amounting to P1,217,474,407.

Lease Liability can be found in Note 25, presented as part of the item ‘Others’.

Parent’s right-of-use assets as of December 31, 2022 consist of the following:

| Particulars | Building | Transportation Equipment | Office Equipment | IT Equipment | Total ROU Assets |
| --- | --- | --- | --- | --- | --- |
| At Cost | 3,929,788,306 | 506,097,635 | 2,501,669 | 23,236,571 | 4,461,624,181 |
| Accumulated Depreciation | (1,626,487,975) | (52,727,104) | (1,772,012) | (1,084,942) | (1,682,072,033) |
| **Net Book Value** | **2,303,300,331** | **453,370,531** | **729,657** | **22,151,629** | **2,779,552,148** |

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 is included in the Statements of Comprehensive Income of the Parent and part of Note 35.

Future minimum rentals receivable under non-cancellable operating leases as at December 31, 2022 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 | 2,837,357 | 0 | 6,035,883 |

1. **Other Intangible Assets**

This account consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021**  **As Restated** | **2022** | **2021** |
| Balance at the beginning of the year | **1,770,175,415** | **1,149,733,556** | **1,189,435,007** | **1,124,727,370** |
| Addition | 1,188,875,877 | 903,881,955 | 1,131,262,058 | 345,535,504 |
| Transfer to Parent due to merger | (544,040,488) | 0 | 0 | 0 |
| Amortization for the year | (421,771,053) | (283,440,096) | (392,226,150) | (280,827,867) |
| Balance at the end of the year | **1,993,239,751** | **1,770,175,415** | **1,928,470,915** | **1,189,435,007** |
| Allow for Losses | (673,500) | (10,673,500) | (673,500) | (673,500) |
| **Net book value at end of year** | **1,992,566,251** | **1,759,501,915** | **1,927,797,415** | **1,188,761,507** |

1. **Other Assets**

This account consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021**  **As Restated** | **2022** | **2021**  **As Restated** |
| Sundry debits | 9,659,785,731 | 2,319,848,835 | 9,615,511,593 | 2,234,392,803 |
| Prepaid expenses | 590,804,214 | 633,743,762 | 444,333,598 | 445,848,592 |
| Documentary stamps | 544,771,411 | 996,940,509 | 543,755,617 | 902,921,991 |
| Stationery & supplies on hand | 230,749,703 | 118,616,802 | 227,927,062 | 113,963,697 |
| Accounts receivable bank officers & employees-net | 176,869,433 | 174,731,405 | 175,656,459 | 174,607,895 |
| Inter-office float items | 183,750,297 | 27,465,690 | 183,750,297 | 20,062 |
| Deferred Charges | 61,380,606 | 127,488,684 | 0 | 0 |
| Others | 12,309,232,053 | 4,113,935,850 | 12,526,754,728 | 3,021,608,201 |
|  | 23,757,343,448 | 8,512,771,537 | 23,717,689,354 | 6,893,363,241 | |
| Allowance for credit losses | (30,642,403) | (28,035,599) | (30,642,403) | (28,035,599) |
|  | **23,726,701,045** | **8,484,735,938** | **23,687,046,951** | **6,865,327,642** |

The others account under other assets includes miscellaneous assets, due from FCDU/RBU-Fx Reg-Clearing account and Due from FCDU/EFCDU net realized/unrealized losses recognized in profit or loss in equity.

1. **Allowance for Credit Losses and Impairment Losses**

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

|  | **2022** | **2021**  **As Restated** |
| --- | --- | --- |
| Balance at beginning of year: |  |  |
| Loans (Note 14) | 26,694,890,846 | 25,926,451,311 |
| Investments (Note 11, 13 & 15) | 1,518,586,638 | 1,487,216,535 |
| Receivables from customers and Other assets (Note 7, 14, 18, 20, & 21) | 2,934,176,162 | 2,608,053,807 |
| Contingent | 491,173,088 | 290,595,757 |
|  | 31,638,826,734 | 30,312,317,410 |
| Provisions charged to operations | 10,258,407,382 | 2,456,430,325 |
| Accounts charged off and others | (999,848,145) | (837,261,681) |
| Transfer/adjustments | 14,256,665,636 | (292,659,320) |
|  | 23,515,224,873 | 1,326,509,324 |
| Balance December 31 | **55,154,051,607** | **31,638,826,734** |
|  |  |  |
| Balance at end of year: |  |  |
| Interbank Loans Receivables (Note 8) | 41,608 | 0 |
| Loans (Note 14) | 48,808,109,951 | 26,694,890,846 |
| Investments (Note 11, 13 & 15) | 1,559,016,299 | 1,518,586,638 |
| Receivables from customers and Other assets (Note 7,8, 14, 18, 20, & 21) | 4,242,782,530 | 2,934,176,162 |
| Contingent (Note 25) | 544,101,219 | 491,173,088 |
|  | **55,154,051,607** | **31,638,826,734** |

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:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  |  | **2022** | **2021** |
| Loans |  | 9,569,004,293 | 1,935,042,336 |
| Investments |  | 49,889,816 | 31,450,065 |
| Receivables from customers and Other assets |  | 666,383,591 | 483,978,142 |
| Contingent |  | (26,870,318) | 5,959,782 |
|  |  | **10,258,407,382** | **2,456,430,325** |

Higher set up of provision for loans was provided to cover the past due loan accounts from UCPB and to protect the asset quality of the Bank.

The calculated ECL for Treasury Exposures as of September 2022 increased from P705.78 million to P740.83 million. The table shows the computed ECL for 2022 and 2021:

| **INVESTMENTS**  *(In Thousand ₱)* | **TOTAL** | | **STAGE 1** | | **STAGE 2** | | **STAGE 3** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **20221/** | **20212/** | **20221/** | **20212/** | **20221/** | **20212/** | **20221/** | **20212/** |
| **Due from BSP and SPURA** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Due from Other Banks,**  **IBLR, & Repo-Cash Margin** | **4,847.42** | **1,855.17** | **4,845.30** | **1,852.89** | **2.12** | **2.28** | **0** | **0** |
| *Due from Foreign Banks* | 3,968.29 | 1,569.00 | 3,968.29 | 1,569.00 | 0 | 0 | 0 | 0 |
| *Due from Local Banks and FIs* | 816.59 | 244.33 | 814.47 | 242.05 | 2.12 | 2.28 | 0 | 0 |
| *Repo-Cash Margin* | 20.91 | 0 | 20.91 | 0 | 0 | 0 | 0 | 0 |
| *Inter-bank loan and receivables* | 41.63 | 41.84 | 41.63 | 41.84 | 0 | 0 | 0 | 0 |
| **FVOCI debt investments** | **17,964.43** | **0** | **7,987.13** | **0** | **9,977.30** | **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 |
| *Private Securities* | 17,964.43 | 0 | 7,987.13 | 0 | 9,977.30 | 0 | **0** | **0** |
| **HTC investments** | **718,018.76** | **703,928.35** | **17,056.49** | **7,312.80** | **6,418.45** | **2,071.73** | **694,543.82** | **694,543.82** |
| *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* | 712,980.79 | 697,788.17 | 12,949.64 | 2,354.99 | 5,487.33 | 889.36 | 694,543.82 | 694,543.82 |
| *Foreign* | 5,037.97 | 6,140.18 | 4,106.85 | 4,957.81 | 931.12 | 1,182.37 | 0 | 0 |
| **TOTAL** | **740,830.61** | **705,783.52** | **29,888.92** | **9,165.69** | **16,397.87** | **2,074.01** | **694,543.82** | **694,543.82** |

*1/ Result for the ECL calculation of Treasury exposures as of September 2022 is the basis for the allowance for 2022*

*2/ Result for the ECL calculation of Treasury exposures as of September 2021 is the basis for the allowance for 2021*

The calculated ECL for Loans, Other Exposures and Off-Balance Sheet as of September 2022 increased from P29,452.04 million to P52,241.43 million. The table shows the computed ECL for 2022 and 2021:

| **LOANS, OTHER EXPOSURES & OFF-BALANCE SHEET ITEMS**  **(in Millions)** | **TOTAL** | | **STAGE 1** | | **STAGE 2** | | **STAGE 3** | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2022** | **2021** | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** |
| **Loans** | **50,099.21** | **27,299.83** | **10,789.17** | **5,883.20** | **7,010.50** | **5,361.32** | **32,299.54** | **16,055.31** |
| *Corporates* | 25,856.05 | 21,802.11 | 6,094.49 | 4,580.98 | 5,614.33 | 5,047.26 | 14,147.23 | 12,173.87 |
| *Financial Institutions* | 6,382.23 | 3,325.69 | 3,007.46 | 1,184.41 | 603.58 | 175.06 | 2,771.19 | 1,966.22 |
| *Government* | 1,018.93 | 118.15 | 892.10 | 0 | 9.15 | 0.47 | 117.68 | 117.68 |
| *Retail Loans* | 2,104.67 | 1,797.90 | 417.81 | 85.62 | 118.52 | 122.37 | 1,568.34 | 1,589.91 |
| *Others* | 14,737.33 | 255.98 | 377.31 | 32.19 | 664.92 | 16.16 | 13,695.10 | 207.63 |
| **Other Exposures** | **1,598.12** | **1,661.04** | **21.65** | **5.20** | **401.88** | **169.67** | **1,174.59** | **1,486.17** |
| *Sales Contract Receivable* | 93.91 | 118.94 | 5.90 | 2.03 | 2.17 | 1.18 | 85.84 | 115.73 |
| *Accounts Receivable* | 1,504.21 | 1,542.10 | 15.75 | 3.17 | 399.71 | 168.49 | 1,088.75 | 1,370.44 |
| **Off-Balance Sheet Items** | **544.10** | **491.17** | **544.10** | **491.17** | **0** | **0** | **0** | **0** |
| *Loan Commitments* | 503.47 | 460.35 | 503.47 | 460.35 | 0 | 0 | 0 | 0 |
| *Trade and Trust Receipts* | 23.48 | 28.42 | 23.48 | 28.42 | 0 | 0 | 0 | 0 |
| *Financial Guarantees* | 17.15 | 2.40 | 17.15 | 2.40 | 0 | 0 | 0 | 0 |
| **TOTAL** | **52,241.43** | **29,452.04** | **11,354.92** | **6,379.57** | **7,412.38** | **5,530.99** | **33,474.13** | **17,541.48** |

