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 (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, 2017, 73 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 May 22, 2018 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 <u>Basis of Financial Statements Preparation</u>

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL), available-for- sale (AFS) investments, and derivative financial instruments that have been measured at fair value.

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 accounts in the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year.

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

2.2 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 (PFRS).

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

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.

Significant Accounting Policies

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 Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date. Foreign exchange differences arising from revaluation and translation of foreign-currency 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.

Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of the financial instruments include the following:

Cash and cash equivalents and short-term investments – Carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Debt and Equity securities – Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from counterparties or independent parties offering pricing services, values based on adjusted quoted market prices of comparable investments or values computed using the discounted cash flow methodology.

Loans and receivables – Fair values of loans are estimated using the discounted cash flow methodology using the Parent's current incremental lending rates for similar types of loans.

Mortgage loans – Fair values of loans on real estate are estimated using the discounted cash flow methodology using the Parent's current incremental lending rates for similar types of loans.

Short-term investments – Carrying amounts approximate fair values.

Others – Quoted market prices are not readily available for these assets. They are not reported at fair value and are not significant in relation to the Group's total portfolio of securities.

Obligations to repurchase securities are recorded at cost which approximates fair value.

Liabilities – Fair values are estimated using the discounted cash flow methodology using the Parent's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. Except for the long-term fixed rates liabilities and floating rate liabilities with repricing periods beyond three months, the carrying values approximate fair values due to the relatively short term maturities of the liabilities or frequency of the repricing.

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

All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and if they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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.

(a) *Held for trading*

Financial assets held for trading are debt and equity securities recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in ‘Gain on Financial Assets HFT’. Interest earned or incurred is recorded in ‘Interest income’ or ‘Interest expense’, respectively, while dividend income is recorded in ‘Dividends’ when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

(b) *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 AFS investments.

(c) *Held-to-Maturity (HTM) investments*

HTM investments are financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. These investments are carried at amortised cost using the effective interest rate (EIR) method, reduced by any impairment in value. Gains and losses are recognized in statement of comprehensive income when the HTM investments are derecognized, impaired or revalued (in case of foreign currency denominated), as well as through the amortization process.

(d) *Available-for-sale (AFS) investments*

AFS investments are debt and equity securities which do not qualify to be classified as HFT, HTM or loans and receivables. They are purchased and held indefinitely, but which the Group anticipates to sell in response to liquidity requirements or changes in market conditions. AFS investments are carried at fair market value. The effective yield component (including premium, discounts and directly attributable transaction costs) and foreign exchange restatement results of AFS debt securities are reported in earnings. Dividends on AFS equity instruments are recognized in the statement of comprehensive income when the entity's right to receive payment is established. The unrealized gains and losses arising from the recognition of fair value changes on AFS assets are reported as a separate component of equity in the statement of financial position.

Impairment of Financial Assets

The Group determines at each reporting date if there is objective evidence that a financial asset may be impaired.

Financial assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses if objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for assets that are not individually significant. If it is determined that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics (i.e., on the basis of the Group's scoring process that considers asset term, industry and collateral) and that group of assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for group of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account.

The amount of loss is charged to current operations. If a loan or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to 'Provision for credit losses' in the statement of comprehensive income and the allowance account, reduced. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets are made to reflect and be directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are charged to income.

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.

Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instruments that are not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments

If an AFS 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. Impairment losses on equity instruments recognized in the statement of comprehensive income are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS 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.

<u>Derecognition of Financial Assets and Liabilities</u>

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

Offsetting financial instruments

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

Fiduciary Activities

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

Subsequent Events

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

Impairment of Property and Equipment, Investment Property and Other Resources

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

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

Investments in Subsidiaries

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

Property and Equipment

Property and equipment 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.

Investment properties are measured at their fair value as the deemed cost as allowed under PFRS 1 and PAS 40. 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

Acquired computer software licenses 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

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

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 Bank's annual contribution based on the total number of employees as of December 31 of each year, which for 2017 amounts to P6.61 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

(a) LBP 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 the statement of comprehensive income on a straight-line basis over the period of the lease.

(ii) Financial lease - leases of assets where the LBP 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.

(b) LBP 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

Interest income and fees which are considered an integral part of the effective yield of a financial asset are recognized using the effective interest method, unless collectability is in doubt.

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.

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

Gains or losses arising from the trading of securities and foreign currency are recognized in the profit or loss.

Generally, commissions, service charges and fees are recognized only upon collection or accrued where there is reasonable degree of certainty as to its collectability.

Commitment fees received to originate a loan when the loan commitment is outside the scope of PAS 39 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.

Borrowing Costs

Borrowing costs are expensed when incurred.

Standards issued but not yet effective

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

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.
This amendment is not applicable to the Group.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard on January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group because none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group assessed that the adoption of PFRS 9 will have a significant effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the quantitative impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014-2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

  The amendment is not applicable to the Group.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intention for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

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:

a. Operating lease commitments

The entity has entered into commercial property leases on its investment property portfolio. The entity has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

b. Impairment losses on loans and receivables and HTM investments

The Group reviews its loans and receivables and HTM investments to assess impairment at least on an annual basis or earlier when an indicator of impairment exists. In determining if an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgments on any observable data which indicates a measurable decrease in the estimated future cash flows of a financial asset from a portfolio before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The carrying values of receivables from customers and HTM investments of the Group and the Parent are P932,694,753,035 and P929,839,387,530 as of December 31, 2017 and P653,979,538,186 and P651,884,922,377 as of December 31, 2016, respectively.

c. Impairment of AFS investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The carrying values of AFS investments for both the Group and the Parent are P236,393,169,709 as of December 31, 2017 and P290,396,560,740 as of December 31, 2016.

d. Classification under HTM investments

The classification of non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Further, the Group determines whether the investments are quoted or not; unquoted debt investments are classified under Loans and receivables. If the Group fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount or close to maturity – it will be required to reclassify the entire held-to-maturity portfolio as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost. The carrying values of held-to-maturity investments of the Group and the Parent are P318,240,517,135 and P317,123,977,928 as of December 31, 2017 and P152,818,697,546 and P151,928,198,623 as of December 31, 2016, respectively.

Estimation uncertainty

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

a. Fair value of financial instruments (including derivatives)

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 Bank 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 P7,744,828,099 and P7,222,632,456 as of December 31, 2017 and P7,145,490,196 and P6,644,893,199 as of December 31, 2016, respectively.

4. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2017	2016	2017	2016
Cash on hand	31,202,307,803	27,820,116,755	31,202,262,803	27,820,045,782
Checks and other cash items	102,351,901	319,185,867	102,351,901	319,185,867
Returned checks and other cash items	42,674,041	103,786,468	42,674,041	103,786,468
Miscellaneous checks and other cash items	68,445	0	68,445	0
Petty cash fund	8,236,000	6,842,000	7,646,000	6,750,000
Revolving fund	442,011	1,115,064	235,508	235,508
Payroll fund	29,245,995	780,572	29,245,995	780,572
	31,385,326,196	28,251,826,726	31,384,484,693	28,250,784,197

5. 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.

6. Due from Other Banks

This account consists of:

	Group		Parent	
	2017	2016	2017	2016
Deposit with local banks	264,150,453	399,159,167	185,845,776	289,385,587
Deposit with foreign banks	4,920,640,933	11,332,374,784	4,920,640,933	11,332,374,784
	5,184,791,386	11,731,533,951	5,106,486,709	11,621,760,371

The Group maintains nostro accounts on global basis with 24 foreign depository banks totaling 28 and 29 bank accounts in 2017 and 2016, respectively, the most significant of which are as follows:

2017	2016
1. Wells Fargo Bank, N.A.	1. Wells Fargo Bank, N.A.
2. Standard Chartered Bank, N.Y.	2. Standard Chartered Bank, N.Y.
3. The Bank of New York	3. The Bank of New York
4. Standard Chartered Bank, Frankfurt	4. JP Morgan Chase Bank
5. LandesBank Baden-Wurttemberg	5. LandesBank Baden-Wurttemberg

7. Interbank Loans Receivables

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

	2017	2016
Domestic	2.55% to 2.75%	2.55% to 4.11%
Foreign	0.55% to 1.90%	0.12% to 0.80%

8. Securities Purchased under Agreements to Resell

This account consists of:

	Group		Parent	
	2016	2016	2017	2016
Domestic				
Government Securities Purchased under Reverse Repurchase Agreement				
BSP	50,390,420,809	14,792,325,450	50,390,420,809	14,792,325,450
Private Corporation	1,832,343,520	0	1,832,343,520	0
FCDU				
Margin Call on the Bank's Report Transactions Derivative with positive	0	11,258,149	0	11,258,149
	52,222,764,329	14,803,583,599	52,222,764,329	14,803,583,599

Securities Purchased under Agreements to Resell with BSP interest rate at 3.00 per cent and 4.00 per cent as at December 31, 2017 and 2016, respectively. While Repo with Private Corporation carry interest at 3.50 per cent.

9. Held for Trading

This consists of:

	Group		Parent	
	2017	2016	2017	2016
Government Securities – Domestic	11,273,543,561	8,465,657,400	11,273,543,561	8,465,657,400
Private Securities – Domestic	4,318,924	7,227,302	4,318,924	7,227,302
Derivative with positive fair value	2,088,402,244	1,431,700,281	2,088,402,244	1,431,700,281
	13,366,264,729	9,904,584,983	13,366,264,729	9,904,584,983

The Held for Trading (HFT) financial assets of the Group carry interest rates at December 31 as follows:

	2017			2016		
Domestic	1.120%	to	10.50%	1.215%	to	10.50%
Foreign	0%	to	0%	0%	to	9.625%

HFT includes the foreign exchange (FX) risk cover of the Parent's borrowings from multilateral agencies amounting to P1,481,384,331 and P1,213,761,006 in 2017 and 2016, 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, 2017, the outstanding notional amount of the FX risk cover amounted to JPY7,047,442,607 and EUR6,932,914.

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 P267,623,325 in 2017 and P69,741,440 in 2016.

The derivative with positive fair value comprise of the following:

	2017	2016
Foreign Exchange Risk Cover	1,481,384,331	1,213,761,006
Debt Warrants	93,046,402	92,655,060
Forward Contracts	513,971,511	125,284,215
	2,088,402,244	1,431,700,281

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.

10. Available for Sale Investments

This account consists of:

	Group		Parent	
	2017	2016	2017	2016
Domestic				
Government	171,600,159,961	222,882,526,585	171,600,159,961	222,882,526,585
Private	16,755,064,692	13,825,136,451	16,755,064,692	13,825,136,451
Foreign				
Government	38,498,020,707	43,680,900,441	38,498,020,707	43,680,900,441
Private securities	2,198,840,173	2,656,479,215	2,198,840,173	2,656,479,215
Investment in non-marketable securities, net of allowance for probable losses of P1,409,212,337 in 2017 and P1,407,712,336 in 2016	7,341,084,176	7,351,518,048	7,341,084,176	7,351,518,048
	236,393,169,709	290,396,560,740	236,393,169,709	290,396,560,740

Available-for-sale investments of the Group carry interest rates at December 31 as follows:

	2017			2016		
Domestic	2.12%	to	12.88%	2.12%	to	12.88%
Foreign	1.50%	to	10.63%	0.00%	to	10.63%

- Available-for-sale investments-Domestic Private include 42,002,750 MERALCO shares of stocks with market value of P13,802,103,650 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 bank 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 are 3,366,800 shares, plus accrued cash dividends thereon, amounting to P358,446,362 and P297,086,432 as of December 31, 2017 and 2016, respectively, 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.

As of this writing, the LBP Memorandum is still within the OGCC but assurance was given that the same will be filed on time counting the deadline from OGCC's receipt of the pertinent Resolution.

- The Parent's Accumulated market gains/losses on AFS government and private issues as of December 31, 2017 amounted to P7,570,565,922. Parent's Net unrealized gains/losses on AFS was P5,411,941,378.

- The difference in the amount outstanding of the accumulated market gains/losses and net unrealized gains/losses on AFS as of December 31, 2017 in the amount of P2,158,624,544 represents the remaining unamortized portion of the net unrealized gain or loss, that has been recognized directly in equity when the Available-for-sale securities has been reclassified to Held to maturity securities on various dates. The said amount shall be continuously amortized to profit or loss over the remaining life of the Held-to-maturity securities.

- Total Investment in Non-Marketable Equity Securities (INMES) account of the Parent includes investment of US$143,146,324 (P6,781,381,460) in Metro Rail Transit Corporation's (MRTC) preference shares and Unsecuritized Equity Rental Payments.

