LAND BANK OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
(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, 2019, 66 percent of the deposit portfolio came from the government while the rest came from private depositors.

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

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

The accompanying comparative financial statements of the Parent were authorized for issue by the Parent's Board of Directors on August 28, 2020 while those of the subsidiaries were approved for issue by their respective Board of Directors on various dates.

2. Summary of Significant Accounting Policies

2.1 Statement of Compliance

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

2.2 Basis of Financial Statements Preparation

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

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

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

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

2.3 Basis of Consolidation

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

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

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

2.4 Adoption of New and Amended PFRS

The Group and the Parent adopted for the first time the following new PFRS, amendments to PAS or PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019.

PFRS 15 – Revenue from Contracts with Customers

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. The Group determines to adopt PFRS 15 effective January 01, 2019 retroactive January 01, 2018.

PFRS 16 – Leases

PFRS 16 supersedes PAS 17, *Leases*. This standard sets out the concepts for the measurement, recognition, presentation and disclosure of leases and requires the lessees to account for most leases under a single on-balance sheet model. Under PFRS 16, lessor accounting is substantially unchanged from PAS 17. Thus, PFRS 16 has no material impact for leases where the Group is the lessor, except for additional disclosure requirements for lessors under PFRS 16.

The Group adopted PFRS 16 using the modified retrospective approach with the date of initial application at January 1, 2019. In this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group also adopted to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option, and lease contracts for which the underlying asset is of low value.

The following are the relevant information arising from the PFRS 16 adoption:

a. The Group have recognized liabilities in relation to leases measured at the present value of lease payments discounted using incremental borrowing rate. The incremental borrowing rate used by the Group and the Parent ranges from 6.1696 per cent to 7.3282 per cent.

b. The following are the effects of adopting PFRS 16 on the statement of financial position (increase/(decrease)) as at January 1, 2019:

	Parent
Right-Of-Use Asset	1,542,254,925
Lease Liability	1,782,795,551
Accrued Rent Payable	(106,046,047)
Retained Earnings	(134,494,579)

c. The lease liability as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018, as follows:

	Parent
Operating lease commitments, December 31, 2018	2,277,830,941
Add: Lease payments on periods not included in operating lease commitments as of December 31, 2018	836,782,863
Less: Leases of low-value assets and of with remaining term of less than 12 months	(750,064,983)
Total lease payments, January 01, 2019	2,364,548,821
Discount using Incremental Borrowing Rate	(581,753,270)
Lease Liability as of January 1, 2019	1,782,795,551

d. As of December 31, 2019, the Parent had not committed to any lease which had not yet commenced.

e. The Group have applied the practical expedient to not recognize right-of-use assets for operating leases with remaining lease term of less than twelve months and for leases of low-value assets.

f. The following practical expedient has also been adopted by the Group and the Parent:

- Reliance on its assessment of whether leases are onerous applying PAS 37 before the date of initial application;

- Use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease; and

- Exclusion of initial direct costs from the measurement of the right-of use asset at the date of initial application.

g. The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as of December 31, 2019 for the Group and the Parent are as follows

	Within 1 Year	After 1 Year but not more than 5 Years	More than 5 Years	Total
Finance Charge	107,752,874	266,812,724	98,859,336	473,424,934
Lease Liability	380,674,499	993,990,553	374,841,037	1,749,506,089
Lease Payment	488,427,373	1,260,803,277	473,700,373	2,222,931,023

Total expenses relating to short-term leases and low-value assets amounted to P750,064,983.

Amendments to PFRS 9, Prepayment Features with Negative Compensation

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for the classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The application of these amendments had no significant impact on the Group and the Parent's financial statements.

Amendments to PAS 19, Employees Benefits, Plan Amendment, Curtailment or Settlement

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

a. Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

b. Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

c. The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment, or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The application of these amendments had no significant impact on the Group and the Parent's financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

This addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

a. Whether an entity considers uncertain tax treatments separately;
b. The assumptions an entity makes about the examination of tax treatments by taxation authorities;
c. How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
d. How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

2.5 Significant Accounting Policies

PFRS 9, Financial Instruments

Effective January 1, 2018, PFRS 9 replaces Philippine Accounting Standard (PAS) 39, Financial Instruments: Recognition and Measurement. PFRS 9 also supersedes all earlier versions of the standard, thereby bringing together all three aspects of the accounting for financial instruments: classification, measurement and impairment.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group did not restate prior period comparative financial statements when the Group adopted the requirements of the new standard.

Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 have been recognized in the 2018 opening balances of retained earnings and Other Comprehensive Income (OCI) as if the Group had always applied PFRS 9.

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

Classification and Measurement

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. Subsequent measurement of instruments classified as financial assets at FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

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. Subsequent measurement of instruments classified as financial assets at FVOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

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.

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. Unlike AFS for equity securities under PAS 39, 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.

Financial liabilities

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss.

Derivatives

Derivatives continue to be classified as financial assets/liabilities measured at FVTPL under PFRS 9.

Expected Credit Loss (ECL) Assessment

ECL Assessment shall be applied to the following exposures:

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

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

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

Foreign currency translation

Transactions and balances

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD. For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine Peso based on the BAP closing rate prevailing at the statement of financial position date and foreign-currency denominated income and expenses at the prevailing exchange rate on date of transaction. Foreign exchange differences arising from revaluation and translation of RBU denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

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

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

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

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

a. Financial Assets at FVTPL

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

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

b. Financial Assets at FVOCI

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

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

(i) The asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and

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

The effective yield component (including premium, discounts and directly attributable transaction costs) and foreign exchange restatement of debt securities are reported in the statement of 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 income as ‘Dividends’ when the right to receive payment has been established. Equity securities at FVOCI are not subject to impairment assessment.

c. Financial Assets at Amortized Cost

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

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

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

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

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

Determination of fair value

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

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

Derivative Instruments

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

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

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

<u>Offsetting of financial instruments</u>

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.

<u>Fiduciary Activities</u>

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.

<u>Subsequent Events</u>

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.

<u>Impairment of Property and Equipment, Investment Property and Other Resources</u>

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

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

Investments in Subsidiaries

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

Investment in Associate

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

Property and Equipment

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

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

Non-Current Assets Held for Sale

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

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Group is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair values. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Group and there is sufficient evidence that the Group remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. The Group recognizes an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

Intangible Assets

Computer software

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

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

Income Taxes

Current taxes of the Parent

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

Deferred taxes of the Parent

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

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

a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

b. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

b. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Employee Benefits

A defined contribution plan is maintained under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employees service in the current and prior period. The standard requires an entity to recognize contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.

The fund comes from the Parent’s annual contribution based on the total number of employees as of December 31 of each year, which for 2019 amounts to P7.56 million. The fund is being administered by the Provident Fund Office and it is kept separate and distinct from its other funds.

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

Leases on or after January 1, 2019

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

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

Group is the lessee

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

Group is the lessor

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

Leases before January 01, 2019

Group is the lessee

(i) Operating lease - leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to expense in the statement of comprehensive income on a straight-line basis over the period of the lease.

(ii) Finance lease - leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease’s commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deferred credits and other liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Group is the lessor

(i) Operating lease - properties leased out under operating leases are included in investment property in the statement of financial position. Rental income under operating leases is recognized in the statement of comprehensive income on a straight-line basis over the period of lease.

(ii) Finance lease - when assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

Revenue Recognition

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

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

This five-step model is as follows:

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

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

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

Revenues within the scope of PFRS 15

Service charges and penalties

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

Fees and commissions

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

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

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

b. Fee income from providing transaction services

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

Other income

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

Prior to January 1, 2019, the Group adopted PAS 18 in accounting for the above fees and commissions. The Group assessed that recognition criteria that must be met before revenue is recognized did not materially change from PAS 18.

Rewards Program

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

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

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

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

Interest income

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

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

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

Recovery on charged-off assets

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

Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

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.

<u>Borrowing Costs</u>

The Parent's borrowing costs are expensed when incurred.

<u>Standards issued but not yet effective</u>

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, 2020

Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020)

The revised Conceptual Framework for Financial Reporting is a comprehensive set of concepts for financial reporting. It sets out the objective of financial reporting and the qualitative characteristics of useful financial information. The revisions include several new concepts, provide clarifications on some key concepts and update the definitions and the criteria for recognizing assets and liabilities. New concepts introduced in the revised Conceptual Framework include description of the reporting entity, measurement, presentation and disclosure and derecognition. Other than the new concepts, several sections or chapters were also revised that include definitions and recognitions of assets and liabilities. The revisions gives importance to the qualitative side of capturing or recognizing assets, liabilities, income and expenses and emphasizes that recognition of these elements should only be done if they will result in relevant information and faithful representation.

PAS 1 (Amendments), ***Presentation of Financial Statements and PAS 8 (Amendments), Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material (effective from January 1, 2020)***

The amendments were issued to provide clarification and to align the definition of material. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. The amendments are effective for annual reporting periods beginning on or after 1 January 2020 with earlier application permitted.

PFRS 3 (Amendments), ***Business Combinations – Definition of a Business (effective January 1, 2020)***

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

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

The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses from the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

PFRS 17, *Insurance Contracts* (effective January 1, 2023)

PFRS 17 is a comprehensive and consistent new accounting standard that establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. Upon effectivity, PFRS 17 will replace PFRS 4 Insurance Contracts (PFRS 4) that was issued in 2005. PFRS 17 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 objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. In contrast to the requirements in PFRS 4, which are largely based on various local methods and practices across jurisdictions, 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); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted provided the entity also applies PFRS 9 and PFRS 15 on or before the date it first applies PFRS 17.

3. Significant Accounting Judgments and Estimates

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

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

Judgments

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

<u>Leases</u>

Group as Lessor

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

Group as Lessee

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

Extension and termination options

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

Estimating the Incremental Borrowing Rate for lease liabilities

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

The carrying values of the Bank's right-of-use 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 fair value through other comprehensive income (FVOCI);
4. Credit commitments and financial guarantee contracts that are not measured at fair value through profit and loss (FVPL);
5. Due from BSP and Due from Other Banks; and
6. Other financial assets measured at amortized costs.

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

Assessment of ECL

The Parent segmented its credit exposures for purposes of ECL calculation according to groups that share similar credit risk characteristics with the objective of facilitating an analysis that is designed to enable significant increases in credit risk to be identified on a timely basis. The segmentation are by instrument type, product terms and conditions, and industry/market segment. Treasury exposures are segmented into Due from BSP and Securities Purchased under Resell Agreements (SPURA), Due from Other Banks (DFOB), FVOCI Debt Investments, and Financial Assets at Amortized Cost. Assessment is then conducted on a per security basis to determine its level of credit risk.

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

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

1) If a credit obligation is considered non-performing;
2) If a borrower has been placed in bankruptcy, has been found insolvent, or has ceased operations;
3) If the bank sells a credit obligation at a material credit-related loss; or

4) If a credit obligation of a borrower/obligor is considered to be in default, all credit obligations of the borrower/obligor with the same bank shall also be considered to be in default.

Qualitative review is a regular exercise to determine the quality of the exposures which are then then classified into the following stages which will determine corresponding ECL assessment:

Stage 1	***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 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 (2) rating grades	LIFETIME
Stage 3	credit exposures with objective evidence of impairment, this considered as "non-performing"	LIFETIME

The ECL rate is determined by the following parameters:

1. Probability of Default (PD) is the likelihood that the counterparty will default over a certain time horizon from cut-off date. PD does not depend on the facility or transaction but rather, on the counterparty's characteristics. The Parent follows the following hierarchy to estimate the PD:

   a. Internal Credit Risk Rating - PD is estimated based on issuer/borrower rating grade produced by internal rating models adopted from the methodology for Loans.

   b. External Credit Risk Rating - PD is based on issue/issuer rating grade provided by external ratings agencies such as Moody's, S&P, and Fitch. Moody's rating scale for external ratings is primarily used. For issuers with no rating from Moody's, ratings from other external credit rating agencies (e.g. S&P, Fitch) are extracted and these ratings are then mapped to Moody's rating scale. PD is then assigned corresponding to the external credit rating of the issue/issuer as provided by Moody's average cumulative default rates and recovery rates study. For exposures with maturity of less than 1 year, the PD is adjusted to reflect the actual term of exposures. PD Estimation already incorporates any Forward-Looking Overlays.

   c. External Credit Rating for Benchmark/Comparable Companies - PD is based on issuer rating grade of benchmark or comparable companies. The methodology used in determining the ratings of benchmark companies is either of the following:

1) Based on Bloomberg peers where LBP uses the equivalent ratings of the comparable companies sourced from the Relative Valuation function in Bloomberg; and

2) Based on Industry average where the LBP 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 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

2. 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 characteristics of facility or transaction, not the counterparty. It is computed as one (1) less recovery rate. LBP developed an LGD model per facility and collateral type based on the Bank's recovery experience and expectations for relevant credit segments;

3. Exposure at Default (EAD) is defined as the total credit exposure to a borrower or counterparty at the time of default. LBP used outstanding balances of credit exposures as of cut-off date plus accrued interest receivables including off-balance sheet exposures at credit conversion factor (CCF), if any; and

4. 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 Bank; and
   g. Credit risk profile of the Bank'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.

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 as of December 31, 2019 are P211,661,429,097 and P211,613,341,976 respectively.