1. **Deposit Liabilities**

This account consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
| Domestic |  |  |  |  |
| Demand deposits | 1,369,814,859,810 | 1,278,620,364,019 | 1,367,248,584,084 | 1,205,400,842,027 |
| Savings deposits | 1,252,079,860,367 | 1,081,636,637,172 | 1,245,155,575,705 | 940,301,551,394 |
| Time certificate of deposits | 24,704,987,879 | 85,988,072,872 | 20,492,670,701 | 1,006,895,586 |
|  | 2,646,599,708,056 | 2,446,245,074,063 | 2,632,896,830,490 | 2,146,709,289,007 |
| Foreign |  |  |  |  |
| Savings deposit –FCDU/EFCDU | 33,343,559,991 | 17,872,343,844 | 33,344,168,397 | 17,873,029,149 |
| Time certificate of deposit- FCDU/EFCDU | 87,377,781,092 | 103,838,060,573 | 87,377,781,092 | 103,838,060,573 |
|  | 120,721,341,083 | 121,710,404,417 | 120,721,949,489 | 121,711,089,722 |
|  | **2,767,321,049,139** | **2,567,955,478,480** | **2,753,618,779,979** | **2,268,420,378,729** |

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 2022 and 2021, respectively. Foreign deposit rates range from 0.025 to 0.50 per cent and from 0.025 to 0.50 per cent in 2022 and 2021, respectively. In 2022 and 2021, P1,866,335,527,916 or 68 per cent and P1,472,045,372,443 or 65 per cent, respectively, of the Parent’s deposit portfolio came from the government while the rest came from private depositors.

1. **Bills Payable**

This account consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
| Bangko Sentral ng Pilipinas | 24,303,875 | 24,303,875 | 24,303,875 | 24,303,875 |
| Domestic borrowings | 2,038,707,965 | 2,173,401,546 | 143,807,965 | 156,645,221 |
| Deposit Substitute-Repurchase  Agreement | 16,125,886,977 | 0 | 16,125,886,977 | 0 |
| Foreign Borrowings ODA | 15,299,984,049 | 23,584,881,767 | 15,299,984,049 | 23,584,881,767 |
|  | 33,488,882,866 | 25,782,587,188 | 31,593,982,866 | 23,765,830,863 |

The breakdown of Parent’s ODA foreign borrowings are as follows:

| Creditor/Funder | **2022** | **2021** |
| --- | --- | --- |
| World Bank/IBRD | 7,106,567,736 | 13,374,620,390 |
| Asian Development Bank (ADB) | 174,994,999 | 248,831,513 |
| Japan International Cooperation Agency (JICA) | 6,727,202,525 | 8,649,986,547 |
| Kreditanstalt fur Wiederaufbau (KfW) | 1,291,218,789 | 1,311,443,317 |
|  | 15,299,984,049 | 23,584,881,767 |

The total ODA foreign borrowings of P15,299,984,049 is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P9,062,310,015 are provided with foreign exchange (FX) Risk Cover by the National Government. This has historical value of P9,582,012,728. 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 2022 range from 0.01 to 4.51 per cent and 4.75 per cent, respectively, for foreign and domestic borrowings, respectively.

1. **Other Liabilities**

This account consists of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
|  |  | **As Restated** |  |  |
| Accrued interest, fringe benefits, taxes and other expense payable | 14,088,075,088 | 10,107,814,612 | 14,268,654,034 | 8,224,002,617 |
| Accounts payable | 56,738,490,661 | 48,053,690,742 | 56,162,564,380 | 43,989,185,917 |
| Due to Agrarian Reform Fund | 86,454,685 | 175,428,263 | 86,454,685 | 175,428,263 |
| Sundry credits | 16,148,899,361 | 2,014,178,210 | 16,114,657,915 | 1,933,086,445 |
| Unearned income | 1,068,735,085 | 458,199,574 | 86,388,313 | 12,094,504 |
| Withholding tax payable | 611,165,374 | 423,457,916 | 588,220,573 | 284,230,947 |
| Miscellaneous liabilities | 8,516,335,548 | 8,561,322,937 | 8,345,503,883 | 5,619,699,920 |
| Provision for estimated credit  losses | 597,052,933 | 491,173,088 | 544,101,219 | 491,173,088 |
| Others | 12,704,639,816 | 5,986,114,640 | 12,273,400,619 | 4,438,653,704 |
|  | 110,559,848,551 | 76,271,379,982 | 108,469,945,621 | 65,167,555,405 |

Accounts Payable consists of issuance of e-money by authorized Electronic Money Issuer-Banks (EMI-Banks) and conditional cash transfer to DSWD.

Miscellaneous Liabilities mostly consists of security deposits on leased vehicle.

The Others account include finance lease payment payable, due to Treasury of the Philippines, other taxes and licenses payable, due from FCDU/RBU-Fx Reg-Clearing account and Due from FCDU/EFCDU net realized/unrealized losses recognized in profit or loss in equity.

1. **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 Group includes reduced Regular Corporate Income Tax (RCIT) rate from 30 per cent to 25 per cent, Minimum Corporate Income Tax (MCIT) rate from two per cent to one 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 RCIT at a rate of 25 per cent or the MCIT at a rate of one per cent. For taxable year 2021, the Parent paid its income tax based on RCIT computation since it resulted to a higher tax payable than MCIT 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 | |
| --- | --- | --- | --- | --- |
|  | 2022 | 2021 | 2022 | 2021 |
| Current: |  |  |  |  |
| Normal/MCIT | 723,502,772 | 491,555,915 | 573,935,462 | 235,636,891 |
| Income Tax - Final | 0 | 0 | 0 | 0 |
|  | 723,502,772 | 491,555,915 | 573,935,462 | 235,636,891 |
| Deferred | (3,162,565,753) | 634,586,469 | (3,146,662,099) | 539,236,793 |
| Provision for Income Tax | (2,439,062,981) | 1,126,142,384 | (2,572,726,637) | 774,873,684 |

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

|  | Group | | Parent | |
| --- | --- | --- | --- | --- |
|  | 2022 | 2021 | 2022 | 2021 |
| Statutory income tax | 9,055,953,159 | 7,453,357,978 | 8,910,971,840 | 6,432,906,952 |
| Additions to (reductions in) income taxes arising from: |  |  |  |  |
| Non-deductible interest expense | 2,597,076,654 | 2,042,120,372 | 2,597,073,886 | 2,042,033,070 |
| Other Deductible/Non-deductible expense | 888,408,555 | 553,576,470 | 936,221,865 | 528,013,193 |
| FCDU Income | (1,174,210,485) | (739,370,720) | (1,174,210,485) | (764,378,177) |
| Tax exempt & tax paid income | (12,927,395,550) | (8,557,698,160) | (12,973,466,539) | (8,567,629,725) |
| Others | (878,895,314) | 374,156,444 | (869,317,204) | 1,103,928,371 |
|  | (2,439,062,981) | 1,126,142,384 | (2,572,726,637) | 774,873,684 |

The net deferred income tax asset reported by the Parent amounted to P12,754,419,707 and P6,571,947,725 for CY 2022 and 2021, respectively while the subsidiaries recognized deferred tax assets of P928,540,907 and P3,122,815,977 for CY 2022 and 2021, 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 | |
|  | 2022 | 2021 |
| Deferred tax asset: |  |  |
| Provision for credit and impairment losses | 13,639,577,497 | 5,085,233,312 |
| Excess MCIT over NIT | 0 | 188,517,229 |
| Accrued expenses | 60,441,770 | 557,167,437 |
| Foreign exchange loss from revaluation | 0 | 1,165,460,137 |
| Loss on fair value thru profit and loss | 0 | 148,290,578 |
|  | 13,700,019,267 | 7,144,668,693 |
| Deferred tax liability: |  |  |
| Gain on fair value thru profit and loss | 123,933,591 | 0 |
| Foreign exchange gain from revaluation | 821,665,969 | 572,720,968 |
|  | 945,599,560 | 572,720,968 |
| Net Deferred Tax Asset | 12,754,419,707 | 6,571,947,725 |

1. **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, 2022, the Parent reported the following revenues and expenses for income tax purposes:

|  |  |  |
| --- | --- | --- |
| Revenues |  |  |
| Services/operations |  | 46,507,975,806 |
| Non-operating and taxable other income: |  |  |
| Trading and securities gain |  | 2,732,821,276 |
| Service charges, fees and commissions |  | 3,528,112,196 |
| Income from trust operations |  | 251,111,992 |
| Others |  | 1,347,935,014 |
| Total Revenues |  | 54,367,956,284 |
| Expenses |  |  |
| Cost of services: |  |  |
| Compensation and fringe benefits |  | 10,844,110,379 |
| Others |  | 13,273,170,723 |
| Total cost of services |  | **24,117,281,102** |
| Itemized deductions: |  |  |
| Compensation and fringe benefits |  | 7,285,205,278 |
| Taxes and Licenses |  | 6,015,726,589 |
| Documentary Stamps Used |  | 6,162,739,947 |
| Depreciation and amortizations |  | 1,781,679,236 |
| Security, messengerial and janitorial |  | 1,314,421,642 |
| Information Technology Expenses |  | 1,170,818,401 |
| Bad Debts |  | 119,125,830 |
| Fees and Commission |  | 707,861,252 |
| Communications, Light and Water |  | 970,719,756 |
| Litigation/Asset Acquired Expenses |  | 298,346,170 |
| Miscellaneous |  | 281,941,936 |
| Management and professional fees |  | 188,014,251 |
| Office Supplies |  | 100,802,284 |
| Rent |  | 480,002,430 |
| Representation and entertainment |  | 163,854,483 |
| Transportation and Travel |  | 159,524,810 |
| Insurance |  | 156,309,667 |
| Repairs and Maintenance |  | 148,004,633 |
| Donations and Charitable Contribution |  | 58,708,137 |
| Advertising |  | 203,404,636 |
| Fuel and Oil |  | 83,074,325 |
| Freight Expense |  | 62,437,509 |
| Trainings and seminars |  | 19,422,867 |
| Membership Fees and Dues |  | 14,287,418 |
| Directors Fee |  | 5,808,000 |
| Fines. Penalties & Other Charges |  | 2,653,747 |
| Periodicals and Magazines |  | 38,099 |
| **Total Itemized Deductions/Expenses** |  | **27,954,933,333** |
| Total expenses |  | **52,072,214,435** |
| Net taxable income |  | **2,295,741,849** |

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.