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, 2017 (In US Dollars)	Book Value As of December 31, 2017 (In US Dollars)	Percentage in MRTC
▪ MRT III Bonds	97,086,626	198,764,801	
▪ MRT III Preferred Shares	54,000,000	54,000,000	
Securitized ERPs	151,086,626	252,764,801	26.65%
Unsecuritized ERPs	90,579,859	89,146,324	11.12%
	241,666,485	341,911,125	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.

11. Held to Maturity Investments

This account consists of:

	Group		Parent	
	2017	**2016**	**2017**	**2016**
Government				
Domestic	305,478,395,955	140,122,852,716	304,414,216,748	139,232,353,793
Foreign	7,483,993,748	7,548,562,307	7,483,993,748	7,548,562,307
Private				
Domestic	4,660,033,453	4,525,200,772	4,607,673,453	4,525,200,772
Foreign	618,093,979	622,081,751	618,093,979	622,081,751
	318,240,517,135	152,818,697,546	317,123,977,928	151,928,198,623

Held to maturity investments of the Group carry interest rates at December 31 as follows:

	2017			2016		
Domestic	2.12%	to	18.25%	2.12%	to	18.25%
Foreign	1.50%	to	10.63%	3.70%	to	11.63%

12. Loans and Receivables

This account consists of:

	Group		Parent	
	2017	2016	2017	2016
Interbank loans receivable	23,381,523,497	13,933,991,858	23,381,523,497	13,933,991,858
Allowance for credit losses	(494,034,413)	(377,489,237)	(494,034,413)	(377,489,237)
	22,887,489,084	13,556,502,621	22,887,489,084	13,556,502,621
Loans to Government	85,003,110,577	75,362,941,773	86,610,312,991	77,323,717,031
Allowance for credit losses	(58,695,811)	(39,254,484)	(58,695,811)	(37,475,575)
	84,944,414,766	75,323,687,289	86,551,617,180	77,286,241,456
Agrarian Reform and other Agriculture Loans	94,308,830,739	82,676,676,393	94,296,074,627	82,656,139,911
Allowance for credit losses	(501,725,947)	(813,149,563)	(492,406,326)	(804,241,345)
	93,807,104,792	81,863,526,830	93,803,668,301	81,851,898,566
Microfinance Loans	16,711,201,915	15,195,660,709	16,711,201,915	15,195,660,709
Allowance for credit losses	(304,605,896)	(162,299,417)	(304,605,896)	(162,299,417)
	16,406,596,019	15,033,361,292	16,406,596,019	15,033,361,292
SME/MSE Loans	62,161,803,998	50,434,960,772	61,535,264,304	50,340,269,990
Allowance for credit losses	(1,546,538,791)	(1,265,855,622)	(1,476,935,402)	(1,264,527,250)
	60,615,265,207	49,169,105,150	60,058,328,902	49,075,742,740
Contract to Sell	1,086,890,095	1,213,186,524	1,086,890,095	1,213,186,524
Allowance for credit losses	(95,852,304)	(67,094,207)	(95,852,304)	(67,094,207)
	991,037,791	1,146,092,317	991,037,791	1,146,092,317
Loans to Private Corporation	287,616,688,319	221,228,865,584	286,699,962,153	219,809,378,837
Allowance for credit losses	(1,502,014,465)	(2,098,313,121)	(1,413,436,875)	(1,958,547,377)
	286,114,673,854	219,130,552,463	285,286,525,278	217,850,831,460
Loans to Individuals for Housing Purposes	5,298,893,903	4,594,431,303	5,298,893,903	4,594,431,303
Allowance for credit losses	(143,956,974)	(113,440,784)	(143,956,974)	(113,440,784)
	5,154,936,929	4,480,990,519	5,154,936,929	4,480,990,519
Loans to Individual for Consumption	23,590,846,852	20,927,918,069	23,590,846,852	20,927,918,069
Allowance for credit losses	(664,885,163)	(265,346,014)	(664,885,163)	(265,346,014)
	22,925,961,689	20,662,572,055	22,925,961,689	20,662,572,055
Loans to Individual for Other Purposes	2,163,769,452	3,265,151,628	1,955,862,989	3,038,124,371
Allowance for credit losses	(27,766,950)	(30,993,589)	(23,887,146)	(26,974,555)
	2,136,002,502	3,234,158,039	1,931,975,843	3,011,149,816
Loans & Receivable-Others-Non Residents-FCDU	0	42,617,143	0	42,617,143
	595,983,482,633	483,643,165,718	595,998,137,016	483,997,999,985
Accrued interest receivable	4,317,342,367	3,682,585,380	4,312,242,942	3,679,060,625
Allowance for credit losses	(207,661,804)	(208,095,604)	(207,661,804)	(208,095,604)
	4,109,680,563	3,474,489,776	4,104,581,138	3,470,965,021
Accounts receivable	1,577,848,430	1,880,863,405	1,386,156,007	1,777,505,545
Allowance for credit losses	(837,140,413)	(939,519,428)	(800,117,462)	(895,077,510)
	740,708,017	941,343,977	586,038,545	882,428,035
Sales contract receivable	1,106,403,155	1,025,704,678	1,170,706,548	1,010,467,301
Allowance for credit losses	(23,536,124)	(65,928,195)	(23,536,124)	(65,928,195)
	1,082,867,031	959,776,483	1,147,170,424	944,539,106
Due from ARF	107,546,452	44,812,459	107,546,452	44,812,459
Unquoted debt securities	11,489,212,785	11,343,693,075	11,489,212,785	11,343,693,075

	Group		Parent	
	2017	2016	2017	2016
Allowance for credit losses	(717,276,758)	(727,713,927)	(717,276,758)	(727,713,927)
	10,771,936,027	10,615,979,148	10,771,936,027	10,615,979,148
Lease contract receivable	1,686,688,619	1,509,819,094	0	0
Allowance for credit losses	(28,673,442)	(28,546,015)	0	0
	1,658,015,177	1,481,273,079	0	0
	614,454,235,900	501,160,840,640	612,715,409,602	499,956,723,754

Interest rates on loans in 2017 range from 1.00 per cent to 15.00 per cent for peso denominated loans and from 1.038 per cent to 6.88 per cent for foreign currency denominated loans.