<u>Estimation uncertainty</u>

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

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

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

b. Useful lives of property and equipment

The Group's Management determines the estimated useful lives and related depreciation charges for its property and equipment. The Parent will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying values of property and equipment of the Group and the Parent are P10,829,868,305 and P10,418,071,840 as of December 31, 2019 and P8,183,766,208 and P7,960,167,665 as of December 31, 2018.

4. Fair Value Hierarchy

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

Level 1: quoted prices in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3: inputs that are not based on observable market data or unobservable inputs

As of December 31, 2019 and 2018, the fair value hierarchy of the Parent's assets and liabilities are presented below:

	As of December 31, 2019				
	Book Value	**Level 1 a/**	**Level 2 b/**	**Level 3 c/**	**Total Fair Value**
FINANCIAL ASSETS					
FVTPL	**11,853,339,179**	**6,238,009,651**	**4,662,987,679**	**952,341,849**	**11,853,339,179**
Debt Securities	5,869,047,593	5,869,047,593	0	0	5,869,047,593
Domestic	5,869,047,593	5,869,047,593	0	0	5,869,047,593
FX-Reg	0	0	0	0	0
FCDU	0	0	0	0	0
Equity Securities	1,321,303,907	368,962,058	0	952,341,849	1,321,303,907
Domestic	415,448,840	368,962,058	0	46,486,782	415,448,840
FX-Reg	905,855,067	0	0	905,855,067	905,855,067
FCDU	0	0	0	0	0
Derivative w/ positive FV	4,662,987,679	0	4,662,987,679	0	4,662,987,679
PLFD	4,427,525,372	0	4,427,525,372	0	4,427,525,372
FX-Reg	141,102,111	0	141,102,111	0	141,102,111
FCDU	94,360,196	0	94,360,196	0	94,360,196
FVOCI	**199,801,072,390**	**205,526,674,345**	**0**	**4,357,424,157**	**209,884,098,502**
Debt Securities	189,146,179,135	190,769,696,906	0	58,989,856	190,828,686,762
Domestic	151,188,558,834	151,733,124,607	0	58,989,856	151,792,114,463
FX-Reg	2,181,767,134	2,274,010,282	0	0	2,274,010,282
FCDU	35,775,853,167	36,762,562,017	0	0	36,762,562,017
Equity Securities	10,654,893,255	14,756,977,439	0	4,298,434,301	19,055,411,740
Domestic	4,310,297,013	13,844,407,730	0	732,169,603	14,576,577,333
FX-Reg	6,344,596,242	912,569,709	0	3,566,264,698	4,478,834,407
FCDU	0	0	0	0	0
HTC	**464,862,193,350**	**461,393,660,302**	**4,505,254,432**	**8,431,136,866**	**474,330,051,600**
Debt Securities	464,862,193,350	461,393,660,302	4,505,254,432	8,431,136,866	474,330,051,600
Domestic	433,461,319,679	435,018,160,683	4,505,254,432	302,599,738	439,826,014,853
FX-Reg	7,162,138,440	1,519,101,323	0	5,846,200,884	7,365,302,207

	As of December 31, 2019				
	Book Value	**Level 1 a/**	**Level 2 b/**	**Level 3 c/**	**Total Fair Value**
FCDU	24,238,735,231	24,856,398,296	0	2,282,336,244	27,138,734,540
Total	**676,516,604,919**	**673,158,344,298**	**9,168,242,111**	**13,740,902,872**	**696,067,489,281**
FINANCIAL LIABILITIES					
Bills Payable	**27,538,506,877**	**0**	**27,319,464,913**	**219,041,964**	**27,538,506,877**
BSP Rehabilitation Program	36,722,229	0	0	36,722,229	36,722,229
Domestic Borrowings (ODA thru BTr)	182,319,735	0	0	182,319,735	182,319,735
Foreign Borrowings (ODA)	27,319,464,913	0	27,319,464,913	0	27,319,464,913
Interbank Loans-Foreign Regular	0	0	0	0	0
Total	**27,538,506,877**	**0**	**27,319,464,913**	**219,041,964**	**27,538,506,877**

	As of December 31, 2018				
	Book Value	**Level 1 a/**	**Level 2 b/**	**Level 3 c/**	**Total Fair Value**
FINANCIAL ASSETS					
FVTPL	**10,591,290,490**	**6,156,447,966**	**3,496,912,079**	**937,930,445**	**10,591,290,490**
Debt Securities	6,247,351,926	6,156,447,966	0	90,903,960	6,247,351,926
Domestic	5,920,707,906	5,829,803,946	0	90,903,960	5,920,707,906
FX-Reg	0	0	0	0	0
FCDU	326,644,020	326,644,020	0	0	326,644,020
Equity Securities	847,026,485	0	0	847,026,485	847,026,485
Domestic	0	0	0	0	0
FX-Reg	847,026,485	0	0	847,026,485	847,026,485
FCDU	0	0	0	0	0
Derivative w/ positive FV	3,496,912,079	0	3,496,912,079	0	3,496,912,079
PLFD	3,289,615,516	0	3,289,615,516	0	3,289,615,516
FX-Reg	109,311,788	0	109,311,788	0	109,311,788
FCDU	97,984,775	0	97,984,775	0	97,984,775
FVOCI	**99,053,725,226**	**105,300,922,570**	**0**	**4,697,131,966**	**109,998,054,536**
Debt Securities	88,835,479,371	87,553,488,670	0	58,989,856	87,612,478,526
Domestic	47,472,096,826	46,274,200,044	0	58,989,856	46,333,189,900
FX-Reg	3,191,978,853	3,238,333,992	0	0	3,238,333,992
FCDU	38,171,403,692	38,040,954,634	0	0	38,040,954,634
Equity Securities	10,218,245,855	17,747,433,900	0	4,638,142,110	22,385,576,010
Domestic	5,530,888,955	17,747,433,900	0	560,650,392	18,308,084,292
FX-Reg	4,687,356,900	0	0	4,077,491,718	4,077,491,718
FCDU	0	0	0	0	0
HTC	**492,170,710,901**	**423,821,161,731**	**6,995,176,652**	**9,677,817,211**	**440,494,155,594**
Debt Securities	492,170,710,901	423,821,161,731	6,995,176,652	9,677,817,211	440,494,155,594
Domestic	458,807,377,690	399,909,493,987	5,947,689,682	140,100,776	405,997,284,445
FX-Reg	8,254,006,342	1,421,726,122	0	6,867,201,747	8,288,927,869
FCDU	25,109,326,869	22,489,941,622	1,047,486,970	2,670,514,688	26,207,943,280
Total	**601,815,726,617**	**535,278,532,267**	**10,492,088,731**	**15,312,879,622**	**561,083,500,620**

	As of December 31, 2018				
	Book Value	Level 1 a/	Level 2 b/	Level 3 c/	Total Fair Value
FINANCIAL LIABILITIES					
Bills Payable	**31,256,837,033**	**0**	**30,999,525,399**	**257,311,634**	**31,256,837,033**
BSP Rehabilitation Program	62,154,642	0	0	62,154,642	62,154,642
Domestic Borrowings (ODA thru BTr)	195,156,992	0	0	195,156,992	195,156,992
Foreign Borrowings (ODA)	26,793,125,399	0	26,793,125,399	0	26,793,125,399
Interbank Loans-Foreign Regular	4,206,400,000	0	4,206,400,000	0	4,206,400,000
Total	**31,256,837,033**	**0**	**30,999,525,399**	**257,311,634**	**31,256,837,033**

5. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2019	2018	2019	2018
Cash on hand	37,876,765,321	36,907,669,455	37,875,409,063	36,805,705,609
Checks and other cash items	12,820,070	51,101,841	12,820,070	51,003,136
Returned checks and other cash items	57,620,095	98,890,550	57,598,498	98,599,507
Miscellaneous checks and other cash items	0	0	0	0
Petty cash fund	9,676,227	9,944,000	9,591,227	8,892,000
Revolving fund	377,636	442,011	235,507	235,508
Payroll fund	109,373	3,829,729	109,373	3,829,729
	37,957,368,722	37,071,877,586	37,955,763,738	36,968,265,489

6. Due from Bangko Sentral ng Pilipinas

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

7. Due from Other Banks

This account consists of:

	Group		Parent	
	2019	2018 As Restated	2019	2018
Deposit with local banks	414,521,239	539,066,615	2,241,932,972	1,357,696,336
Deposit with foreign banks	11,098,545,279	4,352,750,210	11,098,545,279	4,352,750,210
Allowance for Credit Losses	(2,049,973)	(2,600,060)	(2,049,973)	(2,600,060)
Accrued Interest Receivable	64,357	1,745	3,777,778	1,605,556
Allowance for Credit Losses	(819)	0	(819)	0
	11,511,080,083	4,889,218,510	13,342,205,237	5,709,452,042

The Group maintains nostro accounts on global basis with 22 foreign depository banks totaling 25 and 27 bank accounts in 2019 and 2018, respectively, the most significant of which are as follows:

2019	2018
1. Standard Chartered Bank, N.Y.	1. Standard Chartered Bank, N.Y.
2. Wells Fargo Bank, N.A.	2. Wells Fargo Bank, N.A.
3. JP Morgan Chase Bank	3. The Bank of New York
4. Citibank N.Y.	4. JP Morgan Chase Bank
5. The Bank of New York	5. Citibank N.Y.

8. Interbank Loans Receivables

This account consists of the Parent's loans receivable from foreign banks. Interbank loans receivable carry interest rates at December 31, 2019 as follows:

	2019	2018
Foreign	1.53% to 2.05%	0.95% to 2.60%

9. Securities Purchased under Agreements to Resell

This account consists of:

	Group		Parent	
	2019	2018	2019	2018
Domestic				
Government Securities Purchased under Reverse Repurchase Agreement				
BSP	37,168,092,153	50,529,000,000	36,920,542,939	50,000,000,000
Private Corporation	1,170,995,380	0	1,170,995,380	0
Accrued Interest Receivable	16,305,289	20,159,021	16,222,773	19,791,667
	38,355,392,822	50,549,159,021	38,107,761,092	50,019,791,667

Securities Purchased under Agreements to Resell with BSP carry interest rate at 4.00 per cent and 4.75 per cent as at December 31, 2019 and 2018, respectively. While Repo with Private Corporation carry interest rate at 5.375 per cent as at December 31, 2019.

10. Fair Value Thru Profit or Loss (FVTPL)

This consists of:

	Group		Parent	
	2019	2018	2019	2018
Government Securities – Domestic	5,869,047,594	5,874,464,812	5,869,047,594	5,829,803,946
Government Securities – Foreign	0	326,644,020	0	326,644,020
Private Securities – Domestic	415,448,839	937,930,444	415,448,839	937,930,444

	Group		Parent	
	2019	2018	2019	2018
Private Securities – Foreign	905,855,067	0	905,855,067	0
Derivative with positive fair value	4,662,987,679	3,496,912,080	4,662,987,679	3,496,912,080
Accrued Interest Receivable	10,750,961	9,643,972	10,750,961	9,370,895
	11,864,090,140	10,645,595,328	11,864,090,140	10,600,661,385

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

	2019			2018		
Domestic	3.375%	to	5.50%	3.875%	to	5.50%
Foreign	0%	to	0%	3.0%	to	10.65%

FVTPL includes the foreign exchange (FX) risk cover of the Parent's borrowings from multilateral agencies amounting to P4,427,525,372 and P3,289,615,516 in 2019 and 2018, 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, 2019, the outstanding notional amount of the FX risk cover amounted to JPY24,808,347,013 and EUR24,358,644.

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 Bank applied the standard option valuation model approach which resulted in an increase in the derivative asset amounting to P1,137,909,856 in 2019 and P1,808,231,186 in 2018.

The derivative with positive fair value comprise of the following:

	2019	2018
Foreign Exchange Risk Cover	4,427,525,372	3,289,615,516
Debt Warrants	94,360,196	97,984,776
Forward Contracts	141,102,110	109,311,788
	4,662,987,679	3,496,912,080

The Garman-Kohlhagen valuation model used in pricing the derivative Foreign Exchange Risk Cover (FXRC) was found acceptable by the Bangko Sentral ng Pilipinas (BSP) during the conduct of their on-site validation in 2009.

11. Fair Value Through Other Comprehensive Income (FVOCI)

This account consists of:

	Group		Parent	
	2019 Under FVOCI	2018 Under FVOCI	2019 Under FVOCI	2018 Under FVOCI
Domestic				
Government	151,840,201,584	46,751,087,568	151,792,114,463	46,274,200,044
Private	14,576,577,334	18,367,074,148	14,576,577,334	18,367,074,148
Foreign				
Government	41,568,322,299	41,279,288,626	41,568,322,299	41,279,288,626
Private securities	1,947,084,406	4,077,491,718	1,947,084,406	4,077,491,718
Accrued Interest Receivable	1,729,245,793	793,834,976	1,729,245,793	788,699,559
Allowance for Credit Losses	(2,319)		(2,319)	
	211,661,429,097	111,268,777,036	211,613,341,976	110,786,754,095

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

	2019			2018		
Domestic	3.375%	To	6.25%	3.875%	to	6.38%
Foreign	1.125%	To	10.63%	2.00%	to	11.63%

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

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

1) For MERALCO to cancel the Stock Certificates issued in favor of another party;

2) To restore the ownership of the subject MERALCO shares of stock to the Land Bank of the Philippines and to record the same in the Stock and Transfer Book of MERALCO; and

3) For the Philippine Stock Exchange, Inc. (PSE), the Philippine Depository and Trust Corporation (PDTC), the Securities Transfer Services, Inc. (STS), the Philippine Dealing System Holdings, Corp. and Subsidiaries (PDS Group) and any stockholder, dealer or agent of subject MERALCO shares to forthwith STOP: trading or dealing those shares and/or affecting settlement thereof, *inter alia*, so as to undo the foregoing contravening acts.