1. The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2022 are as follows:

| **Documents / transactions** | **DST Paid** |
| --- | --- |
| Debt instruments, bonds, certificate of time deposits | 7,523,963,968 |
| Original issue of shares of stocks | 1,363,008,316 |
| Mortgages, pledges, deed of assignments/trust | 765,827,840 |
| Foreign bills of exchange, letters of credit | 163,922,652 |
| Banks, checks, drafts and telegraphic transfer/others | 96,110,848 |
| Acceptance of bills of exchange payable in the Phils | 82,106,137 |
| Others | 2,967,952 |
| **Total DST Paid** | **9,997,907,713** |

1. All other taxes, local and national, paid for the tax period 2022:

|  |  |
| --- | --- |
| **National** |  |
| Percentage taxes (GRT) | 5,988,268,044 |
| Fringe benefits tax | 34,364,442 |
| National taxes | 782,671,499 |
| ***Total National Taxes*** | 6,805,303,985 |
| **Local** |  |
| Real estate tax | 72,238,662 |
| Local business tax | 81,026,713 |
| Mayor’s Permit/Municipal License/Other Regulatory Fees/License Permit | 160,686,242 |
| Other local taxes | 13,103,457 |
| ***Total Local Taxes*** | 327,055,074 |
| **Total National and Local Taxes** | 7,132,359,059 |

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

|  |  |
| --- | --- |
| Tax on Compensation and benefits | 2,113,304,093 |
| Creditable withholding taxes | 573,175,870 |
| Final withholding taxes | 2,020,026,180 |
|  | 4,706,506,143 |

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

|  |  |
| --- | --- |
| Tax Credits against Income Tax | 3,268,449,495 |
| Tax Credits against Gross Receipts Tax | 155,592,338 |
|  | 3,424,041,833 |

1. **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 2022 and 2021 amounted to P907,400,462 and P1,144,057,161, respectively.

1. **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, 2022 amounted to P108,987,482,220 of which P108,754,149,989 are government borrowings covered by BSP Circular No. 547.

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2022** | | | | **2021** | | | |
|  | **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 | 15,946,273 | 1,716,373,300 | 107,727,775,126 | 109,460,094,699 | 18,653,270 | 962,288,293 | 97,079,866,236 | 98,060,807,799 |
| Deposit liabilities | 0 | 1,365,403,169 | 0 | 1,365,403,169 | 0 | 557,644,759 | 0 | 557,644,759 |
| Other liabilities | 0 | 1,084,924,683 | 0 | 1,084,924,683 | 0 | 667,265,893 | 0 | 667,265,893 |
|  | 15,946,273 | 4,166,701,152 | 107,727,775,126 | 111,910,422,551 | 18,653,270 | 2,187,198,945 | 97,079,866,236 | 99,285,718,451 |

The following are the percentage of DOSRI loans:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **2022** | **2021** |
|  |  |  |  |  |
| Total DOSRI |  |  | 108,987,482,220 | 97,098,519,506 |
| Unsecured DOSRI Loans |  |  | 0 | 7,401,933 |
| Total RPT Loans |  |  | 0 | 0 |
| Total RPT Loans (inclusive of DOSRI) |  |  | 108,987,482,220 | 97,098,519,506 |
| % of DOSRI Loans to Total Loans |  |  | 9.30% | 11.03% |
| Unsecured DOSRI to Total DOSRI | | | 0 | 0.01% |
| % of RPT Loans to Total Loans | | | 0 | 0 |
| % of DOSRI and RPT Loans to Total Loans | | | 9.30% | 11.03% |
| % of Past due DOSRI to Total DOSRI | | | 0 | 0 |
| % Non-performing DOSRI to Total DOSRI | | | 0.001% | 0 |

The following are the significant transactions with subsidiaries:

|  | **2022** | **2021** |
| --- | --- | --- |
| Interest income | 60,273,696 | 60,202,894 |
| Interest expense | (138,168,084) | (7,768,596) |
| Other income | 19,755,385 | 1,242,771 |
| Other expenses | (168,240,628) | (583,758,989) |

Compensation of key management personnel:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
| Short-term employee benefits | 379,729,447 | 166,996,822 | 307,596,098 | 139,807,877 |
| Post-employment benefits | 55,621,749 | 34,293,119 | 53,649,606 | 33,560,013 |
| Other long-term benefits | 124,576,499 | 9,297,965 | 124,576,499 | 9,297,965 |
|  | 559,927,695 | 210,587,906 | 485,822,203 | 182,665,855 |

Terms and conditions of transactions with related parties:

The Parent’s related party transactions with its subsidiaries as of December 31, 2022 and December 31, 2021 amounted to P115,499,686,651 and to P99,285,718,451, respectively. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2022 and 2021, 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.

1. **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 P523,578,034,176 and P373,873,463,976 as of December 31, 2022 and 2021, respectively.

Summary of Assets under Management is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **2022** | **2021** |
|  |  | **(Unaudited)** | **(Unaudited)** |
| Special Purpose Trust |  | 247,553,879 | 13,978,586 |
| Other Fiduciary Accounts |  | 473,009,584,222 | 330,664,036,232 |
| Agency |  | 35,258,305,235 | 32,923,573,482 |
| Trust |  | 15,062,590,840 | 10,271,875,676 |
|  |  | 523,578,034,176 | 373,873,463,976 |

In compliance with the requirements of the General Banking Law, government securities with total face value of P1,350,000,000 in 2022 and P950,000,000 in 2021 are deposited with BSP as security for the Parent’s faithful performance of its fiduciary obligation.

1. **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, 2022, the Parent’s outstanding notional amount of the currency sell forward/swap agreements with maturity of less than nine months amounted to P39,419,400,000 with market value of P37,939,703,831 while currency bought forward amounted to P289,250,000 with a market value of P280,325,543.

*Over the Counter Interest Rate Option Contract Bought*

As of December 31, 2022, the Parent’s outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P126,555,584 with market value of P143,593,490.

*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, 2022, the Parent’s outstanding notional amount of the FX Risk Cover amounted to JPY18,271,147,737 and EUR21,712,730.

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.

1. **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** | |
| --- | --- | --- |
|  | **2022** | **2021** |
| Trust Department accounts | 523,578,034,176 | 373,873,463,976 |
| Commitments | 154,011,556,154 | 131,491,488,755 |
| Standby/commercial letters of credit | 20,896,524,503 | 10,485,624,640 |
| Derivatives | 47,402,045,748 | 46,108,219,720 |
| Outstanding guarantees | 1,899,078,731 | 1,871,283,728 |
| Spot exchange contracts | 446,040,000 | 509,990,000 |
| Late deposits received | 818,654,800 | 65,463,114 |
| Outward bills for collection | 47,115,712 | 110,622,734 |
| Liability Indemnity Fund | 74,950,227 | 69,950,227 |
| Others | 20,241,725,136 | 17,264,330,343 |
|  | 769,415,725,187 | 581,850,437,237 |

**Municipal Development Fund**

Created through [Presidential Decree (PD) No. 1914](http://www.mdfo.gov.ph/docs/pd1914.pdf) on March 29, 1984, the Municipal Development Fund (MDF) is a special revolving fund for re-lending to Local Government Units (LGUs). 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 and the Department of Public Works and Highways - Central Project Office.

In order to simplify credit administration and tighten managerial control of the MDF, [Executive Order No. 41](http://www.mdfo.gov.ph/docs/eo41.pdf) was issued on November 20, 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 Parent 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 Parent |  |  |
| 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 |  |  |
| 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 Parent amounting P9,590,397,633.94 were booked as Miscellaneous Contingent Asset (MCA) Account.

Breakdown of MDFO Fund balance amounting to P 11,844,892,363.44 as of December 31, 2022 is shown below:

| **Assets** | **Amount**  *(in Peso)* | **Recorded as** |
| --- | --- | --- |
|  |  |  |
| Funds in LANDBANK Trust | 2,320,511,105.26 |  |
| Operating Fund | 707,337,873.18 | Accounts Payable – Government Entities |
| Net Loan Balance |  |  |
| Loans Receivables | 8,673,940,736.46 | MCA |
| Interest Receivables | 19,915,336.70 | MCA |
| Other Receivables (Penalty) | 53,271,531.52 | MCA |
| Other Payables (Excess Payment of LGUs) | (3,491,219.68) | MCA |
| Government Securities  Treasury Bonds | 73,407,000.00 |  |
|  | 11,844,892,363.44 |  |

The Parent 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.

1. **Financial Performance**

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

|  |  |  |
| --- | --- | --- |
|  | **2022** | **2021** |
| Net interest margin ratio | 2.96% | 2.85% |
| Return on average assets | 1.35% | 1.01% |
| Return on average equity | 17.29% | 12.64% |

1. **Equity**

As of December 31, 2022, the Parent’s authorized capital stock consisted of 2 billion common shares with par value of P100 per share totaling P200 billion.

In accordance with Section 3 of Malacañang 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’s Paid-up capital stood at P163.79 billion equivalents to 1,637,877,113 shares with par value of P100 per share.

On February 28, 2022 and March 9, 2022, the Unrestricted Retained Earnings was converted into Paid-up Capital amounting to P42.82 billion and P67.18 billion, respectively as approved by the LBP Board of Directors per board resolution No. 22-124 and 22-165 dated February 14, 2022 and March 9, 2022, respectively. This is in compliance with Section 42 of Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines, stock corporations are prohibited from retaining surplus profits in excess of 100 per cent of their paid-in capital stock.

On June 3, 2022 the Parent paid dividend of P8,449,273,026 to the National Government representing the amount of net gain realized from the merger with UCPB as approved by the LBP Board of Directors per board resolution No. 22-376 dated June 2, 2022.

On December 29, 2022 the Retained Earning-reserves of the Parent pertaining to General Provision amounting to P4,986,855,520 was transferred to Retained Earnings-Free as approved by the LBP Board of Directors per board resolution No. 22-923 dated December 21, 2022.