Unquoted debt securities of the Parent classified as loans consist of government and private securities amounting to P189,586,384 and P10,582,349,643, respectively, as of December 31, 2017 and P134,033,530 and P10,481,945,618, respectively, as of December 31, 2016. The account includes Metro Rail Transit Corporation's (MRTC) Bonds with book value of $198,764,801 (P9,924,326,530) which form part of LBP's interests in the said company purchased in accordance with the approval of the Bank's Board of Directors in November 2008 and broken down as follows:

	Face Value	Book Value	
	USD	USD	PHP
FX Regular	206,203,247	143,279,892	7,153,965,015
FCDU	82,390,198	55,484,909	2,770,361,515
	288,593,445	198,764,801	9,924,326,530

Covered by Memorandum of Agreement (MOA) signed on August 22, 1988 between LBP and Bangko Sentral ng Pilipinas, the unpaid obligations of rural banks to BSP were converted into LBP equity investments to said rural banks. Accordingly, these became non-interest bearing obligations of LBP with BSP and all expenses or losses, if any, which LBP may suffer under the conversion scheme, shall be for the account of BSP.

Outstanding equity investments on closed rural banks and its corresponding borrowings account from BSP have been excluded from Unquoted Debt Securities Classified as Loans account and from the Bills Payable account, respectively, provided that these accounts have already been written-off by BSP.

Allowance for credit losses

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

	2017	2016
Balance, January 1	5,077,435,761	4,434,160,030
Provision	1,097,966,193	10,835,402
Write-offs	(518,577,316)	(260,717,891)
Transfers and other adjustments	(488,128,328)	893,158,220
Balance, December 31	5,168,696,310	5,077,435,761

As of December 31, 2017 and 2016, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2017		2016	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	74,009,347,617	12.31	62,872,554,788	12.86
Various guarantees	171,630,612,724	28.55	140,926,345,944	28.81
Various mortgages	201,152,010,569	33.46	155,918,505,389	31.88
	446,791,970,910	74.32	359,717,406,121	73.55
Unsecured loans	154,374,862,416	25.68	129,358,029,625	26.45
Gross loan at amortized cost	601,166,833,326	100.00	489,075,435,746	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.

	2017	2016
Total NPLs	6,599,423,133	7,173,190,276
Allowance for credit losses	(4,409,334,072)	(5,077,435,761)
Net NPLs	2,190,089,061	2,095,754,515

13. 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	Amount
LBP Leasing and Finance Corporation (formerly LBP Leasing Corporation)	310,252,630
LBP Insurance Brokerage, Inc.	52,500,000
LBP Resources and Development Corporation	51,467,436
Masaganang Sakahan, Inc.	24,554,941
	438,775,007

14. Investment Property

This account consists of:

	Group					
	2017			2016 As restated		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	5,324,096,900	2,751,086,499	8,075,183,399	5,140,496,096	2,798,310,365	7,938,806,461
Additions/(Disposals)	(671,694,313)	(116,272,443)	(787,966,756)	183,600,804	(47,223,866)	136,376,938
Transfers/Adjustment	(6,735,000)	(9,454,000)	(16,189,000)	0	0	0
At December 31	4,645,667,587	2,625,360,056	7,271,027,643	5,324,096,900	2,751,086,499	8,075,183,399
Accumulated depreciation and impairment						
At January 1	719,348,362	1,067,699,132	1,787,047,494	381,363,319	1,151,415,498	1,532,778,817

	Group					
	2017			2016 As restated		
	Land	Building	Total	Land	Building	Total
Depreciation	0	125,027,255	125,027,255	0	113,958,857	113,958,857
Transfers/Adjustment	0	(213,147,246)	(213,147,246)	335,034,811	(178,902,576)	156,132,235
Impairment	(169,124,837)	57,225,410	(111,899,427)	2,950,232	(18,772,647)	(15,822,415)
At December 31	550,223,525	1,036,804,551	1,587,028,076	719,348,362	1,067,699,132	1,787,047,494
Net book value	4,095,444,062	1,588,555,505	5,683,999,567	4,604,748,538	1,683,387,367	6,288,135,905

	Parent					
	2017			2016 As restated		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	5,227,972,998	2,667,188,503	7,895,161,501	5,061,545,050	2,714,412,369	7,775,957,419
Additions/(Disposals)	(666,609,681)	(126,913,220)	(793,522,901)	166,427,948	(47,223,866)	119,204,082
At December 31	4,561,363,317	2,540,275,283	7,101,638,600	5,227,972,998	2,667,188,503	7,895,161,501
Accumulated depreciation and impairment						
At January 1	713,010,845	1,022,242,560	1,735,253,405	377,976,034	1,107,592,295	1,485,568,329
Depreciation	0	123,455,943	123,455,943	0	112,325,488	112,325,488
Transfers/Adjustment	0	(212,367,291)	(212,367,291)	335,034,811	(178,902,576)	156,132,235
Impairment	(173,409,264)	57,094,804	(116,314,460)	0	(18,772,647)	(18,772,647)
At December 31	539,601,581	990,426,016	1,530,027,597	713,010,845	1,022,242,560	1,735,253,405
Net book value	4,021,761,736	1,549,849,267	5,571,611,003	4,514,962,153	1,644,945,943	6,159,908,096

Depreciation of the Group amounting to P125,027,255 and P113,958,857and of the Parent amounting to P123,455,943 and P112,325,488 in 2017 and 2016, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Investment properties acquired through foreclosure as of December 31, 2017 which are still within the redemption period by the borrowers and with on-going court case amounted to P148,455,156 and P1,297,840,959, respectively. Properties amounting to P44,392,431 are agricultural lands covered by the government's agrarian reform program.