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

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

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

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

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

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

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

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

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

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

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

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

LBP's petition for indirect contempt filed against MERALCO and its officers to compel them to deliver the unrestored MERALCO shares (G.R. No. 217428) was dismissed by the Supreme Court on March 25, 2019 on the ground that MERALCO and its officers cannot be held guilty of disobedience of a lawful judgment of a court. MERALCO was unable to return the 3,366,800 shares because these shares were validly traded through the Philippine Stock Exchange. LBP's Motion for Reconsideration of the March 25, 2019 Decision was denied by the SC in its August 14, 2019 Resolution.

Due to the finality of the said decision, LBP has derecognized the 3,366,800 MERALCO shares with a market value of P1,067,275,600 and accrued dividends in the amount of P411,625,689 and proposed to collect the monetary equivalent of the 3,366,800 MERALCO shares from the Agrarian Reform Fund (ARF), which proposal has not yet acted upon by the DAR.

The Parent's Accumulated market gains/losses on FVOCI government and private issues as of December 31, 2019 amounted to P10,083,026,112.

Total Fair Value Through Profit/ Loss and Fair Value Through Other Comprehensive Income accounts of the Parent include investment of US$17,889,899.61 (P905,855,067) in Metro Rail Transit Corporation's (MRTC) preference shares and US$70,430,016.21 (P3,566,223,871) in Unsecuritized Equity Rental Payments, respectively.

In 2008, the National Government, as confirmed through Executive Order No. 855 dated January 18, 2010, instructed LBP and the Development Bank of the Philippines (DBP) to acquire majority interest in MRTC as a result of the recommendation made by the inter-agency Committee tasked to review the MRT III project. In the same year, the LBP Board of Directors approved the purchase of MRTC interests in the form of unsecuritized portion of the Equity Rental Payment (ERP), MRT Bonds (See Notes to the Financial Statements No.12) 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 acquisition cost, book value and percentage of economic interest in MRTC are as follows:

	Acquisition Cost As of December 31, 2019 (In US Dollars)	Book Value As of December 31, 2019 (In US Dollars)	Percentage in MRTC
▪ MRT III Bonds	70,558,895	160,531,986	
▪ MRT III Preferred Shares	54,000,000	17,889,900	
Securitized ERPs	124,588,895	178,421,886	26.65%
Unsecuritized ERPs	89,146,324	70,430,016	11.12%
	213,735,219	248,851,902	37.77%

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

Private securities include investment in equity securities which are irrevocably designated at FVOCI as these are held for long-term strategic purpose rather than for trading. These equity securities include listed stocks, shares in recreational clubs, investment in countryside financial institutions (CFI) and other non-marketable equity securities. The Parent disposed equity securities at FVOCI with total carrying value of P2.95 million in 2019. Loss amounting to P288.09 million was recognized on the disposal charged against "Retained Earnings-Free".

Outstanding equity securities at FVOCI as of December 31, 2019 and 2018 generated dividends amounting to P1.55 billion and P1.38 billion, respectively for the Parent. Dividends amounting to P3.22 million were recognized and miscellaneous loss of P411.63 million in 2019 and P7.83 million for 2018 for the disposed securities at FVOCI.

Fair Value of FVOCI-Equity Securities as of December 31, 2019, as follows:

FVOCI Equity Securities	**Fair Value**
Listed Stocks	14,669,527,438
Shares in Sports Clubs.	87,450,000
Rural Banks	3,739,504
INMES	4,294,694,798
	19,055,411,740

12. Hold to Collect (HTC)

This account consists of:

	Group		Parent	
	2019	2018	2019	2018
Government				
Domestic	429,466,649,339	453,805,532,225	428,440,828,676	452,657,665,521
Foreign	19,370,539,307	20,284,152,756	19,370,539,307	20,284,152,756
Private				
Domestic	5,137,336,497	6,892,613,333	5,020,491,003	6,840,015,414
Foreign	12,030,334,364	13,079,180,455	12,030,334,364	13,079,180,455
Allow. For Credit Losses	(711,848,096)	(407,001,319)	(711,694,355)	(407,001,319)
Accrued Interest Receivable	3,605,941,597	4,074,087,033	3,603,490,642	4,074,087,033
Allow. For Credit Losses	(8,949,484)	(8,740,571)	(8,949,484)	(8,740,571)
	468,890,003,524	497,719,823,912	467,745,040,153	496,519,359,289

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

	2019			2018		
Domestic	3.25%	to	18.25%	3.25%	to	18.25%
Foreign	2.75%	to	10.63%	5.25%	to	11.63%

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

a. Threshold of investment allowed under the HTC-Amortized Cost Business Model to match the securities and term loan portfolio against the Parent's level of core deposits.

b. Alignment of the HTC-Amortized Cost Business Model through a combination of rebalancing and redeployment strategies.

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

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

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

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

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

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

The financial asset that was derecognized has a total cost of P23.0 billion which resulted to a realized net loss of P285,885.

13. Loans and Receivables

This account consists of:

	Group		Parent	
	2019	2018 As Restated	2019	2018
Interbank loans receivable	24,161,301,253	30,676,329,585	24,161,301,253	30,676,329,585
Allowance for credit losses	(323,054,279)	(513,043,978)	(323,054,279)	(513,043,978)
	23,838,246,974	30,163,285,607	23,838,246,974	30,163,285,607
Loans to Government	121,067,829,967	96,285,348,642	121,996,652,985	97,628,514,921
Allowance for credit losses	(22,998,264)	(16,324,559)	(22,998,264)	(16,324,559)
	121,044,831,703	96,269,024,083	121,973,654,721	97,612,190,362
Agrarian Reform and other Agriculture Loans	134,550,102,734	118,857,535,711	134,205,098,502	118,475,275,248
Allowance for credit losses	(1,300,710,623)	(1,232,041,287)	(1,225,329,360)	(1,192,578,485)
	133,249,392,111	117,625,494,424	132,979,769,142	117,282,696,763
Microfinance Loans	22,182,020,697	24,857,874,336	22,173,088,963	24,845,496,416
Allowance for credit losses	(521,012,462)	(350,619,101)	(520,024,148)	(347,280,354)
	21,661,008,235	24,507,255,235	21,653,064,815	24,498,216,062
SME/MSE Loans	61,293,521,080	66,391,846,173	60,140,034,554	65,294,070,772
Allowance for credit losses	(1,600,380,799)	(1,557,267,631)	(1,411,935,967)	(1,430,757,268)
	59,693,140,281	64,834,578,542	58,728,098,587	63,863,313,504
Contract to Sell	840,872,923	1,297,038,637	438,011,023	890,538,032
Allowance for credit losses	(196,238,277)	(256,142,934)	(143,790,580)	(203,695,236)
	644,634,646	1,040,895,703	294,220,443	686,842,796
Loans to Private Corporation	436,758,102,674	427,896,778,130	433,400,466,659	424,512,701,072
Allowance for credit losses	(7,566,092,253)	(5,443,995,844)	(6,969,152,535)	(5,046,256,197)
	429,192,010,421	422,452,782,286	426,431,314,124	419,466,444,875
Loans to Individuals for Housing Purposes	5,951,599,608	5,897,009,007	5,907,256,536	5,840,863,258
Allowance for credit losses	(86,217,230)	(136,107,284)	(83,319,562)	(133,209,616)
	5,865,382,378	5,760,901,723	5,823,936,974	5,707,653,642
Loans to Individual for Consumption	32,137,485,491	30,066,089,544	31,850,081,818	29,628,271,012
Allowance for credit losses	(756,083,749)	(762,611,204)	(584,028,617)	(621,822,808)
	31,381,401,742	29,303,478,340	31,266,053,201	29,006,448,204
Loans to Individual for Other Purposes	1,687,042,450	1,559,307,250	1,510,833,033	1,337,768,352
Allowance for credit losses	(31,313,100)	(37,293,821)	(17,718,797)	(20,855,212)
	1,655,729,350	1,522,013,429	1,493,114,236	1,316,913,140
General loan loss provision	(6,026,905,239)	(5,239,759,885)	(5,987,650,805)	(5,191,145,085)
	822,198,872,602	788,239,949,487	818,493,822,412	784,412,859,870

	Group		Parent	
	2019	2018 As Restated	2019	2018
Accrued interest receivable	7,065,594,845	7,005,687,079	7,023,096,064	6,976,914,603
Allowance for credit losses	(313,259,350)	(222,715,504)	(292,390,854)	(222,661,040)
	6,752,335,495	6,782,971,575	6,730,705,210	6,754,253,563
Accounts receivable	2,526,813,658	2,222,736,737	1,807,751,939	1,573,259,447
Allowance for credit losses	(1,436,376,290)	(1,348,944,562)	(1,332,028,193)	(1,290,616,035)
	1,090,437,368	873,792,175	475,723,746	282,643,412
Sales contract receivable	758,928,669	930,452,212	734,618,501	899,038,278
Allowance for credit losses	(23,959,546)	(39,295,323)	(23,933,374)	(39,295,323)
	734,969,123	891,156,889	710,685,127	859,742,955
Due from ARF	64,834,125	81,372,579	64,834,125	81,372,579
Lease contract receivable	1,887,432,908	1,901,732,803	0	0
Allowance for credit losses	(15,793,488)	(29,638,520)	0	0
	1,871,639,420	1,872,094,283	0	0
	832,713,088,133	**798,741,336,988**	**826,475,770,620**	**792,390,872,379**

The Parent's interest rates on loans in 2019 range from 2.68 per cent to 18.26 per cent for peso denominated loans and from 1.09 per cent to 6.88 per cent for foreign currency denominated loans.

Allowance for credit losses

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

	2019	2018
Balance, January 1	14,716,968,798	5,168,696,310
Provision	4,205,482,293	3,718,467,212
Write-offs	(1,185,418,182)	(193,233,393)
Transfers and other adjustments	(448,029,995)	6,023,038,669
Balance, December 31	17,289,002,914	14,716,968,798

As of December 31, 2019 and 2018, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2019		2018	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	108,185,496,008	12.94	89,339,776,349	11.18
Various guarantees	199,729,246,247	23.90	206,480,595,081	25.84
Various mortgages	258,806,974,689	30.97	247,732,936,587	31.00
	566,721,716,944	67.81	543,553,308,017	68.02
Unsecured loans	269,061,108,382	32.19	255,576,520,651	31.98
Gross loan at amortized cost	835,782,825,326	100.00	799,129,828,668	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.

	2019	2018
Total NPLs	18,766,221,400	9,134,879,593
Allowance for credit losses	(6,752,483,291)	(5,419,467,970)
Net NPLs	12,013,738,109	3,715,411,623

14. Investment in Subsidiaries

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

Name	2019	2018 As Restated
Overseas Filipino Bank, Inc.	1,701,000,000	428,992,000
LBP Leasing and Finance Corporation (formerly LBP Leasing Corporation)	310,252,630	310,252,630
LBP Insurance Brokerage, Inc.	52,500,000	52,500,000
LBP Resources and Development Corporation	51,467,436	51,467,436
Masaganang Sakahan, Inc.	24,554,941	24,554,941
Total	2,139,775,007	867,767,007
Allowance for credit losses	(1,478,005,523)	(1)
Net	661,769,484	867,767,006

Pursuant to the directive of Malacañang Executive Order (EO) No. 44 dated September 28, 2017, the Parent through Investment and Loan Committee Resolution No. 18-088 and Board Resolution No. 18-119 approved the capital infusion of up to P1.701 billion into Overseas Filipino Bank (OFBank). The initial infusion in the amount of P429 million was released on July 06, 2018. Further, the OFBank 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. The increase in ACS was approved by BSP and is yet to be filed with Securities and Exchange Commission (SEC). The Parent has released a total capital infusion amounting to P1.27 billion to OFBank in 2019 as Deposit for Stock Subscription (DSS). The same EO directed the Philippine Postal Corporation (PPC) and Bureau of Treasury (BTr) to transfer their respective OFBI shares to the Parent at zero value. The shares were transferred in March 2018 and the investment was recorded at zero value based on the fair value of the net assets on acquisition date as determined by a third party valuation advisor.

15. Investment in Associates

This account represents the Parent's 20.50 per cent ownership of the capital stock of Small Business Corporation.