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Group** | | **Parent** | |
|  | **2022** | **2021** | **2022** | **2021** |
|  | (Amounts in Millions) | | | |
|  |  |  |  |  |
| Reserve for trust business | 5,045.00 | 5,045.00 | 5,045.00 | 5,045.00 |
| Reserve for contingencies | 5,102.50 | 5,032.50 | 5,002.50 | 5,002.50 |
| Reserve for PPE and software acquisition | 64.98 | 335.48 | 0.00 | 0.00 |
| Reserve for retirement fund and insurance | 33.36 | 0.00 | 0.00 | 0.00 |
| Reserve for business expansion | 1,330.00 | 1,070.00 | 0.00 | 0.00 |
| Reserve for others | 3,940.89 | 74,356.45 | 3,493.87 | 74,320.95 |
|  | 15,516.73 | 85,839.43 | 13,541.37 | 84,368.45 |

Retained Earnings Reserve-Others consists of reserve for automation, expansion and retirement.

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** |
|  |  | |  |  |  |
| Balance, as of December 31, 2021 | (9,557,754) | | 6,602,915,529 | 99,917,550 | 6,693,275,325 |
| Increase/(Decrease) in CY 2022 | (5,434,799) | | (18,778,601,881) | 137,815,535 | (18,646,221,145) |
| Balance, as of December 31, 2022 | (14,992,553) | | (12,175,686,352) | 237,733,085 | (11,952,945,820) |

|  | **Parent** | | |
| --- | --- | --- | --- |
|  | **Net Unrealized Gain/(loss) on AFS securities** | **Translation Adjustment and Others** | **Total** |
|  |  |  |  |
| Balances, as of January 1, 2022 | 7,059,030,179 | 101,150,162 | 7,160,180,341 |
| Increase/(Decrease) in CY 2022 | (19,299,116,634) | 136,365,978 | (19,162,750,656) |
| Balance, as of December 31, 2022 | (12,240,086,455) | 237,516,140 | (12,002,570,315) |

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. All Business Unit of the Group are aware of the corresponding capital charge for the losses that could arise from any transaction or business they undertake.

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.

The Parent’s capital was strong and sufficient to deliver its mandated services and to cover the risks inherent in its operations. The Parent maintains a strong capital base at all times to boost customer confidence, enhance competitiveness, ensure stability and sustain long-term growth and viability. The Parent’s policy on Capital Planning was enhanced to establish capital levels that will adequately support the Parent’s vision and its strategic plans and ensure continued compliance with the evolving capital and capital ratio requirements of BSP. Given that internal capital generation through earnings remains as the principal source of the Parent’s capital accumulation, the primary thrust of Parent’s capital planning activities is to maximize its profitability and consequently, attain higher retained earnings.

Regulatory Qualifying Capital

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

In addition, the risk-based capital ratio of a Parent, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10 per cent for both stand-alone basis (head office and branches) and consolidated basis (Parent and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

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

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
|  | (Amounts in Millions) | | | |
| Tier 1 Capital | 211,539 | 215,460 | 210,591 | 204,031 |
| Tier 2 Capital | 7,206 | 10,765 | 7,045 | 9,082 |
| Less: Required Deductions | 24,847 | 25,132 | 29,150 | 25,833 |
| Total Qualifying Capital | 193,898 | 201,093 | 188,486 | 187,280 |
| Risk Weighted Assets | 1,340,572 | 1,203,958 | 1,305,580 | 1,032,945 |
| Common Equity Tier 1 Ratio (CET1) | 13.93% | 15.81% | 13.90% | 17.25% |
| Total Capital Adequacy Ratio (CAR) | 14.46% | 16.70% | 14.44% | 18.13% |

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 and extended until June 30, 2023 per BSP Circular No. 1164 dated January 5, 2023.

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, 2022

**(Amounts in Millions)**

| **Item** | | **Leverage Ratio Framework** | |
| --- | --- | --- | --- |
|  | | **Group** | **Parent** |
| 1. | Total consolidated assets as per published financial statements | 3,155,882.082 | 3,137,088.113 |
| 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 | 1,032.976 | 1,032.976 |
| 5. | Adjustments for securities financial transactions (i.e., repos and similar secured lending) | 221.682 | 221.682 |
| 6. | Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures) | 86,296.682 | 86,094.096 |
| 7. | Other adjustments | -18,409.429 | -22,873.400 |
| **8.** | **Leverage ratio exposure** | 3,225,023.993 | 3,201,563.467 |

Basel III Leverage Ratio Common Disclosure Template

As of December 31, 2022

(Amounts in Millions; Ratios in Per cent)

| **Item** | | | **Leverage Ratio Framework** | |
| --- | --- | --- | --- | --- |
|  | | | **Group** | **Parent** |
|  | | **On-balance sheet exposures** | | |
| 1. | On-balance sheet items 1/ | | 3,158,965.610 | 3,140,374.107 |
| 2. | Asset amounts deducted in determining Basel III Tier 1 Capital | | -24,847.079 | -29,150.044 |
| **3.** | **Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)** | | 3,134,118.531 | 3,111,224.063 |
|  | | **Derivative exposures** | | |
| 4. | Replacement cost associated with all derivatives transactions | | 2,990.651 | 2,990.650 |
| 5. | Add-on amounts for Potential Future Exposure associated with all derivative transactions | | 1,032.976 | 1,032.976 |
| 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)** | | **4,023.627** | **4,023.626** |
|  | | **Securities financing transaction exposures** | | |
| 12. | Gross SFT assets (with no recognition of netting**)** | | 363.471 | 0.000 |
| 13. | Netted amounts of cash payables and cash receivables of gross SFT assets 2/ | |  |  |
| 14. | CCR exposures for SFT assets | | 221.682 | 221.682 |
| 15. | Agent transaction exposures 3/ | | 0.000 | 0.000 |
| **16.** | **Total securities financing transaction exposures (sum of lines 12 to 15)** | | **585.153** | **221.682** |
|  | | **Other off-balance sheet exposures** | | |
| 17. | Off-balance sheet exposure at gross notional amount | | 198.006.921 | 195,981.813 |
| 18. | Adjustments for conversion to credit equivalent amounts | | -111,710.239 | -109,887.717 |
| **19.** | **Off-balance sheet items** | | **86,296.682** | **86,094.096** |
|  | | **Capital and total exposures** | | |
| **20.** | **Tier 1 capital** | | 186,691.665 | 181,440.970 |
| **21.** | **Total exposures (sum of lines 3, 11, 16 and 19)** | | 3,225,023.993 | 3,201,563.467 |
|  | | **Leverage ratio** | | |
| **22.** | **Basel III leverage ratio** | | **5.79%** | **5.67%** |

*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*

Non-controlling Interests

This represent the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the statements of comprehensive income and within equity in the statements of financial position and changes in equity.

1. **Miscellaneous Income**

This account is composed of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
| Gain from sale/derecognition of  non-financial assets | 3,198,173,244 | 692,297,232 | 3,123,863,305 | 601,412,711 |
| Rent income | 87,218,517 | 112,157,462 | 3,466,916 | 17,379,563 |
| Miscellaneous income | 8,837,890,277 | 12,874,854,611 | 11,241,665,693 | 513,407,912 |
| Recovery on charged-off assets | 114,377,963 | 80,950,878 | 109,744,254 | 80,950,878 |
|  | 12,237,660,001 | 13,760,260,183 | 14,478,740,168 | 1,213,151,064 |

Miscellaneous Income includes recovery on charged off assets, gain on bargain purchase and income on renewal fees, fines and penalties.

1. **Investment Income**

The Investment Income of the Parent consists of:

* 1. Interest Income

|  | **2022** | **2021** |
| --- | --- | --- |
| FVOCI | 10,738,421,896 | 11,839,605,052 |
| FVTPL | 132,442,250 | 70,337,166 |
| HTC | 28,070,477,803 | 19,028,427,423 |
|  | 38,941,341,949\* | 30,938,369,641\* |

*\*Interest Income using the effective interest rate method.*

* 1. Gain/(Loss) on Sale/Redemption/Derecognition of Financial Assets for FVOCI amounting to P43,380,681 and P69,480 in CY 2022 and CY 2021, respectively.
  2. Gain/(Loss) on Financial Assets and Liabilities-FVTPL

|  | **2022** |  | **2021** |
| --- | --- | --- | --- |
| Realized Gain/(Loss) from Sale/Derecognition | 124,559,815 |  | 229,134,632 |
| Unrealized Gain/(Loss)-Mark-to-Market | 1,055,878,587 |  | (593,162,312) |
| Realized Gain/(Loss) from Sale/Derecognition-Derivative-FX | (4,843,361,001) |  | (1,721,655,239) |
| Realized Gain/(Loss) from Foreign Exchange Transactions-Derivative | 444,413,795 |  | 239,072,166 |
|  | (3,218,508,804) |  | (1,846,610,753) |

* 1. Gain/(Loss) on Financial Assets – Designated as FVTPL (DFVPL)

|  | **2022** |  | **2021** |
| --- | --- | --- | --- |
| Gain/(Loss) on Financial Assets – DFVTPL | (31,562,951) |  | 31,500,408 |

Fees earned from securities brokering, advisory, underwriting, arranging and asset management activities amounted to P137,480,509 and P111,767,709, in 2022 and 2021, respectively. On the other hand, expenses incurred relative to BTr maintenance fees, RTGS and PHILPASS fees amounted to P28,355,463 and P21,497,480 in 2022 and 2021, respectively**.**

1. **Miscellaneous Expenses**

This account is composed of:

|  | **Group** | | **Parent** | |
| --- | --- | --- | --- | --- |
|  | **2022** | **2021** | **2022** | **2021** |
|  |  | **As Restated** |  |  |
| Finance Charges | 405,144 | 102,049 | 0 | 0 |
| Management and other professional fees | 235,219,342 | 210,654,832 | 188,014,251 | 177,460,933 |
| Supervision fees | 826,398,172 | 649,750,423 | 819,563,357 | 648,204,870 |
| Fines, penalties and other charges | 28,317,853 | 264,952 | 3,018,747 | 212,472 |
| Insurance | 5,299,497,936 | 5,017,718,123 | 5,239,255,424 | 4,791,488,486 |
| Fees and commission expense | 749,608,434 | 619,208,704 | 733,618,160 | 621,467,692 |
| Litigation/asset acquired expenses | 317,535,043 | 470,933,974 | 280,738,696 | 316,455,209 |
| Other Expenses | 13,441,704,276 | 10,844,227,446 | 12,292,820,242 | 9,720,194,526 |
|  | **20,898,686,200** | **17,812,860,503** | **19,557,028,877** | **16,275,484,188** |

Other Expenses mainly include security, clerical, messengerial and janitorial services, information technology expenses, documentary stamps used and other bank expense.