15. 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	Total 2017	Total 2016
At Cost										
At January 1	620,012,136	157,739,838	4,633,083,329	824,588,177	80,823,745	7,280,336,210	787,721,390	83,932,640	14,468,237,465	13,663,503,858
Additions	7,543,074	95,763,429	113,572,330	170,582,525	4,841,060	1,129,298,647	52,631,890	38,013,167	1,612,246,122	1,416,220,224
Disposals	(10,101,424)	(110,000)	(39,534)	(20,382,223)	(5,746,905)	(397,033,402)	(27,948,737)	(6,390,264)	(467,752,489)	(276,648,426)
Transfers	(1,587,273)	(75,062,955)	2,535,407	(24,887,043)	(19,473,139)	(97,031,284)	0	(15,937,597)	(231,443,884)	(334,838,191)
At December 31	615,866,513	178,330,312	4,749,151,532	949,901,436	60,444,761	7,915,570,171	812,404,543	99,617,946	15,381,287,214	14,468,237,465
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	2,006,908,411	354,170,535	54,343,428	4,504,581,530	300,513,171	78,554,954	7,299,072,029	6,870,003,779
Depreciation & amortization	0	0	67,100,072	75,057,989	1,733,774	652,842,115	16,224,026	1,803,474	814,761,450	697,778,037
Disposals	0	0	(140,877)	(6,296,740)	(5,600,052)	(349,500,753)	(7,299,900)	(3,056,830)	(371,895,152)	(252,584,074)
Transfers/Adjustments	0	0	(98,183,940)	(37,204,714)	(9,929,799)	(9,432,914)	14,479,838	8,993,454	(131,278,075)	(16,125,713)
At December 31	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	7,299,072,029
Allow for Losses	0	0	7,238,932	909,444	2,825,144	14,564,287	0	261,056	25,798,863	23,675,240
Net book value	615,866,513	178,330,312	2,766,228,934	563,264,922	17,072,266	3,102,515,906	488,487,408	13,061,838	7,744,828,099	7,145,490,196

	Parent									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2017	Total 2016
At Cost										
At January 1	609,230,136	157,739,838	4,534,635,005	824,355,232	61,423,418	7,249,911,935	335,152,339	67,268,167	13,839,716,070	13,003,725,946
Additions	7,543,074	95,763,429	113,529,220	168,606,200	3,585,367	1,125,522,503	1,835,000	35,260,494	1,551,645,287	1,407,190,200
Disposals	(10,101,424)	(110,000)	(39,534)	(20,382,223)	(5,746,905)	(396,621,881)	0	(6,355,864)	(439,357,831)	(236,392,251)
Transfers	(1,587,273)	(73,823,967)	2,478,708	(24,659,049)	(19,044,046)	(96,942,863)	0	(15,937,597)	(229,516,087)	(334,807,825)
At December 31	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	13,839,716,070
Accumulated Depreciation & Amortization										
At January 1	0	0	1,966,202,168	353,999,240	42,996,318	4,483,785,166	257,919,822	66,244,917	7,171,147,631	6,738,268,458
Depreciation & amortization	0	0	62,912,745	75,053,038	197,781	650,947,752	8,660,790	0	797,772,106	680,572,893
Disposals	0	0	(140,877)	(6,296,740)	(5,600,052)	(349,500,753)	0	(3,056,830)	(364,595,252)	(231,580,008)
Transfers/Adjustments	0	0	(98,183,942)	(37,033,419)	(9,456,048)	(9,068,248)	14,479,838	8,993,454	(130,268,365)	(16,113,712)
At December 31	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	7,171,147,631
Allow for Losses	0	0	7,238,932	909,444	2,825,144	14,564,287	0	261,056	25,798,863	23,675,240
Net book value	605,084,513	179,569,300	2,712,574,373	561,288,597	9,254,691	3,091,141,490	55,926,889	7,792,603	7,222,632,456	6,644,893,199

Depreciation and amortization of the Group amounting to P814,761,450 and P697,778,037 and of the Parent amounting to P797,772,106 and P680,572,893 in 2017 and 2016, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Office equipment, furniture and vehicles with carrying amount of P125,586,902 and P18,917,775 in 2017 and 2016, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P45,737,950 and P95,200,366 in 2017 and 2016, respectively.

16. Other Assets

This account consists of:

	Group		Parent	
	2017	2016 As restated	2017	2016 As restated
Accrued interest receivable	4,729,809,072	4,249,564,877	4,729,809,072	4,249,564,877
Sundry debits	3,300,224,422	1,132,214,119	3,300,224,422	1,132,214,119
Prepaid expenses	849,626,810	703,310,727	863,054,159	695,565,609
Other intangible assets	1,274,390,786	995,115,732	1,269,754,705	990,649,656
Documentary stamps	50,995,687	13,642,766	50,995,687	13,642,766
Stationery & supplies on hand	87,296,290	121,214,793	85,706,112	119,015,779
Accounts receivable	142,526,049	124,220,000	110,683,017	120,395,981
Inter-office float items	1,849,331	6,380,704	1,849,331	6,380,704
Others	2,541,645,426	1,894,380,216	2,472,228,495	1,832,872,893
Allowance for credit losses	(36,948,489)	(37,078,489)	(36,948,489)	(37,078,489)
	12,941,415,384	9,202,965,445	12,847,356,511	9,123,223,895

17. Allowance for Credit Losses

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

	2017	2016
Balance at beginning of year:		
Loan portfolio	5,077,435,761	4,434,160,030
Receivables from customers and Other assets	4,156,258,597	4,045,670,340
	9,233,694,358	8,479,830,370
Provisions charged to operations	1,109,626,624	118,370,022
Accounts charged off and others	(518,577,316)	(130,652,996)
Transfer/adjustments	(540,724,100)	766,146,962
	50,325,208	753,863,988
Balance December 31	9,284,019,566	9,233,694,358
Balance at end of year:		
Loan portfolio (Note 12)	5,168,696,310	5,077,435,761
Receivables from customers and other assets	4,115,323,256	4,156,258,597
	9,284,019,566	9,233,694,358

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:

	2017	2016
Loans and receivables	1,097,966,193	10,835,402
Other loans and receivables	3,939,242	4,125,283
Property and equipment	2,123,622	2,212,599
Others	5,597,567	101,196,738
	1,109,626,624	118,370,022

18. Deposit Liabilities

This account consists of:

	Group		Parent	
	2017	2016	2017	2016
Domestic				
Demand deposits	709,255,131,727	558,433,859,126	709,508,966,307	558,645,451,456
Savings deposits	629,561,441,753	604,692,020,353	629,561,456,064	604,832,103,495
Time certificate of deposits	639,712,721	740,236,375	639,712,721	740,236,375
Long Term Negotiable Certificate of Deposits	11,000,000,000	11,000,000,000	11,000,000,000	11,000,000,000
	1,350,456,286,201	1,174,866,115,854	1,350,710,135,092	1,175,217,791,326
Foreign				
Demand deposits –FCDU/EFCDU	0	0	0	0
Savings deposit –FCDU/EFCDU	16,209,512,264	16,660,725,911	16,209,512,264	16,661,180,162
Time certificate of deposit-FCDU/EFCDU	58,553,708,641	44,098,363,715	58,553,708,641	44,098,363,715
	74,763,220,905	60,759,089,626	74,763,220,905	60,759,543,877
	1,425,219,507,106	1,235,625,205,480	1,425,473,355,997	1,235,977,335,203

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.25 to 3.75 per cent in 2017 and 2016. Foreign deposit rates range from 0.31 to 1.12 per cent and from 0.15 to 2.50 per cent in 2017 and 2016, respectively. In 2017 and 2016, P1,046,327,990,132 or 73 per cent and P830,665,634,534 or 67 per cent, respectively, of the Parent's deposit portfolio came from the government while the rest came from private depositors.