16. Investment Property

This account consists of:

	Group							
	2019				2018			
	Land	Building	Others	Total	Land	Building	Others	Total
At Cost								
At January 1	4,435,974,292	2,906,246,715	19,393,890	7,361,614,897	4,645,667,587	2,625,360,056	0	7,271,027,643
Additions/(Disposals)	427,346,501	674,464,907		1,101,811,408	(209,693,295)	280,886,659	19,393,890	90,587,254
Transfers/Adjustment	(128,205,992)	(186,656,132)	(19,393,890)	(334,256,014)	0	0	0	0
At December 31	4,735,114,801	3,394,055,490	0	8,129,170,291	4,435,974,292	2,906,246,715	19,393,890	7,361,614,897
Accumulated depreciation and impairment								
At January 1	423,907,779	1,138,800,269	19,393,889	1,582,101,937	550,223,525	1,036,804,551		1,587,028,076
Depreciation	0	130,345,410		130,345,410	0	144,515,074	2,895,296	147,410,370
Transfers/Adjustment	(14,041,000)	(274,838,851)	(19,393,889)	(308,273,740)	926,344	(123,151,522)	12,651,300	(109,573,878)
Impairment Loss	(121,530,845)	(135,452,746)		(256,983,591)	(127,242,090)	80,632,166	3,847,293	(42,762,631)
At December 31	288,335,934	858,854,082	0	1,147,190,016	423,907,779	1,138,800,269	19,393,889	1,582,101,937
Net book value	4,446,778,867	2,535,201,408	0	6,981,980,275	4,012,066,513	1,767,446,446	1	5,779,512,960

	Parent					
	2019			2018		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	4,224,938,565	2,634,505,810	6,859,444,375	4,561,363,317	2,540,275,283	7,101,638,600
Additions/(Disposals)	418,997,881	678,366,372	1,097,364,253	(336,424,752)	94,230,527	(242,194,225)
At December 31	4,643,936,446	3,312,872,182	7,956,808,628	4,224,938,565	2,634,505,810	6,859,444,375
Accumulated depreciation and impairment						
At January 1	403,529,262	1,059,131,018	1,462,660,280	539,601,581	990,426,016	1,530,027,597
Depreciation	0	129,087,757	129,087,757	0	126,686,428	126,686,428
Transfers/Adjustment	0	(241,683,811)	(241,683,811)	0	(138,613,592)	(138,613,592)
Impairment Loss	(121,530,845)	(135,452,746)	(256,983,591)	(136,072,319)	80,632,166	(55,440,153)
At December 31	281,998,417	811,082,218	1,093,080,635	403,529,262	1,059,131,018	1,462,660,280
Net book value	4,361,938,029	2,501,789,964	6,863,727,993	3,821,409,303	1,575,374,792	5,396,784,095

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

As of December 31, 2019 and 2018, the carrying value of investment properties still subject to redemption amounted to P179,508,998 and P181,110,058, respectively, for the Parent. Investment properties with on-going cases amounted to P732,882,117 and P685,985,377 as of December 31, 2019 and 2018, respectively. Properties amounting to P43,708,690 and P45,795,824 as of December 31, 2019 and 2018, respectively, are agricultural lands covered by the government's agrarian reform program.

In 2019 and 2018, the rental income (included under 'Rent' in the Statements of Comprehensive Income) on investment properties, which are leased out under operating leases, amounted to P5,006,264 and P9,789,590, respectively, for the Parent. In 2019 and 2018, 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 P129,087,757 and P126,686,428, respectively.

17. 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 2019
At Cost										
At January 1,as restated	1,492,986,640	148,324,887	4,927,172,419	1,165,790,160	114,655,106	8,458,527,612	525,504,852	119,405,448	0	16,952,367,124
Additions	206,578,878	11,733,204	1,969,092,253	193,376,351	87,788,985	1,033,079,496	185,227,806	750,369,539	1,915,686,978	6,352,933,490
Disposals	(15,285,000)	0	(11,957,003)	(30,132,742)	(8,360,775)	(320,065,952)	(8,768,605)	(5,795,016)	0	(400,365,093)
Transfers	21,973,057	(72,761,829)	(1,712,305,083)	(78,981,327)	(88,041,987)	(423,568,287)	43,416	(32,440,875)	0	(2,386,082,915)
At December 31	1,706,253,575	87,296,262	5,172,002,586	1,250,052,442	106,041,329	8,747,972,869	702,007,469	831,539,096	1,915,686,978	20,518,852,606
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	2,268,839,213	477,763,909	91,410,847	5,479,636,448	344,321,411	49,410,377	0	8,711,382,205
Depreciation & amortization	0	0	165,797,352	108,140,891	2,152,183	714,366,165	25,396,924	48,245,647	411,902,304	1,476,001,466
Disposals	0	0	(12,658,490)	(4,782,790)	(6,128,106)	(296,778,988)	(7,891,744)	(3,994,860)	0	(332,234,978)
Transfers/Adjustments	0	0	65,199,076	(23,905,713)	(7,620,738)	(245,527,854)	0	(14,407,243)	0	(226,262,472)
At December 31	0	0	2,487,177,151	557,216,297	79,814,186	5,651,695,771	361,826,591	79,253,921	411,902,304	9,628,886,221
Allow for Losses	0	0	34,503,790	1,297,038	7,987,971	21,800,288	0	(5,491,007)	0	60,098,080
Net book value	1,706,253,575	87,296,262	2,650,321,645	691,539,107	18,239,172	3,074,476,810	340,180,878	757,776,182	1,503,784,674	10,829,868,305

	Group								
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	As Restated 2018
At Cost									
At January 1,as restated	615,866,513	178,330,312	4,749,151,532	949,901,436	60,444,761	7,915,570,171	772,239,543	99,617,946	15,341,122,214
Additions	877,720,127	70,160,332	297,831,104	207,698,686	30,953,833	660,866,227	71,886,554	88,790,148	2,305,907,011
Disposals	0	0	(833,310)	(20,186,362)	(5,248,421)	(269,781,599)	(313,165,914)	(18,369,901)	(627,585,507)
Transfers	(600,000)	(100,165,757)	(118,976,907)	28,376,400	28,504,933	151,872,813	(5,455,331)	(50,632,745)	(67,076,594)
At December 31	1,492,986,640	148,324,887	4,927,172,419	1,165,790,160	114,655,106	8,458,527,612	525,504,852	119,405,448	16,952,367,124
Accumulated Depreciation, Amortization & Impairment loss									
At January 1	0	0	1,975,683,666	385,727,070	40,547,351	4,798,489,978	323,917,135	86,295,052	7,610,660,252
Depreciation & amortization	0	0	120,382,485	87,214,551	2,412,102	720,192,373	24,389,172	22,365,337	976,956,020
Disposals	0	0	(31,058,043)	(3,189,484)	(4,067,893)	(253,700,107)	(2,354,401)	(16,530,631)	(310,900,559)
Transfers/Adjustments	0	0	203,831,105	8,011,772	52,519,287	214,654,204	(1,630,495)	(42,719,381)	434,666,492
At December 31	0	0	2,268,839,213	477,763,909	91,410,847	5,479,636,448	344,321,411	49,410,377	8,711,382,205
Allow for Losses	0	0	34,503,790	1,248,985	7,987,971	18,968,972	0	(5,491,007)	57,218,711
Net book value	1,492,986,640	148,324,887	2,623,829,416	686,777,266	15,256,288	2,959,922,192	181,183,441	75,486,078	8,183,766,208

	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 2019
At Cost										
At January 1	1,351,196,640	70,086,597	4,981,218,702	1,138,284,613	82,950,259	8,223,220,596	407,062,231	99,415,850	0	16,353,435,488
Additions	206,578,878	89,971,494	1,883,251,485	191,028,923	87,788,985	1,026,081,682	0	727,130,720	1,915,686,978	6,127,519,145
Disposals	(15,285,000)		(11,957,003)	(3,886,997)	(3,823,624)	(292,937,228)	0	(5,281,998)	0	(333,171,850)
Transfers	21,973,057	(72,761,829)	(1,712,305,083)	(78,981,327)	(88,041,987)	(418,303,934)	43,416	(32,440,875)	0	(2,380,818,562)
At December 31	1,564,463,575	87,296,262	5,140,208,101	1,246,445,212	78,873,633	8,538,061,116	407,105,647	788,823,697	1,915,686,978	19,766,964,221
Accumulated Depreciation & Amortization										
At January 1	0	0	2,203,322,780	455,822,943	66,559,761	5,280,654,706	295,600,267	34,088,655	0	8,336,049,112
Depreciation & amortization	0	0	159,577,564	104,697,723	549,006	705,302,987	17,115,385	47,063,329	411,902,304	1,446,208,298

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 2019
Disposals	0	0	(12,658,490)	(4,782,790)	(1,895,645)	(266,958,730)	0	(3,990,600)	0	(290,286,255)
Transfers/Adjustments	0	0	65,199,076	(1,226,000)	(7,620,738)	(245,121,949)	0	(14,407,243)	0	(203,176,854)
At December 31	0	0	2,415,440,930	554,511,876	57,592,384	5,473,877,014	312,715,652	62,754,141	411,902,304	9,288,794,301
Allow for Losses	0	0	34,503,790	1,297,038	7,987,971	21,800,288	0	(5,491,007)	0	60,098,080
Net book value	1,564,463,575	87,296,262	2,690,263,381	690,636,298	13,293,278	3,042,383,814	94,389,995	731,560,563	1,503,784,674	10,418,071,840

Parent	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2018
At Cost									
At January 1	605,084,513	179,569,300	4,650,603,399	947,920,160	40,217,834	7,881,869,694	336,987,339	80,235,200	14,722,487,439
Additions	746,712,127	70,160,332	256,329,204	207,691,047	30,953,833	645,388,746	71,886,554	88,163,367	2,117,285,210
Disposals			(833,310)	(19,457,249)	(2,903,693)	(269,781,581)	(1,811,662)	(18,369,901)	(313,157,396)
Transfers	(600,000)	(179,643,035)	75,119,409	2,130,655	14,682,285	(34,256,263)	0	(50,612,816)	(173,179,765)
At December 31	1,351,196,640	70,086,597	4,981,218,702	1,138,284,613	82,950,259	8,223,220,596	407,062,231	99,415,850	16,353,435,488
Accumulated Depreciation & Amortization									
At January 1	0	0	1,930,790,094	385,722,119	28,137,999	4,776,163,917	281,060,450	72,181,541	7,474,056,120
Depreciation & amortization	0	0	113,864,760	85,840,045	446,749	711,174,888	16,170,312	21,157,126	948,653,880
Disposals	0	0	(31,058,043)	(3,189,484)	(1,931,556)	(253,700,107)	0	(16,530,631)	(306,409,821)
Transfers/Adjustments	0	0	189,725,969	(12,549,737)	39,906,569	47,016,008	(1,630,495)	(42,719,381)	219,748,933
At December 31	0	0	2,203,322,780	455,822,943	66,559,761	5,280,654,706	295,600,267	34,088,655	8,336,049,112
Allow for Losses	0	0	34,503,790	1,248,985	7,987,971	18,968,972	0	(5,491,007)	57,218,711
Net book value	1,351,196,640	70,086,597	2,743,392,132	681,212,685	8,402,527	2,923,596,918	111,461,964	70,818,202	7,960,167,665

Depreciation and amortization of the Group amounting to P1,476,001,466 and P976,956,020 and of the Parent amounting to P1,446,208,298 and P948,653,880 in 2019 and 2018, 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 P246,268,308 and P218,628,267 in 2019 and 2018, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P29,821,469 and P46,026,465 in 2019 and 2018, respectively.

18. Leases

Parent as lessee

The Parent leases the premises occupied by some of its branches (about 73 per cent of the total branches lease their office sites). The lease contracts are for periods ranging from one to 30 years and are renewable at the Parent's option under certain terms and conditions. Various lease contracts include escalation clauses, which bear an annual rent increase of 1 per cent to 10 per cent.

As of December 31, 2019, the carrying amounts of lease liabilities (included in Other Liabilities-Others) are as follows:

	Parent
Balance, January 01, 2019	1,896,078,651
Additions	373,786,095
Expiry/Terminations	(342,774)
Accretion of interest	108,976,164
Payment	(519,039,193)
Balance, December 31, 2019	1,859,458,943

With the adoption of PFRS 16, as of December 31, 2019, the Parent recognized interest expense on lease liabilities (included in the Statements of Comprehensive Income) amounting to P113,679,572 and rent expense from short-term leases and leases of low-value assets amounting to P747,739,793. Prior to PFRS 16 adoption, rent expense (included in the Statements of Comprehensive Income) of the Parent in 2018 and 2017 amounted to P1,558,356,596 and P1,002,226,002, respectively.

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

	Parent	
	2019	2018
Within one year	486,344,413	499,178,091
After one year but not more than five years	1,256,463,777	1,200,237,594
More than five years	473,700,373	578,415,256
	2,216,508,563	2,277,830,941

Parent as lessor

The Parent has entered into commercial property leases with various tenants on its investment property portfolio and part of LBP premises. Various lease contracts include escalation clauses. Rent income from leases (included in the Statements of Comprehensive Income) of the Parent amounted to P35,013,733 and P26,280,770 in 2019 and 2018, respectively.