1. **Events After Reporting Period**

**Valuation of the assets and liabilities of the UCPB**

**The Parent reported in its financial statements the provisional amounts of the assets and liabilities of the UCPB. During the measurement period, the Parent retrospectively adjusted the provisional amounts recognized at the acquisition date to reflect 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. As of December 31, 2022, the Parent recognized a decrease in the Gain on Bargain Purchase amounting to P21,202,693 representing the net change in the determined fair values of the net assets of UCPB.**

**During the measurement period, the Parent shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. As of December 31, 2022, the Parent is in the process of completing the validation of the existence of the assets acquired and liabilities transferred UCPB. Adjustments discovered after the measurement period ends will be treated in accordance with PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.**

**Request for relief and dividend relief from the acquisition of UCPB**

Per Republic Act (RA) No. 7656 or the Dividend Law, GOCCs including GFIs are required to remit cash dividends annually to the National Government (NG). The Parent remitted a special cash dividend to the NG amounting to P8.45 billion on June 03, 2022 following the instruction of the Department of Finance (DOF) to remit this amount considered as extraordinary gain from the acquisition of UCPB.

To preserve its capital, maintain its capital ratios within acceptable levels and continuously comply with the regulatory requirements, the Parent engages the DOF on the annual dividend requirement. The discussions covered the Parent’s net earnings for 2020, 2021 and 2022, and the Parent’s requests have already been favorably endorsed by the DOF to the Office of the President (OP) of the Philippines for evaluation and approval.

**Maharlika Investment Fund Law (Republic Act 11954)**

The RA No. 11954 an “Act Establishing the Maharlika Investment Fund, Providing for the Management, Investment, and Use of the Process of the Fund and for Other Purposes” was enacted into law on July 18, 2023. The internal rate of return (IRR) is expected to be promulgated within 90 days from the effectivity of the law as indicated under Section 54 of RA No. 11954.

LBP as one of the Founding Government Financial Institutions (Founding GFIs) is mandated to contribute P50 billion for the initial funding and capitalization of the Maharlika Investment Corporation (MIC). The MIC is the corporate body, which shall act as the sole vehicle for the purpose of mobilizing and utilizing the Maharlika Investment Fund (MIF).

1. **Secured Liabilities and Assets Pledged as Security** **(Supplementary Information Required under BSP Circular No. 1074)**

On January 8, 2020, the Monetary Board approved the amendments to the relevant provisions of the Manual of Regulations for Banks and Manual of Regulations for Foreign Exchange Transactions. Among the provisions is the requirement to include the following additional information to the Audited Financial Statements.

Secured Liabilities and Assets Pledged as Security

The following are the carrying values of government debt securities pledged and transferred under Securities Sold Under the Repurchased Agreement (SSURA) transactions of the Parent:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2022** | | **2021** | |
| **Particulars** | **Transferred Securities** | **SSURA** | **Transferred Securities** | **SSURA** |
| Investment securities at FVOCI | 18,170,337,471 | 16,125,886,977 | 0 | 0 |

1. **Financial Risk Management**

**CREDIT RISK MANAGEMENT**

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

**Maximum Credit Risk Exposure**

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

| **On-Balance Sheet (BS) Items** | | **2022 (In ₱ Millions)** | | | | | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **CEA** | | **0%** | | **20%** | | **50%** | | **75%** | | **100%** | | **150%** | | **CRWA** |
| **Cash on Hand** | | 55,971 | | 55,971 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 |
| **Checks & Other Cash Items (COCI)** | | 33 | | 0 | | 33 | | 0 | | 0 | | 0 | | 0 | | 7 |
| **Due from Bangko Sentral ng Pilipinas (BSP)** | | 564,529 | | 564,529 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 |
| **Due from Other Banks** | | 17,995 | | 0 | | 1,525 | | 16,449 | | 0 | | 21 | | 0 | | 8,550 |
| **Financial Assets Designated at FVTPL** | | 1,109 | | 0 | | 0 | | 0 | | 0 | | 1,109 | | 0 | | 1,109 |
| **Available-for-Sale (AFS) Financial Assets** | | 426,629 | | 348,619 | | 3,940 | | 70,931 | | 0 | | 3,139 | | 0 | | 39,392 |
| **Held-to-Maturity (HTM) Financial Assets** | | 847,257 | | 813,993 | | 8,162 | | 21,623 | | 0 | | 3,479 | | 0 | | 15,923 |
| **Loans & Receivables** | | 1,002,524 | | 0 | | 6,142 | | 101,243 | | 0 | | 857,937 | | 37,202 | | 965,591 |
| 1. Interbank Loans Receivables | | 49,487 | | 0 | | 5,746 | | 8,928 | | 0 | | 34,658 | | 155 | | 40,504 |
| 2. Loans & Receivables - Others | |  | |  | |  | |  | |  | |  | |  | |  |
| a. LGUs & Public Sector Entities | | 69,930 | | 0 | | 0 | | 0 | | 0 | | 69,930 | | 0 | | 69,930 |
| b. Government Corporation | | 2,022 | | 0 | | 0 | | 0 | | 0 | | 2,022 | | 0 | | 2,022 |
| c. Corporates | | 691,213 | | 0 | | 0 | | 0 | | 0 | | 691,213 | | 0 | | 691,213 |
| d. Microfinance/Small & Medium Enterprise | | 71,719 | | 0 | | 396 | | 71,189 | | 0 | | 0 | | 134 | | 35,875 |
| e. Loans to individuals | | 75,651 | | 0 | | 0 | | 21,126 | | 0 | | 54,525 | | 0 | | 65,088 |
| 3. Defaulted Exposures | | 42,502 | | 0 | | 0 | | 0 | | 0 | | 5,589 | | 36,913 | | 60,959 |
| **Other Loans and Receivables 1/** | | 29,200 | | 26,547 | | 0 | | 2,653 | | 0 | | 0 | | 0 | | 1,326 |
| **Sales Contract Receivable (SCR)** | | 1,831 | | 0 | | 0 | | 0 | | 0 | | 913 | | 918 | | 2,290 |
| **Real & Other Properties Acquired (ROPA)** | | 12,619 | | 0 | | 0 | | 0 | | 0 | | 0 | | 12,619 | | 18,929 |
| **Total Exposures Excluding Other Assets** | | 2,959,697 | | 1,809,659 | | 19,802 | | 212,899 | | 0 | | 866,598 | | 50,739 | | 1,053,117 |
| **Add: Other Assets** | | 42,989 | | 270 | | 0 | | 0 | | 0 | | 42,719 | | 0 | | 42,719 |
| **Total On-BS RWA covered by CRM** | | 118,161 | | 115,761 | | 402 | | 1,998 | | 0 | | 0 | | 0 | | 1,079 |
| **Total On-BS Exposures** | | 3,120,846 | | 1,925,690 | | 20,204 | | 214,897 | | 0 | | 909,317 | | 50,739 | | 1,096,915 |
| 1/ Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions | | | | | | | | | | | | | | | | |
| **Off-BS Items** | **2022 (In ₱ Millions)** | | | | | | | | | | | | | | | |
| **CEA** | | **0%** | | **20%** | | **50%** | | **75%** | | **100%** | | **150%** | | **CRWA** | |
| **A. Direct credit substitutes** | 2,940 | | 0 | | 0 | | 13 | | 0 | | 2,927 | | 0 | | 2,933 | |
| **B. Transaction-related contingencies** | 77,206 | | 0 | | 0 | | 0 | | 0 | | 77,206 | | 0 | | 77,206 | |
| **C. Trade-related contingencies** | 4,171 | | 0 | | 0 | | 2413 | | 0 | | 1,758 | | 0 | | 2,964 | |
| **D. Other commitments** | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | |
| **Total Off-BS Exposures** | 84,317 | | 0 | | 0 | | 2,426 | | 0 | | 81,891 | | 0 | | 83,103 | |
| **Counterparty RWA In The Banking Book** | **CEA** | | **0%** | | **20%** | | **50%** | | **75%** | | **100%** | | **150%** | | **CRWA** | |
| **Available for Sale** | **18,531** | | 0 | | **10,499** | | **8,032** | | 0 | | 0 | | 0 | | **6,116** | |
| **TOTAL** | **18,531** | | 0 | | **10,499** | | **8,032** | | 0 | | 0 | | 0 | | **6,116** | |
| **Counterparty RWA In The Trading Book** | **CEA** | | **0%** | | **20%** | | **50%** | | **75%** | | **100%** | | **150%** | | **CRWA** | |
| **Exchange Rate Contracts** | **4,570** | | **3,229** | | 0 | | 0 | | 0 | | **1,341** | | 0 | | **1,341** | |
| **TOTAL** | **4,570** | | **3,229** | | 0 | | 0 | | 0 | | **1,341** | | 0 | | **1,341** | |
| **Less: General Loan Loss Provision** (in excess of the amount permitted to be included in Tier 2) | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | | 0 | |
| **TOTAL** | **3,228,265** | | **1,928,919** | | **30,703** | | **225,355** | | **0** | | **992,549** | | **50,739** | | **1,187,475** | |
| **CEA**: **C**redit **E**quivalent **A**mount **CRM**: **C**redit **R**isk **M**itigant **RWA**: **R**isk **W**eighted **A**ssets **CRWA**: **C**redit Risk **W**eighted **A**ssets | | | | | | | | | | | | | | | | |

**Credit Exposures and Credit-Related Commitments**

As of December 31, 2022, Parent’s Gross Loans & Receivables (GLR) amounted to P1,002,524 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 P691,213 million (68.95%), followed by Loans to Individuals at P75,651 million (7.55%), Local Government Units (LGUs)/Public Sector Entities/Government Corporations at P71,952 million (7.18%) and Micro, Small & Medium Enterprises (MSMEs) at P71,719 million (7.15%). The Parent also holds substantial receivables arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions amounting to P29,200 million. The P83,103 million credit risk-weighted asset of net Off-balance Sheet exposures of P84,317 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 the movement of goods and trust transactions. Outstanding derivative exposures are mainly over-the-counter foreign exchange option contracts.