19. Bills Payable

This account consists of:

	Group		**Parent**	
	2017	**2016**	**2017**	**2016**
Bangko Sentral ng Pilipinas	62,381,800	64,110,213	62,381,800	64,110,213
Domestic borrowings	998,416,153	542,684,470	203,416,153	326,684,470
Foreign borrowings	24,314,309,706	22,951,863,236	24,314,309,706	22,951,863,236
Foreign interbank borrowings	0	3,480,400,000	0	3,480,400,000
Foreign repo borrowings	0	3,212,275,733	0	3,212,275,733
	25,375,107,659	30,251,333,652	24,580,107,659	30,035,333,652

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

Creditor/Funder	**2017**	**2016**
World Bank/IBRD	11,251,244,042	9,888,905,728
Asian Development Bank (ADB)	526,700,409	566,749,295
Japan International Cooperation Agency (JICA)	10,990,095,259	11,134,289,635
Kreditanstalt fur Wiederaufbau (KfW)	1,546,269,996	1,361,918,578
	24,314,309,706	22,951,863,236

The total foreign borrowings of P24,314,309,706 is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P13,807,611,673 are provided with foreign exchange risk cover (FXRC) by the National Government. This has historical value of P13,387,892,033. The Bank's foreign borrowings from multilateral and bilateral agencies have maturities ranging from 15 to 40 years.

Interest rates on foreign and domestic borrowings in 2017 range from 0.01 to 2.70 per cent and 0.75 to 4.75 per cent, respectively, while for 2016, the rates range from 0.53 to 2.70 per cent and 0.75 to 4.75 per cent, for foreign and domestic borrowings, respectively.

20. Other Liabilities

This account consists of:

	Group		**Parent**	
	2017	**2016**	**2017**	**2016**
Accrued interest, fringe benefits, taxes and other expense payable	5,456,637,031	3,789,817,883	5,981,003,923	3,694,835,040
Accounts payable	21,393,744,012	10,890,952,708	21,190,391,391	11,032,008,827

	Group		Parent	
	2017	2016	2017	2016
Due to Agrarian Reform Fund	200,709,929	206,742,900	200,709,929	206,742,900
Sundry credits	1,180,757,638	916,312,733	1,180,757,638	916,312,733
Unearned income	29,963,772	36,492,648	32,984,303	36,601,557
Withholding tax payable	237,128,397	276,535,509	234,805,308	274,195,133
Miscellaneous liabilities	4,766,310,850	3,429,780,765	4,735,230,233	3,724,218,339
Others	1,574,252,373	1,278,266,063	1,121,567,976	863,960,492
	34,839,504,002	20,824,901,209	34,677,450,701	20,748,875,021

21. Income and Other Taxes

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

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 other FCDUs and other depository banks under the Expanded Foreign Currency Deposit System, including interest income from foreign currency loans, 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 7.5 per cent final tax.

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

	Group		Parent	
	2017	2016 As restated	2017	2016 As restated
Current:				
Normal income tax (NIT)	906,519,486	477,709,852	805,019,191	380,141,248
Income tax-final	1,503,541	1,197,686	0	0
	908,023,027	478,907,538	805,019,191	380,141,248
Deferred	(490,870,100)	(10,523,065)	(485,406,737)	(15,056,993)
	417,152,927	468,384,473	319,612,454	365,084,255

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

	Group		Parent	
	2017	2016 As restated	2017	2016 As restated
Statutory income tax	4,810,991,912	4,447,280,935	4,747,493,247	4,341,160,733
Additions to (reductions in) income taxes arising from:				
Non-deductible interest expense	2,178,034,747	1,828,135,265	2,178,021,352	1,828,120,028
Other deductible/Non-deductible expense	390,064,318	134,489,779	390,061,416	120,475,251
FCDU income	(989,519,824)	(839,624,870)	(989,519,824)	(839,624,870)
Tax exempt & tax paid income	(5,622,687,915)	(5,071,480,249)	(5,610,414,044)	(5,061,398,161)
Others	(349,730,311)	(30,416,387)	(396,029,693)	(23,648,726)
	417,152,927	468,384,473	319,612,454	365,084,255

The net deferred income tax asset reported by the Parent for 2017 amounted to P2,808,807,997 and P2,270,589,542 for CY 2017 and 2016, respectively while the subsidiaries recognized deferred tax assets of P64,874,148 and P63,094,853 for CY 2017 and 2016, 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	
	2017	2016 As restated
Deferred tax asset:		
Allowance for credit losses	2,681,985,562	2,255,532,549
Accrued expenses	200,112,888	67,868,710
Unrealized loss on foreign exchange/financial assets & liabilities-held for trading	149,709,634	0
	3,031,808,084	2,323,401,259
Deferred tax liability:		
Unrealized gain on financial assets and liabilities-held for trading	223,000,087	35,704,090
Unrealized gain on foreign exchange	0	17,107,627
	223,000,087	52,811,717
	2,808,807,997	2,270,589,542

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 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, 2017, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues		
	Services/operations	27,133,663,390
	Non-operating and taxable other income:	
	Trading and securities gain (loss)	964,069,418
	Service charges, fees and commissions	1,752,531,358
	Profit from assets sold	536,127,315
	Income from trust operations	165,133,215
	Others	811,164,690
Total Revenues		31,362,689,386
Expenses		
	Cost of services:	
	Compensation and fringe benefits	6,883,811,430
	Others	7,674,667,356
		14,558,478,786
Itemized deductions:		
	Compensation and fringe benefits	4,055,406,810
	Taxes and licenses	3,030,589,138
	Documentary stamps used	2,145,955,870
	Security, messengerial and janitorial	734,312,410
	Bad debts	517,171,215
	Information technology expenses	480,178,811
	Communications, light and water	416,303,911
	Depreciation and amortization	369,644,076
	Management and professional fees	311,486,826
	Fees and commission	284,196,620
	Advertising	260,999,157
	Transportation and travel	213,214,024
	Rent	150,246,226
	Trainings and seminars	144,785,982
	Representation and entertainment	137,565,109
	Insurance	107,018,006
	Repairs and maintenance	98,374,384
	Others	663,364,722
		14,120,813,297
Total Expenses		28,679,292,083

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.