19. Other Intangible Assets

This account consists of:

	Group		Parent	
	2019	2018	2019	2018
Cost				
Balance at the beginning of the year	2,619,929,675	2,335,318,875	2,600,122,046	2,307,297,599
Addition	243,457,769	296,003,302	242,062,229	292,824,447
Balance at the end of the year	2,863,387,444	2,631,322,177	2,842,184,275	2,600,122,046
Accumulated Amortization				
Balance at the beginning of the year	1,436,478,058	1,030,127,662	1,444,227,097	1,036,869,394
Addition	264,003,216	417,742,899	259,812,299	407,357,703
Balance at the end of the year	1,700,481,274	1,447,870,561	1,704,039,396	1,444,227,097

	Group		Parent	
	2019	**2018**	**2019**	**2018**
Allow for Losses	10,673,500	10,673,500	673,500	673,500
Net book value at end of year	**1,152,232,670**	**1,172,778,116**	**1,137,471,379**	**1,155,221,449**

20. Other Assets

This account consists of:

	Group		Parent	
	2019	**2018**	**2019**	**2018**
Sundry debits	901,817,348	1,278,286,491	901,511,875	1,278,231,690
Prepaid expenses	424,751,168	237,576,331	434,914,151	247,477,751
Documentary stamps	809,039,852	620,493,947	808,610,259	615,212,716
Stationery & supplies on hand	141,125,616	120,953,546	136,459,689	114,202,442
Accounts receivable-net	30,074,336	98,623,887	29,401,813	96,104,355
Inter-office float items	3,248,164	145,851	301,785	145,851
Others	2,233,772,173	2,714,788,265	2,334,518,786	2,772,875,214
Allowance for credit losses	(58,035,599)	(58,034,681)	(28,035,599)	(28,034,681)
	4,485,793,058	5,012,833,637	4,617,682,759	5,096,215,338

21. Allowance for Credit Losses and Impairment Losses

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

	2019	**2018**
Balance at beginning of year:		
Loan portfolio	14,716,968,798	5,168,696,310
Investments	415,741,891	1
Receivables from customers and Other assets	2,287,224,726	4,115,323,255
Contingent	431,529,554	0
	17,851,464,969	9,284,019,566
Provisions charged to operations	6,243,266,880	3,852,491,480
Accounts charged off and others	(1,243,476,977)	(216,269,860)
Transfer/adjustments	(803,930,307)	4,931,223,783
	4,195,859,596	8,567,445,403
Balance December 31	22,047,324,565	17,851,464,969
Balance at end of year:		
Loan portfolio (Note 13)	17,289,002,914	14,716,968,798
Investments (Note 11, 12,14)	2,198,651,681	415,741,891
Receivables from customers and other assets	2,150,663,062	2,287,224,726
Contingent	409,006,907	431,529,554
	22,047,324,565	17,851,464,969

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:

	2019	2018
Loans and receivables	4,205,482,392	3,718,467,212
Other loans and receivables	266,418,590	8,967,360
Property and equipment	6,870,487	31,882,888
Others	1,764,495,411	93,174,020
	6,243,266,880	3,852,491,480

The following table shows the recognized ECL on treasury exposures of the Parent for the period December 31, 2019 and 2018:

INVESTMENTS *(In Absolute Amount)*	**EXPECTED CREDIT LOSS As of December 31, 2019**			
	TOTAL	**STAGE 1**	**STAGE 2**	**STAGE 3**
Due from BSP and SPURA	**0**	**0**	**0**	**0**
Due from Other Banks	**2,050,792**	**2,037,226**	**13,566**	**0**
Due from Foreign Banks	1,708,623	1,708,623	0	0
Due from Local Banks and FIs	316,605	303,039	13,566	0
Inter-bank loan and receivables	25,564	25,564	0	0
FA at FVOCI debt investments	**372,031**	**372,031**	**0**	**0**
Local Debt Securities	0	0	0	0
Foreign Debt Securities	372,031	372,031	0	0
FA at amortized cost	**720,643,840**	**9,255,244**	**16,844,780**	**694,543,816**
Local Debt Securities	0	0	0	0
Foreign Debt Securities	0	0	0	0
Private Securities				
Local	716,729,930	5,341,334	16,844,780	694,543,816
Foreign	3,913,910	3,913,910	0	0
TOTAL	**723,066,663**	**11,664,501**	**16,858,346**	**694,543,816**

INVESTMENTS *(In Absolute Amount)*	**EXPECTED CREDIT LOSS As of December 31, 2018**			
	TOTAL	**STAGE 1**	**STAGE 2**	**STAGE 3**
Due from BSP and SPURA	**0**	**0**	**0**	**0**
Due from Other Banks	**2,600,060**	**2,586,600**	**13,460**	**0**
Due from Foreign Banks	2,129,732	2,129,732	0	0
Due from Local Banks and FIs	386,376	372,916	13,460	0
Inter-bank loan and receivables	83,952	83,952	0	0
FA at FVOCI debt investments	**0**	**0**	**0**	**0**
Local Debt Securities	0	0	0	0
Foreign Debt Securities	0	0	0	0
FA at amortized cost	**415,741,890**	**7,065,380**	**20,899,965**	**387,776,545**
Local Debt Securities	0	0	0	0
Foreign Debt Securities	0	0	0	0
Private Securities				
Local	411,923,168	3,246,658	20,899,965	387,776,545
Foreign	3,818,722	3,818,722	0	0

INVESTMENTS *(In Absolute Amount)*	EXPECTED CREDIT LOSS As of December 31, 2018 TOTAL	STAGE 1	STAGE 2	STAGE 3
TOTAL	**418,341,950**	**9,651,980**	**20,913,425**	**387,776,545**

The increase in the computed ECL from December 2018 to December 2019 is attributed to the increase in Loss Given Default of Stage 3 accounts to 100 per cent. These accounts are fully provided with Valuation Reserves. Moreover, there are certain accounts that were determined to have increased in credit risk. The basis of allowance calculation was moved from 12-month ECL to Lifetime ECL.

22. Deposit Liabilities

This account consists of:

	Group		Parent	
	2019	2018	2019	2018
Domestic				
Demand deposits	884,242,337,174	798,178,666,838	884,597,244,105	798,036,465,982
Savings deposits	798,813,818,564	758,183,038,776	796,871,655,025	751,240,612,971
Time certificate of deposits	449,333,001	617,284,897	434,203,920	582,649,579
Long Term Negotiable Certificate of Deposits	6,000,000,000	11,000,000,000	6,000,000,000	11,000,000,000
	1,689,505,488,739	1,567,978,990,511	1,687,903,103,050	1,560,859,728,532
Foreign				
Demand deposits –FCDU/EFCDU	0	0	0	0
Savings deposit –FCDU/EFCDU	16,685,052,793	19,489,379,305	16,684,236,253	19,488,220,995
Time certificate of deposit-FCDU/EFCDU	78,489,092,666	75,793,870,608	78,488,837,039	75,793,327,845
	95,174,145,459	95,283,249,913	95,173,073,292	95,281,548,840
	1,784,679,634,198	1,663,262,240,424	1,783,076,176,342	1,656,141,277,372

The Parent's domestic deposit liabilities earn annual fixed interest rates ranging from 0.100 to 7.25 per cent and 0.100 to 6.50 per cent in 2019 and 2018, respectively. Foreign deposit rates range from 0.15 to 2.50 per cent and from 0.15 to 2.05 per cent in 2019 and 2018, respectively. In 2019 and 2018, P1,177,850,389,645 or 66 per cent and P1,217,823,862,578 or 74 per cent, respectively, of the Parent's deposit portfolio came from the government while the rest came from private depositors.

23. Bills Payable

This account consists of:

	Group		Parent	
	2019	2018	2019	2018
Bangko Sentral ng Pilipinas	36,722,229	62,154,642	36,722,229	62,154,642
Domestic borrowings	2,346,319,736	1,369,156,992	182,319,735	195,156,992
Foreign borrowings	27,319,464,914	26,793,125,399	27,319,464,914	26,793,125,399
Foreign interbank borrowings	0	4,206,400,000	0	4,206,400,000
	29,702,506,879	32,430,837,033	27,538,506,878	31,256,837,033

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

Creditor/Funder	2019	2018
World Bank/IBRD	14,490,003,629	12,530,950,113
Asian Development Bank (ADB)	406,161,155	492,587,972
Japan International Cooperation Agency (JICA)	11,039,918,730	12,266,376,573
Kreditanstalt fur Wiederaufbau (KfW)	1,383,381,399	1,503,210,741
	27,319,464,913	26,793,125,399

The total foreign borrowings of P27,319,464,913 is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P12,903,846,037 are provided with foreign exchange risk cover (FXRC) by the National Government. This has historical value of P12,329,054,766. 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 2019 range from 0.01 to 2.70 per cent and 4.75 per cent, respectively, for foreign and domestic borrowings, respectively.

24. Other Liabilities

This account consists of:

	Group		Parent	
	2019	2018 AS RESTATED	2019	2018 AS RESTATED
Accrued interest, fringe benefits, taxes and other expense payable	8,605,938,760	6,191,337,046	8,505,295,018	6,120,705,590
Accounts payable	36,415,865,668	22,852,324,508	36,219,367,074	22,683,310,064
Due to Agrarian Reform Fund	180,826,143	171,130,728	180,826,143	171,130,728
Sundry credits	515,366,173	750,917,089	515,366,173	750,917,089
Unearned income	42,867,423	41,047,094	14,929,302	15,622,034
Withholding tax payable	395,497,661	315,183,924	394,804,859	311,520,042
Miscellaneous liabilities	6,967,113,387	2,949,004,698	6,925,288,943	2,915,619,285
Provision for estimated credit losses	409,006,907	431,529,554	409,006,907	431,529,554
Others	4,867,340,363	2,264,254,951	4,347,764,961	1,839,216,314
	58,399,822,485	35,966,729,592	57,512,649,380	35,239,570,700

25. Income and Other Taxes

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

Based on Republic Act No. 9337, which was passed into law in May 2005 and amended certain provisions of the National Internal Revenue Code of 1997, the normal corporate income tax rate is 30 per cent effective January 1, 2009. The interest allowed as deductible expense is reduced by an amount equivalent to 33 per cent of the interest income subjected to final tax.

FCDU offshore income (income from non-residents) derived by depository banks under the expanded foreign currency deposit system is exempt from income tax while gross onshore 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	
	2019	2018	2019	2018
Current:				
Normal income tax (NIT)	2,386,087,597	985,466,889	2,303,787,951	898,463,001
Income tax-final	0	0	0	0
	2,386,087,597	985,466,889	2,303,787,951	898,463,001
Deferred	(655,403,539)	(729,480,019)	(658,589,902)	(736,988,242)
	1,730,684,058	255,986,870	1,645,198,049	161,474,759

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

	Group		Parent	
	2019	2018	2019	2018
Statutory income tax	6,461,557,069	5,135,156,762	6,377,108,451	5,025,429,122
Additions to (reductions in) income taxes arising from:				
Non-deductible interest expense	3,042,147,388	2,615,323,963	3,042,127,952	2,615,305,510
Other deductible/Non-deductible expense	1,269,950,495	556,567,426	1,259,492,107	562,183,730
FCDU income	(1,140,280,055)	(1,194,716,408)	(1,140,280,055)	(1,194,716,408)
Tax exempt & tax paid income	(7,742,312,118)	(6,866,452,263)	(7,730,330,033)	(6,855,274,323)
Others	(160,378,721)	10,107,390	(162,920,373)	8,547,128
	1,730,684,058	255,986,870	1,645,198,049	161,474,759

The net deferred income tax asset reported by the Parent amounted to P4,173,970,307 and P3,418,973,804 for CY 2019 and 2018, respectively while the subsidiaries recognized deferred tax assets of P60,356,320 and P64,618,884 for CY 2019 and 2018, 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	
	2019	2018
Deferred tax asset:		
Allowance for credit losses	4,191,313,158	3,515,380,405
Accrued expenses	466,853,960	651,465,894

	Parent	
	2019	2018
Unrealized loss on foreign exchange/financial assets & liabilities-held for trading	0	0
	4,658,167,118	4,166,846,299
Deferred tax liability:		
Unrealized gain on financial assets and liabilities-held for trading	107,395,807	188,370,835
Unrealized gain on foreign exchange	376,801,004	559,501,660
	484,196,811	747,872,495
	4,173,970,307	3,418,973,804

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

Supplementary information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 19-2011 (and as further amended by RR No. 2-2014 dated January 24, 2014) which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2019, the Parent reported the following revenues and expenses for income tax purposes:

Revenues	
Services/operations	48,068,394,356
Non-operating and taxable other income:	
Trading and securities gain	1,792,606,015
Service charges, fees and commissions	2,003,564,597
Profit from assets sold	415,270,404
Income from trust operations	184,109,184
Others	563,239,925
	4,958,790,125
Total Revenues	53,027,184,481
Expenses	
Cost of services:	
Compensation and fringe benefits	8,460,015,746
Others	18,187,446,860
Total cost of services	26,647,462,606
Itemized deductions:	
Compensation and fringe benefits	2,744,426,718
Taxes and licenses	4,808,919,339
Documentary stamps used	4,591,522,684
Security, messengerial and janitorial	949,154,315
Bad debts	1,243,466,484
Information technology expenses	811,171,055
Communications, light and water	509,592,323
Depreciation and amortization	616,751,375
Management and professional fees	193,412,360
Fees and commission	283,864,842

Advertising	267,193,607
Transportation and travel	249,979,508
Rent	292,901,907
Trainings and seminars	39,380,021
Representation and entertainment	181,782,944
Insurance	115,161,929
Repairs and maintenance	111,413,174
Others	690,334,119
	18,700,428,704
Total expenses	45,347,891,310
Net taxable income	7,679,293,171

Supplementary information Under RR No. 15-2010

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

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

I. The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2019 are as follows:

Documents / transactions	DST Paid
Debt instruments, bonds, certificate of time deposits	6,590,935,776
Mortgages, pledges, deed of assignments/trust	753,732,280
Foreign bills of exchange, letters of credit	160,596,074
Acceptance of bills of exchange payable in the Philippines	68,519,221
Bank, checks, drafts and telegraphic transfer/others	44,203,570
On assignments and renewal of certain instruments	1,999,837
Certificates of profits or interest in property	596,822
Bills of exchange or drafts	156,953
Leases and other hiring agreements	2,394
Certificates	2,760
Sales, agreements to sell, memoranda of sales	2,301
Life Insurance Policies	200
	7,620,748,188

II. All other taxes, local and national, paid for 2019:

National	
Percentage taxes (GRT)	4,400,895,544
Fringe benefits tax	1,306,308
National taxes	124,596,806
	4,526,798,658
Local	
Real estate tax	45,814,949
Local business tax	56,059,395
Mayor’s Permit/Municipal License/Other Regulatory Fees/License Permit	125,718,517
Other local taxes	15,002,747

	242,595,608
	4,769,394,266

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

Tax on Compensation and benefits	1,079,949,360
Creditable withholding taxes	161,882,338
Final withholding taxes	4,260,916,500
	5,502,748,198

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

Tax Credits against Income Tax	3,049,002,204
Tax Credits against Gross Receipts Tax	414,299,282
	3,463,301,486

27. Retirement Cost

The Parent has separate funded contributory defined contribution retirement plans covering all its officers and regular employees. Under the retirement plans, all concerned officers and employees are entitled to cash benefit after satisfying certain age and service requirements. Total expenses charged against operations in 2019 and 2018 amounted to P1,069,092,596 and P1,061,178,663, respectively.