The Parent’s GLR has a corresponding Credit RWA of P965,591 millionfollowing the Standardized Approach. This represents 81.31 per cent of the Total Credit RWA of P1,187,475 million. Further, total Credit RWA represents 88.58 per cent of the Parent’s Aggregate RWA of P1,340,572 million.

**Management of Credit Risk**

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

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

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

The Parent manages credit risk through a structured framework duly approved by the Parent’s 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 Parent’s 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 a comprehensive set of credit policies through the issuance of Credit Manuals, Credit Policy Issuances (CPIs) and Credit Bulletins (CBs). 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 reviews to assure proper loan classification and setting-up of valuation reserves. As of December 31, 2022, the Parent’s net Non-Performing Loan (NPL) stood at P40,201,198,128 or3.56 per cent of the total loan portfolio of P1,128,484,464,545.

**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 creditworthiness. 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 portfolios 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 the 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 (RiskCom). The recovery of written-off accounts is also on the radar of the Parent’s Board, RiskCom and Senior Management.

**Collateral and Other Credit Enhancements**

The Parent adopts 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 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 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**

Parent regularly conducts stress testing of individual large exposure and its loan portfolio taking into account plausible risk events with a high probability of occurrence. Utilizing such scenarios with documented assumptions, tests are done to determine the magnitude of impact on the Parent’s loan portfolio, on the Credit RWA, and finally on the Common Equity Tier 1 (CET1) Ratio. Stress testing also includes prescribed regulatory tests such as Uniform Stress Testing and REST. Likewise, various loan portfolio assessments and reviews are conducted to determine the impact of a certain event and government regulation on the Parent’s loan portfolio, past due ratio and CET 1. Results of the stress testing, together with the action plans, are escalated to the ILC and RiskCom.

**Risk concentrations of the maximum exposure to credit risk**

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

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

As of December 31, 2022, the Parent’s qualifying capital covering credit risk is

P188.486 billion.

On the other hand, the Parent’s Single Borrower’s Limit (SBL) is pegged at P65.758 billion for direct lending.

Overall credit risk management oversight is a function of the Board of Directors -level 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, 2022, and 2021, the Parent does not have credit concentration in any particular industry.

*Credit Exposures as to Industry/Economic Sectors*

As of December 31, 2022 and 2021, information on the concentration of credit as to industry based on carrying amount is shown below:

|  | **Parent** | | | |
| --- | --- | --- | --- | --- |
|  | **2022** | | **2021** | |
|  | Amount | % | Amount | % |
|  |  |  |  |  |
| Financial intermediation | 111,872,323,358 | 10 | 72,722,947,356 | 8 |
| Agriculture, hunting and forestry | 71,371,746,292 | 6 | 74,720,261,239 | 9 |
| Real estate, renting and business activities | 157,991,064,957 | 14 | 93,641,341,591 | 11 |
| Public administration and defense | 94,008,596,285 | 8 | 90,970,465,540 | 10 |
| Manufacturing | 82,974,066,746 | 7 | 67,097,902,164 | 8 |
| Community, social and personal services | 15,707,626,840 | 1 | 15,813,041,160 | 2 |
| Electricity, gas and water | 186,893,077,362 | 16 | 130,844,149,397 | 15 |
| Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods | 100,830,212,865 | 9 | 78,008,342,482 | 9 |
| Transport, storage and communication | 104,387,091,874 | 9 | 97,852,939,679 | 11 |
| Construction | 98,843,377,116 | 9 | 74,161,197,896 | 8 |
| Private households | 55,466,368,524 | 5 | 37,350,774,148 | 4 |
| Hotel and restaurant | 21,192,091,350 | 2 | 11,420,099,594 | 1 |
| Others | 41,610,185,976 | 4 | 35,813,624,350 | 4 |
|  | **1,143,147,829,545** | **100** | **880,417,086,596** | **100** |
| **Allowance for losses** | **(48,808,151,559)** |  | **(26,694,890,846)** |  |
|  | **1,094,339,677,986** |  | **853,722,195,750** |  |

**BASEL III LIQUIDITY COVERAGE RATIO DISCLOSURE (In Single Currency, Absolute Amount)**

**As of December 31, 2022**

| **Nature of Item** | **Weighted Amount** | |
| --- | --- | --- |
| **Group** | **Parent** |
| **A. Total Stock of High-Quality Liquid Assets (After Cap)** | **1,819,523,153,267.57** | **1,813,654,295,724.91** |
| A.1 Stock of Level 1 Assets | 1,809,881,439,878.48 | 1,804,020,997,335.82 |
| A.2 Stock of Level 2 Assets | 9,641,713,389.09 | 9,633,298,389.09 |
| **A.3 Total Stock of High-Quality Liquid Assets (Before Cap)** | **1,819,523,153.267.57** | **1,813,654,295,724.91** |
| A.4 Adjustment for 40% Cap on Level 2 Assets | 0.00 | 0.00 |
| **B. Total Net Cash Outflows** | **858,021,631,476.00** | **854,679,552,663.61** |
| B.1 Total Expected Cash Outflows | 934,883,549,326.97 | 931,306,252,099.53 |
| B.2 Total Expected Cash Inflows Before Ceiling | 76,861,917,850.97 | 76,626,699,435.92 |
| B.3 Adjustment for 75% Ceiling on Cash Inflows | 0.00 | 0.00 |
| **B.4 Total Expected Cash Inflows After Ceiling** | **76,861,917,850.97** | **76,626,699,435.92** |
| **C. Liquidity Coverage Ratio** | **212.06%** | **212.20%** |

**BASEL III NET STABLE FUNDING RATIO DISCLOSURE (In Single Currency, Absolute Amount)**

**As of December 31, 2022**

| **Nature of Item** | **Weighted Amount** | |
| --- | --- | --- |
| **Group** | **Parent** |
| **A. Available Stable Funding** | **1,785,254,928,299.88** | **1,771,902,369,161.55** |
| Capital | 218,693,003,735.80 | 217,635,938,766.54 |
| Retail Deposits | 452,061,555,591.62 | 442,606,158,314.18 |
| Wholesale Deposits | 1,094,528,231,509.47 | 1,092,323,805,019.26 |
| Secured and Unsecured Funding | 19,920,467,061.65 | 19,336,467,061.57 |
| Other Liabilities and Equities | 51,670,401.34 | 0.00 |
| **B. Required Stable Funding** | **1,119,789,719,719.79** | **1,108,667,771,253.19** |
| NSFR High-Quality Liquid Assets (HQLA) | 108,139,503,017.47 | 108,010,737,121.06 |
| Deposits Held at Other Financial Institutions | 9,220,187,505.71 | 10,196,976,427.82 |
| Performing Loans and Non-HQLA Securities | 797,444,146,025.31 | 788,959,054,320.45 |
| Other Assets | 197,655,843,210.75 | 194,191,215,101.11 |
| Off-Balance Sheet Exposures | 7,330,039,960.55 | 7,309,788,282.75 |
| **C. Net Stable Funding Ratio** | **1.59** | **1.60** |

**Assessment on Significant Increase in Credit Risk (SICR) since Initial Recognition**

ECL assessment/provisioning shall cover all financial assets booked as amortized cost/hold to collect (AC/HTC) and fair value through other comprehensive income (FVOCI) such as:

1. Loans and receivables, and other financial assets that are measured at AC;
2. Investments in debt instruments that are measured at AC/HTC and FVOCI;
3. Credit commitments and financial guarantee contracts (e.g., unutilized credit lines, undrawn approved term loans, etc.) that are not measured at fair value through profit or loss (FVTPL); and
4. Due from BSP and Due from Other Banks.

The Parent’s exposures shall be classified into three (3) stages as follows:

|  |  |
| --- | --- |
| Stage 1 | Credit Exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk |
| Stage 2 | Credit Exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition |
| Stage 3 | Credit Exposures with objective evidence of impairment, thus considered as "non-performing" |

As a general rule, Staging Assessment and Account Classification for Loans, Sales Contract Receivable and Accounts Receivable (Loan and Non-Loan Related) shall be based on missed payments as follows:

Individually Assessed Loans (for loans with outstanding balance of ₱10 million and above)

| Number of Days Unpaid/with Missed Payment | Account Classification | Stage |
| --- | --- | --- |
| ***For Unsecured Loans and Other Credit Exposures*** | | |
| 31-90 days | Substandard  (Underperforming) | 2 |
| 91-120 days | Substandard  (Non-Performing) | 3 |
| 121-180 days | Doubtful | 3 |
| 181 days and over | Loss | 3 |
| ***For Secured Loans and Other Credit Exposures*** | | |
| 31-90 days | Substandard (Underperforming) | 2 |
| 91-365 days | Substandard  (Non-Performing) | 3 |
| Over a year – 5 years | Doubtful | 3 |
| Over 5 years | Loss | 3 |

Collectively Assessed Loans (for exposures other than those subject to individual assessment)

*This includes microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans, housing loans, and other consumption loans, and other loan types which fall below ₱10 million threshold for individual assessment.*

| Number of Days Unpaid/with Missed Payment | Account Classification | Stage |
| --- | --- | --- |
| ***For Unsecured Loans and Other Credit Exposures*** | | |
| 1-30 days | Especially Mentioned | 2 |
| 31-60 days/  1st restructuring | Substandard | 2 (Underperforming)  3 (Non-Performing) |
| 61-90 days | Doubtful | 3 |
| 91 days and over/ 2nd restructuring | Loss | 3 |
| ***For Secured Loans and Other Credit Exposures*** | | |
| 31-90 days | Substandard (Underperforming) | 2 |
| 91-120 days | Substandard  (Non-Performing) | 3 |
| 121-360 days | Doubtful | 3 |
| Over 360 days | Loss | 3 |

Non-Loan Related Accounts Receivable

| STAGE | SECURED | UNSECURED |
| --- | --- | --- |
| 1 | 0-30 Days Outstanding/Missed Payment | |
| 2 | 31-360 days Outstanding/ Missed Payment | 31-90 Days Outstanding/ Missed Payment |
| 3 | More than 360 Days Outstanding/ Missed Payment | More than 90 Days Outstanding/ Missed Payment |

|  |  |
| --- | --- |
| *Notes:* | |
| *a.* | *Secured Non-Loan Related A/Rs shall refer to Cash Advance, Agrarian Reform Fund Proclamation # 131, Parent Officers and Employees, Government Entities and Domestic Loan Program.* | |
| *b.* | *Unsecured Non-Loan A/Rs shall refer to Various Receivables, and Foreign Currency Deposit Unit (FCDU)/Expanded FCDU.* | |

Allowance for credit losses (ACL) Adjustment

1. Lending Units (LUs)/Treasury Units/Branches shall assess the ACL provided and may propose ACL adjustment, under the following cases:
2. There is objective evidence of impairment; or
3. There is objective evidence of recovery.