I. The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2017 are as follows:

Documents / transactions	DST Paid
Debt instruments, bonds, certificate of time deposits	3,262,390,154
Mortgages, pledges, deed of assignments/trust	41,149,920
Foreign bills of exchange, letters of credit	68,415,101

Documents / transactions	DST Paid
Acceptance of bills of exchange payable in the Philippines	23,274,633
Bank, checks, drafts and telegraphic transfer/others	24,550,747
	3,419,780,555

II. All other taxes, local and national, paid for 2017:

National	
Percentage taxes (GRT)	2,935,727,525
Fringe benefits tax	9,502,607
National taxes	1,244,717
	2,946,474,849
Local	
Real estate tax	50,074,368
Local business tax	36,379,278
Mayor's Permit/Municipal License/Other Regulatory Fees/License Permit	84,498,120
Other local taxes	12,087,257
	183,039,023
	3,129,513,872

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

Tax on Compensation and benefits	935,860,783
Creditable withholding taxes	141,329,350
Final withholding taxes	1,685,178,786
	2,762,368,919

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

Tax Credits against Income Tax	2,391,615,008
Tax Credits against Gross Receipts Tax	337,392,062
	2,729,007,070

22. 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 2017 and 2016 amounted to P595,744,261 and P592,211,966, respectively.

23. Lease Contracts

Operating lease commitments – as lessee

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

	Parent	
	2017	**2016**
Within one year	432,634,240	376,950,983
After one year but not more than five years	1,030,923,809	903,105,446
More than five years	583,407,886	348,199,927
	2,046,965,935	1,628,256,356

Operating lease commitments – as lessor

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

	Parent	
	2017	**2016**
Within one year	7,403,215	17,232,221
After one year but not more than five years	10,135,869	11,598,817
More than five years	0	3,522,472
	17,539,084	32,353,510

24. 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, 2017 amounted to P77,827,579,966 of which P77,550,124,180 are government borrowings covered by BSP Circular No. 547.

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

	2017				2016			
	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	21,617,258	1,736,964,454	77,805,962,709	79,564,544,421	14,240,547	2,056,762,078	67,420,239,682	69,491,242,307
Deposit liabilities		253,848,891	0	253,848,891	0	352,129,723	0	352,129,723
Other liabilities		791,071,980	0	791,071,980	0	664,282,958	0	664,282,958
	21,617,258	2,781,885,325	77,805,962,709	80,609,465,292	14,240,547	3,073,174,759	67,420,239,682	70,507,654,988

The following are the percentage of DOSRI loans:

	2017	2016
DOSRI to Total Loans	12.95%	13.79%
Unsecured DOSRI to Total DOSRI	1.64%	3.29%
Past due DOSRI to Total DOSRI	0	0
Non-performing DOSRI to Total DOSRI	0	0

The following are the significant transactions with subsidiaries:

	2017	2016
Sales/(Purchases)	(56,764,955)	(50,089,161)
Interest income	58,169,133	62,729,684
Interest expense	(114,685,640)	(120,560,858)
Lease expense	(50,932,708)	(46,140,175)
Other income	10,249,108	17,826,349
Other expenses	(180,283,148)	(342,779,942)

Transactions with other related parties:

Compensation of key management personnel:

	Group		Parent	
	2017	2016	2017	2016
Short-term employee benefits	111,340,791	99,042,860	92,988,227	81,219,717
Post-employment benefits	26,442,267	20,994,781	25,372,307	20,667,833
Other long-term benefits	38,992,197	31,750,375	38,992,197	31,750,375
	176,775,255	151,788,016	157,352,731	133,637,925

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, 2017 and 2016, 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.

25. 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 P232,391,242,067 and P101,607,181,197 as at December 31, 2017 and 2016, respectively.

Summary of Assets under Management is as follows:

	2017 (Unaudited)	2016 (Unaudited)
Special Purpose Trust	470,422,546	772,214,891
Other Fiduciary Accounts	187,518,284,717	58,178,627,791
Agency	33,600,066,906	32,993,894,750
Trust	10,802,467,898	9,662,443,765
	232,391,242,067	101,607,181,197

In compliance with the requirements of the General Banking Law, government securities with total face value of P850,000,000 in 2017 and 2016 are deposited with BSP as security for the Parent's faithful performance of its fiduciary obligation.

26. 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, 2017, the outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P24,267,554,492 with market value of P23,741,802,527.

Over the Counter Interest Rate Option Contract Bought

As of December 31, 2017, the outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P76,942,217 with market value of P93,046,402.

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, 2017, the outstanding notional amount of the FX risk cover amounted to JPY7,047,442,607 and EUR6,932,914.

<u>Embedded Derivatives</u>

Embedded Credit Derivatives

This includes credit default swaps embedded in host debt instruments and with credit linkages to reference entities.

Embedded Optionalities in Debt Investments

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.

27. 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	
	2017	**2016**
Trust Department accounts	232,391,242,067	101,607,181,197
Commitments	92,695,411,258	68,006,353,434
Standby/commercial letters of credit	31,880,361,020	31,005,280,619
Derivatives	27,574,406,990	37,467,182,586
Outstanding guarantees	805,133,223	727,783,209
Spot exchange contracts	1,497,900,000	198,880,000
Late deposits received	529,930,060	612,047,865
Outward bills for collection	98,516,034	113,060,539
Liability Indemnity Fund	43,481,662	38,746,232
Others	132,685,499	591,970,101
	387,649,067,813	240,368,485,782

28. Financial Performance

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

	2017	2016 As restated
Net interest margin ratio	3.31%	3.05%
Return on average assets	1.07%	1.08%
Return on average equity	15.90%	15.97%

29. Equity

As of December 31, 2017, the Parent's authorized capital stock consisted of 2 billion common shares with par value of P100.0 per share totaling P200 billion.

As of December 31, 2017, the Parent's Paid-up capital increased to P20.98 billion equivalent to 209,810,000 shares with par value of P100.0 per share due to the capital infusion of P3.181 billion in 2017 and P5.829 billion in 2016 by the National Government.