28. Related Party Transactions

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

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

Total outstanding DOSRI loans of the Parent as of December 31, 2019 amounted to P114,045,051,922 of which P113,744,828,622 are government borrowings covered by BSP Circular No. 547.

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

	2019				2018			
	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	26,487,987	1,179,765,412	114,018,563,934	115,224,817,333	30,053,992	1,699,472,695	93,013,163,638	94,742,690,325
Deposit liabilities		358,688,534	0	358,688,534		195,279,965	0	195,279,965
Other liabilities		496,186,748	0	496,186,748		987,539,196	0	987,539,196
	26,487,987	2,034,640,694	114,018,563,934	116,079,692,615	30,053,992	2,882,291,856	93,013,163,638	95,925,509,486

The following are the percentage of DOSRI loans:

	2019	2018
DOSRI to Total Loans	13.65%	11.64%
Unsecured DOSRI to Total DOSRI	3.78%	1.04%
Past due DOSRI to Total DOSRI	0%	0%
Non-performing DOSRI to Total DOSRI	0%	0%

The following are the significant transactions with subsidiaries:

	2019	2018
Sales/(Purchases)	0	(23,167,006)
Interest income	113,931,309	63,281,558
Interest expense	(68,851,085)	(35,713,976)
Lease expense	(51,860,862)	(296,059,599)
Other income	364,848	912,464
Other expenses	(347,253,953)	(418,499,956)

Transactions with other related parties:

Compensation of key management personnel:

	Group		Parent	
	2019	2018	2019	2018
Short-term employee benefits	164,268,409	171,011,639	124,407,908	138,954,834
Post-employment benefits	35,050,050	34,172,458	32,377,743	32,599,167
Other long-term benefits	50,739,795	49,470,685	50,739,795	49,470,685
	250,058,254	254,654,782	207,525,446	221,024,686

Terms and conditions of transactions with related parties:

The sales to and purchases from related parties are made at normal market prices and settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2019 and 2018, the Group has not made any provision for doubtful accounts relating to amounts owed by related parties. This assessment is undertaken each financial year through examination of the financial position of the related party and the market in which the related party operates.

29. Trust Operations

The Parent is authorized under its Charter to offer trust services and administer trust funds through its Trust Banking Group. The Parent accepts funds entrusted by clients and undertakes as trustee to invest such funds in acceptable securities or other investment outlets. Trust funds or assets under Management of the Parent under its trust operations amounted to P318,588,657,925 and P305,691,511,509 as at December 31, 2019 and 2018, respectively.

Summary of Assets under Management is as follows:

	2019 (Unaudited)	2018 (Unaudited)
Special Purpose Trust	435,226,689	452,844,171
Other Fiduciary Accounts	277,870,422,124	266,885,917,999
Agency	34,101,954,309	31,718,083,091
Trust	6,181,054,803	6,634,666,248
	318,588,657,925	305,691,511,509

In compliance with the requirements of the General Banking Law, government securities with total face value of P950,000,000 in 2019 and P850,000,000 in 2018 are deposited with BSP as security for the Parent's faithful performance of its fiduciary obligation.

30. Derivative Financial Instruments

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

Freestanding Derivatives

Currency Forwards

As of December 31, 2019, the Parent's outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P17,411,345,000 with market value of P17,300,425,388.

Over the Counter Interest Rate Option Contract Bought

As of December 31, 2019, the Parent's outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P78,028,624 with market value of P94,360,196.

Foreign Exchange (FX) Risk Cover

The foreign exchange 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, 2019, the Parent's outstanding notional amount of the FX risk cover amounted to JPY24,808,347,013 and EUR24,358,644.

Embedded Derivatives

Embedded Credit Derivatives

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

Embedded Optionalities in Debt Investments

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

Embedded Currency Derivatives

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

31. Commitments and Contingent Liabilities

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

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

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

	Parent	
	2019	**2018**
Trust Department accounts	318,588,657,925	305,691,511,509
Commitments	78,517,889,556	118,472,200,701
Standby/commercial letters of credit	20,843,395,749	27,154,664,872
Derivatives	30,231,574,369	20,645,529,081
Outstanding guarantees	527,382,128	1,034,961,286
Spot exchange contracts	3,367,227,500	1,840,300,000
Late deposits received	808,963,314	659,251,689
Outward bills for collection	78,665,417	60,362,867
Liability Indemnity Fund	86,255,242	80,042,571
Others	1,157,012,761	2,354,614,597
	454,207,023,961	477,993,441,191

32. Financial Performance

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

	2019	2018 As Restated
Net interest margin ratio	3.31%	3.29%
Return on average assets	0.97%	0.91%
Return on average equity	13.45%	12.97%

33. Equity

As of December 31, 2019, the Parent's authorized capital stock consisted of 2 billion common shares with par value of P100 per share totaling P200 billion.

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

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

The Parent complies with the provision of RA No. 7656 on dividend declaration to the National Government (NG) and with the loan and guarantee agreements between the World Bank, the Parent and the Department of Finance (DOF). The Parent has remitted a total of P1.96 billion cash dividends to the National Government on its 2017 net income on May 30, 2019.

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

	Group		Parent	
	2019	2018	2019	2018
	(Amounts in Millions)			
Reserve for trust business	5,079.99	5,058.99	5,079.99	5,058.99
Reserve for contingencies	5,032.50	5,032.50	5,002.50	5,002.50
Reserve for PPE and software acquisition	54.30	190.60	0	0
Reserve for retirement fund and insurance	32.00	20.00	0	0
Reserve for business expansion	1,135.00	935.00	0	0
Reserve for others	61,982.50	43,460.59	61,862.95	43,351.04
	73,316.29	54,697.68	71,945.44	53,412.53

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

	Group			
	Re-measurement of retirement benefit obligation	Net Unrealized Gain/(loss) on AFS securities	Translation Adjustment and Others	Total
Balances, as of January 1, 2019	(4,145,338)	11,860,791,134	428,494,198	12,285,139,994
Increase/decrease in CY 2019	(6,318,497)	(1,725,194,892)	(231,661,173)	(1,963,174,562)
Balance, as of December 31, 2019	(10,463,835)	10,135,596,242	196,833,025	10,321,965,432

	Parent		
	Net Unrealized Gain/(loss) on AFS securities	Translation Adjustment and Others	Total
Balances, as of January 1, 2019	11,908,549,439	428,494,198	12,337,043,637
Increase/(decrease) in CY 2019	(1,825,153,615)	(231,661,173)	(2,056,814,788)
Balance, as of December 31, 2019	10,083,395,824	196,833,025	10,280,228,849

Capital Management

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

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

Regulatory Qualifying Capital

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

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

The Bank 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	
	2019	2018	2019	2018
	(Amounts in Millions)			
Tier 1 Capital	143,520	131,593	143,907	131,617
Tier 2 Capital	8,188	7,522	8,122	7,490
Less: Required Deductions	25,547	24,213	28,193	25,645
Total Qualifying Capital	126,161	114,902	123,836	113,462
Risk Weighted Assets	915,796	905,541	908,168	596,620
Common Equity Tier 1 Ratio (CET1)	12.88%	11.86%	12.74%	11.82%
Total Capital Adequacy Ratio (CAR)	13.78%	12.69%	13.64%	12.65%

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

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

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

BASEL III Leverage Ratio

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

Basel III Leverage Ratio Common Disclosure Template
Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure
As **of** December 31, 2019.
(Amounts in Millions)

Item		Leverage Ratio Framework	
		Group	Parent
1.	Total consolidated assets as per published financial statements	2,037,776.508	2,033,417.296
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	1,134.876	1,134.876
5.	Adjustments for securities financial transactions (i.e., repos and similar secured lending)	0.000	0.000
6.	Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	44,350.636	43,711.973
7.	Other adjustments	(20,424.296)	(23,096.022)
8.	**Leverage ratio exposure**	**2,062,837.724**	**2,055,168.123**

Basel III Leverage Ratio Common Disclosure Template
As of December 31, 2019
(Amounts in Millions; Ratios in Percent)

Item		Leverage Ratio Framework	
		Group	Parent
	On-balance sheet exposures		
1.	On-balance sheet items [1/]	2,037,159.197	2,032,773.619
2.	Asset amounts deducted in determining Basel III Tier 1 Capital	(25,547.447)	(28,192.807)
3.	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**2,011,611.750**	**2,004,580.812**
	Derivative exposures		
4.	Replacement cost associated with all derivatives transactions	4,568.627	4,568.627
5.	Add-on amounts for Potential Future Exposure associated with all derivative transactions	1,134.877	1,134.877
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)**	**5,703.504**	**5,703.504**
	Securities financing transaction exposures		
12.	Gross SFT assets (with no recognition of netting)	1,171.835	1,171.835
13.	Netted amounts of cash payables and cash receivables of gross SFT assets [2/]		
14.	CCR exposures for SFT assets	0.000	0.000
15.	Agent transaction exposures [3/]	0.000	0.000
16.	**Total securities financing transaction exposures (sum of lines 12 to 15)**	1,171.835	1,171.835
	Other off-balance sheet exposures		
17.	Off-balance sheet exposure at gross notional amount	100,649.387	99,303.915
18.	Adjustments for conversion to credit equivalent amounts	0.000	0.000
19.	**Off-balance sheet items**	**44,350.636**	**43,711.973**
	Capital and total exposures		
20.	**Tier 1 capital**	**117,972.862**	**115,713.936**
21.	**Total exposures (sum of lines 3, 11, 16 and 19)**	**2,062,837.724**	**2,055,168.123**
	Leverage ratio		
22.	**Basel III leverage ratio**	**5.72%**	**5.63%**

1/ Gross of General Loan Loss Provision (GLLP) and excluding derivatives and SFTs
2/ Not included under the framework
3/ When a bank/non-bank acting as an agent in an SFT provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of the collateral the borrower has provided

34. Prior Period Adjustments

In 2019 the Parent made adjustments to its financial statements as of and for the year ended December 31, 2018 as a result of booking credit card rewards for 2018 and transfer of OFB common shares to the Parent based on the third party valuation.

The effects of these restatements in the financial statements as of and for the year ended December 31, 2018 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
Parent			
Changes in the Statement of Financial Position			
Assets			
Investment in Subsidiaries	1,460,533,882	(592,766,876)	867,767,006
Liabilities			
Other liabilities	35,232,674,582	6,896,118	35,239,570,700
Equity			
Undivided Profit	16,589,955,646	(599,662,994)	15,990,292,652
Changes in the Statement of Comprehensive Income			
Other Operating Income			
Miscellaneous Income	2,543,193,018	(592,766,876)	1,950,426,142
Other operating expenses			
Miscellaneous Expense	12,535,155,976	6,896,118	12,542,052,094

35. Miscellaneous Income

This account is composed of:

	Group		Parent	
	2019	2018 As Restated	2019	2018 As restated
Gain from sale/derecognition of non-financial assets	995,235,061	750,250,585	989,083,923	732,926,956
Rent income	56,510,543	46,050,513	35,013,733	26,280,771
Miscellaneous income	438,199,560	1,337,092,922	252,149,730	1,149,251,724
Recovery on charged-off assets	60,362,376	56,530,727	59,349,224	41,966,691
	1,550,307,540	2,189,924,747	1,335,596,610	1,950,426,142

36. Investment Income

The Investment Income of the Parent is consists of:

a. Interest Income

	2019
FVOCI	4,241,368,333
FVTPL	195,327,183
HTC	18,587,660,264
	23,024,355,780

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

	2019
FVOCI	1,151,311
HTC	(285,885)
	865,426

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

	2019
Realized Gain/(Loss) from Sale/Derecognition	632,966,942
Unrealized Gain/(Loss)-Mark-to-Market	1,256,003,346
Realized Gain/(Loss) from Sale/Derecognition-Derivative-FX	427,769,663
Realized Gain/(Loss) from Foreign Exchange Transactions-Derivative	351,408,843
	2,668,148,794

37. Miscellaneous Expenses

This account is composed of:

	Group		Parent	
	2019	2018 As Restated	2019	2018 As Restated
Finance Charges	158,361	80,342	0	0
Management and other professional fees	249,611,797	349,729,725	196,331,001	306,146,738
Supervision fees	526,788,179	414,144,350	523,406,929	411,319,527
Fines, penalties and other charges	721,212	1,161,712	382,160	537,466
Insurance	3,702,008,298	3,211,880,100	3,678,490,463	3,185,223,420
Fees and commission expense	297,571,338	266,981,077	297,994,627	271,575,956
Litigation/asset acquired expenses	232,715,388	182,041,589	223,463,067	121,320,950
Bad debts written-off	86,406	184,193	86,406	184,193
Other Expenses	9,869,568,918	8,756,828,078	9,579,910,947	8,245,743,844
	14,879,229,897	13,183,031,166	14,500,065,600	12,542,052,094

38. Financial Risk Management

CREDIT RISK MANAGEMENT

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

Maximum Credit Risk Exposure

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

On-Balance Sheet (BS) Items	2019 (In Millions) Net Exposures	0%	20%	50%	75%	100%	150%	Credit RWA
Cash on Hand	37,934	37,934						
Checks and Other Cash Items (COCI)	13		13					3
Due from Bangko Sentral ng Pilipinas (BSP)	382,534	382,534						
Due from Other Banks	8,767		173	8,555		39		4,351
Financial Assets Designated at FVTPL	944					944		944
Available-for-Sale (AFS) Financial Assets	198,692	174,777		20,349		3,566		13,741
Held-to-Maturity (HTM) Financial Assets	467,694	437,643	3,108	13,434		13,509		20,848
Loans and Receivables	734,026		11,948	11,696	78,446	618,626	13,310	705,663
1. Interbank Loans Receivables	41,705		11,653	6,281		23,679	92	29,288
2. Loans & Receivables - Others								
a. LGUs & Public Sector Entities	37,612					37,612		37,612
b. Government Corporation	2,141					2,141		2,141
c. Corporates	523,628					523,628		523,628
d. Micro/Small & Medium Enterprise	78,835		295		78,446	94		58,988
e. Loans to individuals	36,416			5,415		31,001		33,709
3. Defaulted Exposures	13,689					471	13,218	20,298
Other Loans and Receivables 1/	38,355	37,184				1,171		1,171
Sales Contract Receivable (SCR)	735					525	210	840
Real and Other Properties Acquired	6,717						6,717	10,076
Total Exposures Excluding Other Assets	1,876,411	1,070,072	15,242	54,034	78,446	638,380	20,237	757,637
Other Assets	15,582	161				15,421		15,421
Total On-BS RWA not covered by CRM								2,632
Total On-Balance Sheet Exposures	1,891,993	1,070,233	15,242	54,034	78,446	653,801	20,237	775,690

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

Off-BS Items	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	Credit RWA
A. Direct credit substitutes	1,560	0	0	32	0	1,528	0	1,544
B. Transaction-related contingencies	39,316	0	0	0	0	39,316	0	39,316
C. Trade-related contingencies	2,857	0	0	1,846	0	1,011	0	1,934
D. Other commitments	0	0	0	0	0	0	0	0
Total Off-Balance Sheet Exposures	**43,733**	**0**	**0**	**1,878**	**0**	**41,855**	**0**	**42,794**
Counterparty RWA In The Trading Book	**Credit Equivalent Amount**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit RWA**
Derivative Exposures	315	0	15	20	0	280	0	293
Total Counterparty RWA In The Trading Book	315	0	15	20	0	280	0	293
Less: General Loan Loss Provision (GLLP)								2,120
Total Exposures	1,936,041	1,070,233	15,257	55,932	78,446	695,936	20,237	816,657

CEA: **C**redit **E**quivalent **A**mount
RWA: **R**isk **W**eighted **A**ssets
CRM: **C**redit **R**isk **M**itigant
CRWA: **C**redit **R**isk **W**eighted **A**ssets

Credit Exposures and Credit-Related Commitments

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

	In Million Peso	
Location	**2019**	**2018**
Philippines	877,218.47	940,920.71
USA	21,160.34	21,748.82
Indonesia	10,686.09	10,754.47
Asia	10,178.29	12,769.99
Europe	7,387.99	6,888.79
Others	8.35	10.93
Total	**926,639.53**	**993,093.71**

Credit Risk Exposures

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

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

LBP considers instruments that are rated 'investment grade' to have low credit risk. The table presents the credit quality of the Parent's treasury exposure as of 30 June 2019 which is the basis of ECL computation as of December 31, 2019:

INVESTMENTS *(As of June 2019)*	**EXPOSURE-AT-DEFAULT** *(In Million ₱)*		
	STAGE 1	**STAGE 2**	**STAGE 3**
Due from BSP and SPURA			
External Credit Rating			
Baa2 or equivalent	289,670.02	0	0
Due from Other Banks			
External Credit Rating			
Aaa or equivalent	3,598.77	0	0
Aa1 or equivalent	4,153.30	0	0
Aa2 or equivalent	330.54	0	0
Aa3 or equivalent	6,561.51	0	0
A1 or equivalent	3,908.35	0	0

INVESTMENTS *(As of June 2019)*	EXPOSURE-AT-DEFAULT *(In Million ₱)*		
	STAGE 1	STAGE 2	STAGE 3
A2 or equivalent	374.64	0	0
A3 or equivalent	2,354.46	0	0
Baa1 or equivalent	55.12	0	0
Baa3 or equivalent	11.6	0	0
Ba1 or equivalent	0	7.09	0
Ba2 or equivalent	0	0.65	0
Benchmarking			
Baa1 or equivalent	1,001.89	0	0
Unrated	17.35	0	0
FA at FVOCI debt investments			
Internal Credit Rating			
Satisfactory	780.63	0	0
External Credit Rating			
Aaa or equivalent	17,454.98	0	0
Baa2 or equivalent	100,581.12	0	0
FA at amortized cost			
Internal Credit Rating			
High Grade	1,463.13	0	0
External Credit Rating			
Baa2 or equivalent	478,728.62	0	0
Benchmarking			
Aa2 or equivalent	8,770.62	0	0
Aa3 or equivalent	135.44	0	0
Baa1 or equivalent	2,156.18	0	0
Baa2 or equivalent	583.13	0	0
Ba1 or equivalent	0	2,394.03	0
Ba2 or equivalent	0	165.13	610.8
Ba3 or equivalent	0	633.53	0
Unrated	53.16	0	83.74
TOTAL	**922,744.56**	**3,200.42**	**694.54**

The Parent's total treasury exposure is P926.64 billion. Due from BSP and SPURA decreased from P381.22 billion to P289.67 billion and Due from Other Banks decreased from P23.81 billion to P22.38 billion. The Parent's FVOCI debt investments grew from P88.38 billion to P118.82 billion while FA measured at amortized cost decreased from P499.69 billion to P495.78 billion.

The Parent's exposure classified as Stage 1, Stage 2, and Stage 3 amounted to P922.74 billion, P3.20 billion, and P0.69 billion, respectively. An exposure from a financial asset measured at amortized cost amounting to P125.71 million was transferred to Stage 2. No account was transferred to Stage 3. The table below presents the Parent's exposure for the periods June 2019 and December 2018:

INVESTMENTS	TOTAL		STAGE 1		STAGE 2		STAGE 3	
(In Million Peso)	2019	2018	2019	2018	2019	2018	2019	2018
Due from BSP and SPURA	289,670	381,217	289,670	381,217	0	0	0	0
Due from Other Banks	22,375	23,806	22,368	23,798	8	8	0	0
FA at FVOCI debt investments	118,817	88,380	118,817	88,380	0	0	0	0
FA at amortized cost	495,778	499,691	491,890	494,993	3,193	4,003	0	695
TOTAL	**926,640**	**993,094**	**922,745**	**988,388**	**3,201**	**4,011**	0	**695**

Management of Credit Risk

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

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

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

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

To effectively monitor and maintain the quality of its loan portfolio, the Parent conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves. As of 31 December 2019, the Parent's net Non-Performing Loan (NPL) stood at P12,014 million or 1.350% of the total loan portfolio of P891,800 million.

Credit Risk Rating

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

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

- Application Scoring Model for Individual Home Buyers

- Application Scoring Model for Salary Loan Availers
- Behavioral Scoring Model for Local Government Units (LGUs)
- Behavioral Scoring Model for Small & Medium Enterprises (SMEs)
- Behavioral Scoring Model for Corporates
- Behavioral Scoring Model for Cooperatives
- Application Scoring Model for Credit Card
- Behavioral Scoring Model for Countryside Financial Institutions [1]

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

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

Credit Risk Monitoring

The Parent has continuously adopted a formal reporting system for the Board of Directors and Senior Management to be able to monitor the credit quality of individual and loan portfolio using asset quality indicators such as past due ratio, NPL ratio, level of non-performing assets, coverage ratio, top 100 past due accounts, concentration risk. Clean large exposures, breaches in regulatory and internal limits, potential credit risk, Directors, Officers, Stockholder and their Related Interests (DOSRI) loans, Related Party Transactions (RPTs) and compliance with Real Estate Stress Test (REST) are intensively monitored by the ILC and the Risk Oversight Committee (RISKCOM). The recovery of written-off accounts is also within the radar of the LBP Board, RISKCOM and Senior Management.

Collateral and Other Credit Enhancements

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

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

Credit Stress Test

LBP regularly conducts stress testing of individual large exposure and its loan portfolio taking into account plausible risk events with high probability of occurrence. Utilizing such scenarios with documented assumptions, tests are done to determine the magnitude of impact on the Parent's loan portfolio, on the Credit RWA, and finally on the

Common Equity Tier 1 (CET1) Ratio. The stress testing also includes prescribed regulatory tests such as uniform stress test and REST. Likewise, various loan portfolio assessment and review are conducted to determine impact of a certain event and government regulation to the Parent's loan portfolio, past due ratio and CET 1. Results of the stress testing, together with the contingency 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 31 December 2019, the Parent's qualifying capital covering credit risk is P123.84 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P36.062 billion for direct lending.

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

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

The BSP considers that credit concentration exists when total loan exposure to a particular industry exceeds 30 per cent of total loan portfolio. As of 31 December 2019 and 2018, the Parent does not have credit concentration in any particular industry.

As of December 31, 2019 and 2018, information on the concentration of credit as to industry based on carrying amount is shown below:

	Parent			
	2019		**2018**	
	Amount	%	Amount	%
Financial intermediation	110,113,453,941	13	114,310,426,882	14

	Parent			
	2019		2018	
	Amount	%	Amount	%
Agriculture, hunting and forestry	79,445,244,619	10	67,602,346,878	8
Real estate, renting and business activities	74,174,101,954	9	68,426,309,747	9
Public administration and defense	82,570,395,785	10	80,850,276,420	10
Manufacturing	62,778,530,124	8	56,021,690,692	7
Community, social and personal services	20,014,421,171	2	21,725,073,913	3
Electricity, gas and water	133,903,658,665	13	116,484,048,169	15
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	70,585,446,094	8	76,255,818,839	9
Transport, storage and communication	69,301,942,250	8	73,669,726,711	9
Construction	57,045,084,488	7	53,828,241,433	7
Private households	31,947,038,082	4	29,699,897,529	4
Hotel and restaurant	9,810,478,428	1	12,601,992,410	2
Others	34,093,029,725	4	27,653,979,045	3
	835,782,825,326	**100**	**799,129,828,668**	**100**
Allowance for losses	**(17,289,002,914)**		**(14,716,968,798)**	
	818,493,822,412		**784,412,859,870**	

MARKET RISK MANAGEMENT

Market Risk Management Framework

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

The Parent uses a combination of risk sensitivities, Value-at-Risk (VaR), stress testing, CET 1 ratio and capital metrics to manage market risks and establish limits. The LBP Board of Directors, RISKCOM and the Asset and Liability Committee (ALCO), define and set the various market risk limits for each trading portfolio. The Treasury and Investment Banking Sector (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 (RWA) (ARAC II.C.2.a)

As of 31 December 2019, the Group's Total Market RWA stood at P16,693 million, broken down as follows:

PARTICULARS	AMOUNT (In Millions)
Interest Rate Exposure	847
Equity Exposure	737
FX Exposure	2,099
Options	13,010
Total Market RWA	16,693

The Total Market RWA represents 1.82% of the Group's Aggregate RWA of P915,797 million.

Managing Market Risk Components

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

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

1. Interest Rate Risk in the Trading Book

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

PARTICULAR	DAILY LIMIT (In Millions)		MAT	STOP LOSS (In Million)
	POSITION	VaR		
Government Securities	P20,000.00	P150.00	YTD Gain Erosion	P200.00
Foreign Securities	$ 20.00	$ 0.20	Group Target	$ 0.64

YTD: Year-to-Date

The Foreign Exchange Risk in FS is accounted under Foreign Exchange Risk Management.