1. ACL Adjustments shall be made through Specific Impairment Testing (SIT) by calculating the Present Value of Future Cash Flows of the financial asset/investment.
2. For Credit Exposures, Account Staging Upgrade to “Pass” shall have one per cent ECL Rate (for GLLP booking) and use of Loan Impairment Testing Sheet (LITS) shall be no longer required. Minimum ECL rates for Stage 2 (Especially mentioned (EM) and Substandard) and Stage 3 (Doubtful and Loss) are five per cent and 50 per cent, respectively.

**Definition of Default**

Under BSP Circular 941, s. 2017, credit obligations are considered non-performing if:

* Loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards (i.e., PAS 39/PFRS 9), and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any;
* Classified as doubtful or loss, in litigation;
* All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date (excluding cure period not exceeding 30 days), or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement;
* Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due (or on the 11th day if with cure period not exceeding 10 days); and,
* Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

**Credit Rating and ECL Calculation Process**

1. The Parent credit rating process using the Credit Risk Engine System (CRES) shall be used to rate UCPB borrowers for credit transactions (i.e., line renewals, new/additional loan facilities, credit line/term loan review and other credit transactions).
2. The UCPB ECL Models and calculation procedures for Auto Loan shall be adopted. Credit Risk Management Department (CRMD) shall conduct assessment of the models and shall propose revisions, if needed.
3. The Parent parameters, policies and procedures in the ECL calculation shall be used for UCPB loans booked/processed at the UCPB Silverlake-Axis Integrated Banking System (SIBS). ACL adjustments for UCPB loans shall be made through Specific Impairment Testing using the existing guidelines.
4. Booking Units handling the UCPB SIBS shall provide report to CRMD for calculation of the ECL on a monthly basis. Calculated ECL shall be provided to the Controllership Group for booking.

**Credit Risk on Investments**

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

1. Investments in debt instruments that are measured at amortized cost;
2. Investments in debt instruments that are measured at FVOCI; and
3. 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 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.

**Concentration of Credit Risk**

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

| *In Million Pesos* |  |  |
| --- | --- | --- |
| **Location** | **2022** | **2021** |
| Philippines | 1,520,976.34 | 1,559,530.50 |
| USA | 25,237.20 | 17,998.46 |
| Indonesia | 26,407.61 | 32,710.22 |
| Asia | 13,078.61 | 14,538.57 |
| Europe | 7,414.20 | 9,107.94 |
| Others | 87.85 | 5.18 |
| **Total** | **1,593,201.81** | **1,633,890.87** |

**Credit Risk Exposures**

The Parent is guided by its investment policy in its treasury activities. The Parent uses credit ratings provided by external rating agencies like Moody’s, Standard & Poor (S&P), Fitch, or other reputable rating agencies. The following indicates the level of credit quality for each rating agencies and its relevant external rating:

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

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

| **INVESTMENTS (As of September 2022)** | **EXPOSURE-AT-DEFAULT (In Million ₱)** | | | |
| --- | --- | --- | --- | --- |
|  | **TOTAL** | **STAGE 1** | **STAGE 2** | **STAGE 3** |
| **Due from BSP and SPURA** |  |  |  |  |
| *External Credit Rating* |  |  |  |  |
| Baa2 or equivalent | 294,208.20 | 294,208.20 | 0 | 0 |
| **Due from Other Banks,**  **Repo – Cash Margin, & IBLR** |  |  |  |  |
| *External Credit Rating* |  |  |  |  |
| Aaa or equivalent | 5,286.02 | 5,286.02 | 0 | 0 |
| Aa1 or equivalent | 51.37 | 51.37 | 0 | 0 |
| Aa2 or equivalent | 5,195.05 | 5,195.05 | 0 | 0 |
| Aa3 or equivalent | 9,153.32 | 9,153.32 | 0 | 0 |
| A1 or equivalent | 7,773.53 | 7,773.53 | 0 | 0 |
| A2 or equivalent | 910.47 | 910.47 | 0 | 0 |
| Baa1 or equivalent | 14.19 | 14.19 | 0 | 0 |
| Baa2 or equivalent | 55.90 | 55.90 | 0 | 0 |
| Baa3 or equivalent | 15.28 | 15.28 | 0 | 0 |
| Ba2 or equivalent | 0.65 | 0 | 0.65 | 0 |
| *Benchmarking* |  |  |  |  |
| Baa1 or equivalent | 2,014.11 | 2,014.11 | 0 | 0 |
| *Unrated* | 16.70 | 16.70 | 0 | 0 |
| **FVOCI debt investments** |  |  |  |  |
| *Internal Credit Rating* |  |  |  |  |
| Prime | 1,219.85 | 1,219.85 | 0 | 0 |
| High Grade | 815.53 | 815.53 | 0 | 0 |
| Good | 717.27 | 717.27 | 0 | 0 |
| *External Credit Rating* |  |  |  |  |
| Aaa or equivalent | 7,289.40 | 7,289.40 | 0 | 0 |
| Aa2 or equivalent | 276.83 | 276.83 | 0 | 0 |
| A1 or equivalent | 289.76 | 289.76 | 0 | 0 |
| A2 or equivalent | 584.58 | 584.58 | 0 | 0 |
| Baa2 or equivalent | 434,765.68 | 434,765.68 | 0 | 0 |
| *Benchmarking* |  |  |  |  |
| A3 or equivalent | 1,378.65 | 1,378.65 | 0 | 0 |
| Baa1 or equivalent | 1,101.12 | 1,101.12 | 0 | 0 |
| Baa2 or equivalent | 13.83 | 13.83 | 0 | 0 |
| Ba1 or equivalent | 916.54 | 0 | 916.54 | 0 |
| B1 or equivalent | 765.10 | 0 | 765.10 | 0 |
| **HTC investments** |  |  |  |  |
| *Internal Credit Rating* |  |  |  |  |
| High Grade | 2,890.84 | 2,890.84 | 0 | 0 |
| Good | 1,457.73 | 1,457.73 | 0 | 0 |
| *External Credit Rating* |  |  |  |  |
| Aaa or equivalent | 7,597.54 | 7,597.54 | 0 | 0 |
| Aa2 or equivalent | 58.32 | 58.32 | 0 | 0 |
| Aa3 or equivalent | 1,849.37 | 1,849.37 | 0 | 0 |
| Baa2 or equivalent | 795,686.94 | 795,686.94 | 0 | 0 |
| *Benchmarking* |  |  |  |  |
| A3 or equivalent | 556.50 | 556.50 | 0 | 0 |
| Baa1 or equivalent | 6,383.94 | 6,383.94 | 0 | 0 |
| Baa2 or equivalent | 160.99 | 160.99 | 0 | 0 |
| Ba1 or equivalent | 951.24 | 0 | 951.24 | 0 |
| Ba3 or equivalent | 84.92 | 0 | 84.92 | 0 |
| *Unrated* | 694.54 | 0 | 0 | 694.54 |
| **TOTAL** | **1,593,201.80** | **1,589,788.81** | **2,718.45** | **694.54** |
| **INVESTMENTS** *(As of September 2021)* | **EXPOSURE-AT-DEFAULT** *(In Million ₱)* | | | |
| **TOTAL** | **STAGE 1** | **STAGE 2** | **STAGE 3** |
| **Due from BSP and SPURA** |  |  |  |  |
| *External Credit Rating* |  |  |  |  |
| Baa2 or equivalent | 410,244.70 | 410,244.70 | 0 | 0 |
| **Due from Other Banks & IBLR** |  |  |  |  |
| *External Credit Rating* |  |  |  |  |
| Aaa or equivalent | 3,989.98 | 3,989.98 | 0 | 0 |
| Aa1 or equivalent | 51.10 | 51.10 | 0 | 0 |
| Aa2 or equivalent | 9,657.82 | 9,657.82 | 0 | 0 |
| Aa3 or equivalent | 4,886.87 | 4,886.87 | 0 | 0 |
| A1 or equivalent | 6,959.33 | 6,959.33 | 0 | 0 |
| A2 or equivalent | 2,155.87 | 2,155.87 | 0 | 0 |
| Baa1 or equivalent | 11.59 | 11.59 | 0 | 0 |
| Baa2 or equivalent | 7.09 | 7.09 | 0 | 0 |
| Ba2 or equivalent | 0.65 | 0 | 0.65 | 0 |
| *Benchmarking* |  |  |  |  |
| Baa1 or equivalent | 2,022.60 | 2,022.60 | 0 | 0 |
| *Unrated* | 9.52 | 9.52 | 0 | 0 |
| **FVOCI debt investments** |  |  |  |  |
| *External Credit Rating* |  |  |  |  |
| Aaa or equivalent | 13,613.84 | 13,613.84 | 0 | 0 |
| Baa2 or equivalent | 597,233.35 | 597,233.35 | 0 | 0 |
| *Unrated* | 746.40 | 746.40 | 0 | 0 |
| **HTC investments** |  |  |  |  |
| *Internal Credit Rating* |  |  |  |  |
| High Grade | 1,013.46 | 1,013.46 | 0 | 0 |
| *External Credit Rating* |  |  |  |  |
| Aaa or equivalent | 719.46 | 719.46 | 0 | 0 |
| Baa2 or equivalent | 571,988.57 | 571,988.57 | 0 | 0 |
| *Benchmarking* |  |  |  |  |
| A3 or equivalent | 83.51 | 83.51 | 0 | 0 |
| Baa1 or equivalent | 7,066.46 | 7,066.46 | 0 | 0 |
| Baa3 or equivalent | 208.10 | 208.10 | 0 | 0 |
| Ba1 or equivalent | 358.78 | 0 | 358.78 | 0 |
| Ba2 or equivalent | 610.80 | 0 | 0 | 610.80 |
| Ba3 or equivalent | 167.28 | 0 | 167.28 | 0 |
| *Unrated* | 83.74 | 0 | 0 | 83.74 |
| **TOTAL** | **1,633,890.87** | **1,632,669.62** | **526.71** | **694.54** |

As of September 30, 2022, the Parent’s total treasury exposure is P1,593.20 billion. Due from BSP and SPURA decreased from P410.24 billion to P294.21 billion while Due from Other Banks increased from P7.26 billion to P14.24 billion. The Parent’s FVOCI debt investments decreased from P611.59 billion to P450.13 billion. However, HTC investments grew from P582.30 billion to P818.37 billion.

The Parent’s exposure classified as Stage 1, Stage 2, and Stage 3 amounted to P1,589.79 billion, P2.72 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 2022 and 2021:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **INVESTMENTS**  *(In Million Pesos)* | **TOTAL** | | **STAGE 1** | | **STAGE 2** | | **STAGE 3** | |
| **2022** | **2021** | **2022** | **2021** | **2022** | **2021** | **2022** | **2021** |
| Due from BSP and SPURA | 294,208.20 | 410,244.70 | 294,208.20 | 410,244.70 | 0 | 0 | 0 | 0 |
| Repo-Cash Margin | 262.48 | 0 | 262.48 | 0 | 0 | 0 | 0 | 0 |
| Due from Other Banks | 14,243.65 | 7,261.35 | 14,243.00 | 7,260.70 | 0.65 | 0.65 | 0 | 0 |
| Interbank Loans and Receivables | 15,980.46 | 22,491.07 | 15,980.46 | 22,491.07 | 0 | 0 | 0 | 0 |
| FVOCI debt investments | 450,134.14 | 611,593.59 | 448,452.50 | 611,593.59 | 1,681.64 | 0 | 0 | 0 |
| HTC investments | 818,372.87 | 582,300.16 | 816,642.17 | 581,079.56 | 1,036.16 | 526.06 | 694.54 | 694.54 |
| **TOTAL** | **1,593,201.80** | **1,633,890.87** | **1,589,788.81** | **1,632,669.62** | **2,718.45** | **526.71** | **694.54** | **694.54** |

**MARKET RISK Management**

**Market Risk Management Framework**

The 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 Parent’s Board, RiskCom and the Asset and Liability Committee (ALCO), define and set the various market risk limits for each trading portfolio. The Treasury and Investment Banking Sector (TIBS), particularly the Financial Markets Group (FMG) which manages the Parent’s trading units as well as the Asset and Liability Management Group (ALMG) which manages the liquidity and reserve positions, conducts risk-taking activities within limits and ensures that breaches are escalated to the Senior Management for appropriate action.

A management alert is activated whenever losses during a specified period equal or exceed specified management alert level. The Parent controls and minimizes the losses that may be incurred in daily trading activities through the VaR, Management Action Triggers (MATs) and Stop Loss. Positions are monitored on a daily basis to ensure that these are maintained within established position limits to control losses. Position limits are subordinated to MATs, VaR and Stop Loss limits. Macaulay and Modified Duration are used to identify the interest rate sensitivity of the Bond Portfolio of the Parent. In the same way, certain subsidiaries of the Parent independently quantify and manage their respective market risk exposures by maintaining their respective RM system and processes in place.

**Market Risk Weighted Assets**

As of December 31, 2022, the Parent’s Total Market RWA stood at   
P16,502 million, broken down as follows:

|  |  |
| --- | --- |
|  |  |
| PARTICULARS | Amount  (in Millions) |
| Interest Rate Exposure | 1,886 |
| Equity Exposure | 0 |
| FX Exposure | 5,437 |
| Options | 9,179 |
| Total Market RWA | 16,502 |

The Total Market RWA represents 1.26 per cent of the Parent’s Aggregate RWA of   
P1,305,580 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 (GS) and Foreign Securities (FS) are subject to daily mark-to-market and controlled through risk limits such as position, VaR, MATs and Stop Loss.

1. Equity Price Risk Management

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

1. 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 per cent confidence level, assuming a static portfolio.

The Parent uses the Historical Simulation Model in computing VaR of Equities, FS, GS and FX trading portfolios as well as FX Net Open Position which is acceptable to BSP. Moreover, the Parent continuously pursues initiatives to improve its processes.

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.

1. 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 10.25 per cent by BSP for Parent as Domestic Systemically Important Banks (DSIB) for 2022.

### Model Validation

### *Back-Test*

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

Under the back-testing process, exception occurs if mark-to-market (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 | zero to four exceptions |
| non-conclusive/yellow zone | five to nine exceptions |
| problematic/red zone | 10 or more exceptions |

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

*Model Review*

Risk models used in managing market risk are subjected to model review being done by Risk Modeling and Quantitative Analytics Unit (RMQAU) of Market and Liquidity Risk Management Department (MLRMD). On the other hand, Internal Audit Group (IAG) is tasked to do model audit 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 Risk Oversight Committee (ROC) for approval of the Parent’s Board of Directors. The liquidity policy of the Parent is to always maintain fund availability 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 Parent’s Board exercises oversight through ROC and has delegated the responsibility of managing the overall liquidity of the Parent to the ALCO. The ALCO and the TIBS are responsible for the daily implementation and monitoring of relevant variables affecting the Parent'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 MLRMD 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 Parent balance sheet, as a tool. Risk models used in liquidity RM are subjected to independent model validation as conducted by MLRMD - RMQAU and model audit by the IAG.

**Liquidity Risk Measurement**

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 to determine any future mismatch such as long-term assets growing faster than long term liabilities.

MLRMD reports 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 reported on a quarterly basis.

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

* Non-Maturing Deposits (NMD): 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 Credit Lines and Credit Cards: A behavioral model to capture and estimate the drawing pattern for credit cards and credit line products.

As of December 31, 2022, the Parent has in its possession a comfortable level of highly liquid assets to cover for liquidity risk that may arise in the earlier tenor buckets. Most assets (particularly loans and investments) have long term maturities. Net gap is positive in all buckets except in the ‘more than one year to five years’ bucket.

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

1. 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

1. 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:

Where:

HQLA- 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.

Total Net Cash Outflows - 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) | |
| --- | --- | --- |
| 2022 | 2021 |
| High Quality Liquid Assets | 1,813,654 | 1,591,389 |
| Total Net Cash Outflows | 854,680 | 714,858 |
| LCR | 212.20% | 222.62% |

As of December 31, 2022, the Parent’s LCR is higher than the 100 per cent minimum requirement for the CY 2022.

**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. Parent’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 Parent assets, liabilities and off-balance-sheet positions.

The Parent manages IRRBB based on approved policies and procedures. Parent uses Re-pricing Gap/Earning-at-Risk (EaR) and Economic Value of Equity-at-Risk (EVEaR) 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 Parent. RMG-MLRMD recommends interest rate limits in coordination with ALMG and is approved by the ALCO, ROC and the Parent’s 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 Parent’s 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 audit of RM models. The conduct 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 validation is also being done by the RMQAU of MLRMD to check for any enhancements or calibrations needed to the models.

To date, 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, 2022, the NII impact of change in interest rates amounted to P47,491.50 million
2. Economic Value-Based Measure: The Parent uses the EVEaR 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, 2022, the EVEaR impact of change in interest rates amounted to P5,946.09 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 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 EVEaR 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. Parent 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 Parent analyzed its deposits for the past 10 years to estimate the proportion of core (stable) and non-core (non-stable) deposits.

1. Term Deposits subject to Early Termination

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

1. 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.

1. Drawing Pattern of Credit Lines and Credit Cards

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 10 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 EVEaR. 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, BSP MORB 153 (Circular 1085) Sustainable Finance Framework 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 Risk Governance Framework, 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 Group 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 and Business Continuity Risk Assessment to prioritize risks and implement corresponding controls and identify and prioritize the Parent’s most critical functions and IT systems in case of disruptions. Also, Business Continuity Plan (BCP) components are being reviewed, updated and tested annually to ensure validity and effectiveness of the Plans.

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 RMG through the certification programs where employees were licensed as Certified Risk Analysts, Certified Risk Manager and Bank Risk Management certification exams of Asian Institute of Chartered Banks.

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

**Operational Risk Exposure**

The Parent currently uses the Basic Indicator Approach (BIA) 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 2022, the Parent’s Total ORWA using the BIA was **P136.55 billion** or **10.19 per cent** of the Parent’s Aggregate Risk Weighted Assets (RWA) of **P1,340.57 billion**. With the sustained Gross Revenues of the Parent relative to its expanding business operations, ORWA is expected to increase annually.

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

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

In addition, the simulation conducted by the Parent for 2022 using its historical loss data resulted in a lower operational capital charge by **P4.97 billion** and   
**P8.63 billion** using the SMA and AMA-based ICA, respectively, compared to the computed operational capital charge of **P13.65 billion** using the BIA.

Results of these capital exercises further ratify that the actual operational risk of the Parent is much lower than what it currently charges for its Pillar 1 capital as both models have consistently resulted in lower figures than the BIA. The lower capital charge will allow Parent 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 1160 – “Regulations on Financial Consumer Protection (FCP) to Implement RA No. 11765, Otherwise Known as the "Financial Products and Services Consumer Protection Act (FCPA)”, Parent continues to update the CPRMS as part of its enterprise-wide risk management system. It identifies, measures, monitors, and controls consumer protection risk inherent in the delivery of financial services to the general public. The Parent ensures toreadily 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 is within the set timeline and training of Parent personnel are undertaken. Periodic reports are submitted to the Management Committee and the Risk Com. 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 Parent’s clients.

The CPRMS Oversight Framework is aligned with and adheres to the Financial Consumer Protection Standards of Conduct prescribed under BSP Circular 11765, to cover (1) Disclosure and Transparency; (2) Protection of Client Information; (3) Fair Treatment; (4) Effective Recourse; and (5) Protection of Consumer Assets against Fraud and Misuse. Parent 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.