2. Equity Price Risk Management

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

PARTICULAR	DAILY LIMIT(In Millions)		MAT	STOP LOSS (In Millions)
	POSITION	VaR		
Equity	1,000.00	15.00	YTD Gain Erosion Group Target	40.00

3. FX Risk Management

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

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

PARTICULAR	DAILY LIMIT(In $ Millions)		MAT	STOP LOSS
	POSITION	VAR		
FX Trading	50.00	0.36	YTD Gain Erosion Group Target	60.00
Foreign Securities	20.00	0.20		0.64
Derivatives	30.00	0.226		178.00

The Parent had the following significant exposures denominated in foreign currencies as of 31 December 2019:

PARTICULAR	USD	JPY	EUR	AUD	Others	Total
ASSETS						
Fx Currency Notes & Coins on Hand (FCNCH)/ Cash and Other Cash Items (COCI)	37,443	1,181	880	196	2,637	42,337
Due from Banks	167,452	613	2,759	240	1,285	172,349
Held for Trading	1,864	0	0	0	0	1,864
Available for Sale Investment	893,148	0	1	0	36,153	929,302
Investments in Bonds and Other Debt Instruments (IBODI)	640,473	0	0	0	0	640,473
Interbank Loans Receivable	354,074	0	0	0	0	354,074
Loans & Receivables	544,381	40,890	0	0	0	585,271
Other Assets	15,148	717	441	152	914	17,372
Gross FX Assets	2,653,983	43,401	4,081	588	40,989	2,743,042
LIABILITIES						
Deposit Liabilities	1,876,826	423	1,980	0	1	1,879,230

PARTICULAR	USD	JPY	EUR	AUD	Others	Total
Bills Payable	243,806	0	0	0	0	243,806
Other Liabilities	206,616	269,560	36,538	152	914	513,780
Gross FX Liabilities	2,327,248	269,983	38,518	152	915	2,636,816

Market Risk Measurement and Validation Tools

1. Value-at-Risk (VaR) Analysis

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

   The Parent uses internally developed 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. **(ARAC II.C.2.b.iV)** Moreover, the Parent continuously pursues initiatives to improve its processes. The VaR disclosure is intended for external disclosure and for regulatory purposes.

   The VaR both at portfolio and across portfolio level are monitored. Daily VaR calculations are compared against VaR limits which is the monetary amount of risk deemed tolerable by Management. The over-all VaR limit for the Treasury trading activities was set at P193 million throughout 2019. The Parent also determines Diversified VaR that takes into account the diversification effect in which all losses in all securities in a portfolio are imperfectly correlated.

2. Stress Test

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

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

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

Results of the PSA are also simulated in the Common Equity Tier (CET) 1 Ratio computation to be able to assess its impact on the CET 1 ratio set at 10.50% by BSP for LBP as Domestic Systemically Important Banks (DSIB) for 2019.

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

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

Under the back-testing process, exception occurs if mark-to-market (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: (ARAC II.C.2.b.v)

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

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

4. Model Validation

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

LIQUIDITY RISK MANAGEMENT

Liquidity Risk Management Framework

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

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

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

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

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

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

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

Liquidity Risk Measurement Models

The Parent manages the liquidity risk using the following tools:

1. Liquidity Gap Report (LGR)

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

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

The table presents the assets and liabilities based on the contractual maturity, settlement and expected recovery dates:

PARTICULARS	PARENT In Thousand 2019 (Audited) Due within 1 year	Due >1 year	Total	2018 (Restated) Due within 1 year	Due > 1 year	Total
ASSETS						
Cash & Other Cash Items	37,955,764	0	37,955,764	36,968,265	0	36,968,265
Due from BSP	380,699,212	0	380,699,212	331,197,576	0	331,197,576
Due from Other Banks	10,759,980	2,582,225	13,342,205	5,707,747	1,705	5,709,452
Interbank Loan Receivable	17,933,555	0	17,933,555	18,096,177	0	18,096,177
Security Purchased Under Agreement to Resell	38,107,761	0	38,107,761	50,019,792	0	50,019,792
Loans & Receivables	359,903,198	466,572,572	826,475,770	354,791,109	437,599,763	792,390,872
Investments	140,802,446	551,868,209	692,670,655	80,551,059	538,805,110	619,356,169
Other Assets	2,679,679	24,996,507	27,676,186	4,784,697	18,577,569	23,362,266
Total Assets	988,841,595	1,046,019,513	2,034,861,108	882,116,422	994,984,147	1,877,100,569
LIABILITIES						
Deposits						
Demand	884,597,245	0	884,597,245	798,036,466	0	798,036,466
Savings	813,555,891	0	813,555,891	770,728,834	0	770,728,834
Time	74,947,004	3,976,037	78,923,041	73,336,620	3,039,357	76,375,977
LTNCD	0	6,000,000	6,000,000	5,000,000	6,000,000	11,000,000
Bills Payable	2,242,579	25,295,928	27,538,507	5,953,285	25,303,552	31,256,837
Unsecure Subordinated Debt	0	0	0	0	0	0
Due to BTr, BSP, & MCs/PCIC	2,180,002	598,447	2,778,449	1,473,410	305,976	1,779,386
Due to Local Banks	0	0	0	0	0	0
Other Liabilities & Payable	658,003	71,892,813	72,550,816	955,910	52,608,536	53,564,446
Total Liabilities	1,778,180,724	107,763,225	1,885,943,949	1,655,484,525	87,257,421	1,742,741,946

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

- Non-Maturing Deposits: Regular savings (Total savings less High Yield Savings Accounts and Easy Savings Plus) and demand deposits are Non-Maturing Deposits (NMDs). A behavioral analysis is made to approximate the withdrawal pattern of NMDs. This is done by determining the rate of deposit outflow per time bucket using the historical end-of-day balances of NMD accounts. The deposit run-off rates are used as basis for slotting the NMD amount under the different tenors.

- Term Deposits: Term Deposit (TD) is a deposit product with a fixed contractual term. TDs were bucketed based on maturity with run-off assumption on the balance sheet. A behavioral analysis is conducted to approximate the early termination rate and the percentage of deposits that is likely to roll-over based on a historical deposit data. The early termination rate is used to estimate the amount of deposit that will be withdrawn before its maturity.

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

The following table sets forth the asset-liability gap position over the detailed time period for the Parent at carrying amounts as of 31 December 2019 based on contractual repayment arrangements which consider the effective maturities as indicated by the deposit retention history:

	In Millions					
PARTICULARS	Due within 3 months	Due > 3 months to 6 months	Due > 6 months to 1 year	Due > 1 year to 5 years	Due > 5 years	Total
Financial Assets						
Cash & Due from Banks	246,749	4,897	2,121	848	177,383	431,998
Total Loans	235,112	107,954	72,878	174,941	291,631	882,516
Total Investments	34,341	27,513	78,949	305,343	246,525	692,671
Other Assets	906	1	1,773	17	24,979	27,676
Total Assets	517,108	140,365	155,721	481,149	740,518	2,034,861
Financial Liabilities						
Deposits 1/	425,888	38,644	12,829	7,428	1,298,287	1,783,076
Borrowings	2,612	664	1,147	8,282	17,612	30,317
Other Liabilities & Unsecured Subordinated Debt	0	0	658	0	71,893	72,551
Total Capital	0	0	0	0	148,917	148,917
Total Liabilities & Capital	428,500	39,308	14,634	15,710	1,536,709	2,034,861
Gap Position	88,608	101,057	141,087	465,439	(796,191)	

1/ Third Currencies and manual data input are not captured.

As of 31 December 2019, 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. Cumulative gap after contingent accounts is positive in all buckets except in the 'more than 5 years' bucket. Maximum Cumulative Outflow (MCO) limit was not breached in the entire time bucket within the one year horizon.

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

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

2. Financial Ratio Analysis

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

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

	In Million except when expressed in percentage			
	31 December			
PARTICULARS	2019 (Audited)	2018 (Restated)	2017 (Audited)	2016 (Audited)
Liquid Assets	P 1,105,321 [1/]	P 1,032,595 [2/]	P 972,283 [2/]	P 867,250 [2/]
Financial Ratios:				
Liquid Assets to Total Assets	54.32%	55.01%	59.88%	61.83%
Liquid Assets to Total Deposits	61.99%	62.35%	68.21%	70.17%

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

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

3. Liquidity Stress Test

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

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

INTEREST RATE RISK IN THE BANKING BOOK

Interest Rate Risk in the banking book Management Framework

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

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

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

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

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

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

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

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

Interest Rate Risk in the Banking Book Measurement Models

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

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

   The following table sets the Re-pricing Gap position of the Parent as of 31 December 2019 and the increase/decline in earnings for upward and downward interest rate shocks in the banking book:

PARTICULARS	0<=1D	1D<=1M	1<=3M	3<=6M	6<=9M	In P Million 9M<=1Y
Financial Assets						
Liquid Assets	89,000	66,000	0	0	0	0
Total Investments	0	13,517	11,949	27,553	33,986	25,384
Total Loans	14,866	191,294	341,314	46,947	13,119	16,775
Other Assets	0	23	4	1	0	3
Total Financial Assets	103,866	270,834	353,267	74,501	47,105	42,163
Financial Liabilities						
Deposits	5,530	307,440	345,883	49,447	4,485	1,585
Bills Payable	0	19	2,541	12,882	419	98
Others	0	0	0	0	0	0
Total Financial Liabilities	5,530	307,458	348,424	62,329	4,904	1,683
Off-Balance Sheet						
Commitments	0	0	0	0	0	(1,699)
Total Off-Balance Sheet	0	0	0	0	0	(1,699)
Re-pricing Gap	98,336	(36,624)	4,843	12,172	42,201	38,780

Change in Interest Rates - in basis points (bps)

In P Million

	-300	-200	-100	-50	+50	+100	+200	+300
EaR	-2,858	-1,906	-953	-476	476	953	1,906	2,858

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

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

Change in Interest Rates - in bps

In P Million

Interest Rate Scenario	Basis	Interest Rate Scenario		EVE-at-Risk
		Peso	Dollar	
Parallel Shift - Up	Hypothetical	+300	+200	17,102.43
	BIS-IRRBB Calculation	+274	+200	15,069.65
	5-year Historical Data (Year-on-Year Change on Average Rates at 99% Level Confidence Level)	+204	+100	11,316.90
	5-year Historical Data (Year-on-Year Change on Average Rates at 95% Level Confidence Level)	+144	+100	7,098.12
Parallel Shift - Down	Market Sentiment	-75	-75	-1,607.77
	Market Sentiment	-200	-100	-4,621.60
	5-year Historical Data (Year-on-Year Change on Average Rates at 95% Level Confidence Level)	-144	-100	-3,311.64

Change in Interest Rates - in bps
In P Million

Interest Rate Scenario	Basis	Interest Rate Scenario		EVE-at-Risk
		Peso	Dollar	
	5-year Historical Data (Year-on-Year Change on Average Rates at 99% Level Confidence Level)	-204	-100	-4,690.69
	BIS-IRRBB Calculation	-274	-200	-2,705.47
	Hypothetical	-300	-200	-2,632.21
Non-parallel Shift	Flattening			26,841.66
	Steepening			-21,314.01
	Short Rate Up			26,241.08
	Short Rate Down			-3,275.67

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

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

The interest rate risk exposures of the Parent are measured and reported to the ALCO and RiskCom at least on a monthly basis under the Earnings Perspective through EaR Model and quarterly for the Economic Value Perspective using EVE Model.

Key Behavioral and Modeling Assumptions

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

1. Current Account and Savings Account (CASA) Repayment

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

2. Term Deposit (TD) subject to Early Termination

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

3. Fixed Rate Loans subject to Prepayment

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

Stress Testing and Scenario Analysis

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

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

OPERATIONAL RISK MANAGEMENT

The Parent continue to upgrade and strengthen its Operational Risk Management (ORM) system to fully adhere with BSP Circular 900 (Guidelines on Operational Risk Management), BSP Circular 951 (Guidelines on Business Continuity Management (BCM), BSP Circular 808 (IT Risk Management), BSP Circular 982 (Information Security Risk Management) and other operational risk-related regulations.

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

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

As part of the Parent's BCM process, the Parent conducts annual Business Impact Analysis (BIA) and Business Continuity Risk Assessment (BCRA) to prioritize risks and implement corresponding controls, and identify and prioritize the Parent's most critical functions and IT systems in case of disruptions. Also, Business Continuity Plan (BCP) components are being reviewed, updated and tested annually to ensure validity and effectiveness of the Plans. In 2019, the Parent adopted Incident Management System to align with the standards of the National Disaster Risk Reduction Management Council.

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 supported the continuing education of officers and staff of Risk Management Group (RMG) through the certification programs where employees were licensed as Certified Risk Analysts (CRAs), Certified Risk Manager (CRM) and the ORMD Head passed the Bank Risk Management certification exam of Asian Institute of Chartered Banks (AICB).

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

Operational Risk Exposure

LBP uses the Basic Indicator Approach in calculating the capital charge for operational risk under Pillar 1. The average Gross Revenue of the Parent for the last three years is used to calculate the Operational RWA. Thus, with the Gross Revenue of the Parent consistently increase with business expansion, the Operational RWA has also been increasing annually. As of 31 December 2019, the Parent's Total Operational RWA using the Basic Indicator Approach was P82,446,687,101 or 9.0% of the Parent's Aggregate RWA of P915,796,587,608.

Cognizant that Gross Revenues (BSP proxy data) are but a shadow indicator of operational risks in the Basic Indicator Approach, LBP conducts a simulation of the computation of the estimated losses using the Parent's actual historical losses and estimated probability of occurrence to determine the variance from the Basic Indicator Approach model. Self-risk assessment of the five sub-risks of operational risk (people, process, IT systems/Infor Sec, event and legal risks) shows that the total estimated loss is way below the Total Operational RWA under the Basic Indicator Approach. RMG also spearheaded the Parent's Operational Risk Weighted Assets (ORWA) Optimization Project that involves commissioning the services of a third party consultant to validate the ORM function.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM (CPRMS)

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

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

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