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 P100.0 per share. With the increase in par value per share from P10.0 to P100.0, 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). However, the Parent has requested for exemption from declaring cash dividends to the National Government on its net income for 2016 and 2017.

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

	Group		Parent	
	2017	2016	2017	2016
	(Amounts in Millions)			
Reserve for trust business	5,000.00	5,000.00	5,000.00	5,000.00
Reserve for contingencies	2,532.50	32.50	2,502.50	2.50
Reserve for PPE and software acquisition	294.00	263.00	0	0
Reserve for retirement fund and insurance	98.00	98.00	0	0
Reserve for business expansion	600.00	600.00	0	0
Reserve for others	33,786.95	24,800.95	33,768.95	24,768.95
	42,311.45	30,794.45	41,271.45	29,771.45

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

	Group		
	Re-measurement of retirement benefit obligation	**Net Unrealized Gain/(loss) on AFS securities**	**Total**
Balances, as of January 1, 2016	(6,734,606)	10,952,121,839	10,945,387,233
Increase/(decrease) in CY 2016	6,623,082	(7,416,088,695)	(7,409,465,613)
Balances, as of December 31, 2016	(111,524)	3,536,033,144	3,535,921,620
Increase/decrease in CY 2017	(309,460)	1,875,908,234	1,875,598,774
Balance, as of December 31, 2017	(420,984)	5,411,941,378	5,411,520,394

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 bank, 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 3 CAR computation pursuant to BSP Circular No. 781 effective January 31, 2014. INMES and AFS Equity were included as regulatory adjustments/deduction to Tier 1 capital.

	Group		Parent	
	2017	2016	2017	2016
	(Amounts in Millions)			
Tier 1 Capital	104,397	85,486	104,596	85,486
Tier 2 Capital	5,807	4,970	5,790	4,950
Gross Qualifying Capital	110,204	90,456	110,386	90,436
Less: Required Deductions	28,285	25,219	28,999	26,524
Total Qualifying Capital	81,919	65,237	81,387	63,912
Risk Weighted Assets	696,236	572,060	693,497	569,219
Adjusted Tier 1 Capital ratio	10.93%	10.54%	10.90%	10.36%
Total Capital Adequacy Ratio (CAR)	11.77%	11.40%	11.74%	11.23%

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. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt and general loan loss provision.

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

30. Prior Period Adjustments

In 2017 the Land Bank of the Philippines Group and Parent Bank made adjustments to its financial statements as of and for the year ended December 31, 2016 as a result of the recognition of Investment Property on RAMAWIL Realty Sales and Development Enterprises and Deferred Income Tax (DITA) by the Parent.

The effects of these restatements in the financial statements as of and for the year ended December 31, 2016 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
Group			
Changes in the Statement of Financial Position			
Assets			
Investment Property	6,128,097,587	160,038,318	6,288,135,905
Other assets-net	8,667,364,571	535,600,874	9,202,965,445
Deferred Income Tax	63,094,853	2,270,589,542	2,333,684,395
		2,966,228,734	
Equity			
Retained Earnings-Free	26,719,129,410	2,424,473,221	29,143,602,631
Undivided Profit	13,814,129,796	541,755,513	14,355,885,309
		2,966,228,734	

	As Previously Reported	Effects of Restatement	As Restated
Changes in the Statement of Comprehensive Income			
Miscellaneous income	1,399,202,772	160,038,318	1,559,241,090
Provision for Income Tax	850,101,668	(381,717,195)	468,384,473
		541,755,513	
Parent			
Changes in the Statement of Financial Position			
Assets			
Investment Property	5,999,869,778	160,038,318	6,159,908,096
Other assets-net	8,587,623,021	535,600,874	9,123,223,895
Deferred Income Tax	0	2,270,589,542	2,270,589,542
		2,966,228,734	
Equity			
Retained Earnings-Free	25,446,844,724	2,424,473,221	27,871,317,945
Undivided Profit	13,563,696,007	541,755,513	14,105,451,520
		2,966,228,734	
Changes in the Statement of Comprehensive Income			
Miscellaneous income	1,341,448,848	160,038,318	1,501,487,166
Provision for Income Tax	746,801,450	(381,717,195)	365,084,255
		541,755,513	

31. Miscellaneous Income, net

This account is composed of:

	Group		Parent	
	2017	**2016**	**2017**	**2016**
Gain from sale/derecognition of non-financial assets	678,729,147	628,117,478	666,394,383	624,701,953
Rent income	89,901,851	92,306,493	21,562,277	28,088,764
Miscellaneous income	478,329,419	800,451,378	361,329,446	810,380,708
Recovery on charged-off assets	73,489,717	38,365,741	73,489,717	38,315,741
	1,320,450,134	1,559,241,090	1,122,775,823	1,501,487,166

32. Miscellaneous Expenses

This account is composed of:

	Group		Parent	
	2017	2016	2017	2016
Management and other professional fees	322,051,029	181,639,529	319,669,363	179,879,301
Supervision fees	407,083,016	358,665,505	406,633,016	358,665,505
Fines, penalties and other charges	8,157,911	99,681	8,150,157	94,015
Insurance	2,989,640,362	2,265,586,074	2,980,602,579	2,262,162,033
Fees and commission expense	298,229,270	276,762,661	298,229,270	276,626,758
Litigation/asset acquired expenses	110,563,820	91,354,333	108,361,349	87,829,805
Bad debts written-off	193,140	39,000	193,140	0
Other Expenses	6,514,038,772	5,643,483,451	6,237,041,139	5,634,163,119
	10,649,957,320	8,817,630,234	10,358,880,013	8,799,420,536

33. Events After the End of Reporting Period

- On November 14, 2016, the GCG confirmed the abolition of the People's Credit and Finance Corporation (PCFC) as approved under Memorandum dated September 3, 2015 of then Malacanang Executive Secretary wherein its assets and liabilities shall be transferred to the Parent. Accordingly, PCFC started the necessary procedures in winding up its operation until June 30, 2017. Based on audited financial statements issued on February 6, 2018, its net worth is P1.182 billion as of June 30, 2017. Part of which is National Livelihood Development (NLDC)'s capital contribution to PCFC in the amount of P820 million.

- On October 13, 2017, the Executive Secretary issued a Memorandum, directing the Governance Commission for GOCCs (GCG) to continue the abolition of National Livelihood Development Corporation (NLDC) in accordance with Malacanang Memorandum Order No. 85, series of 2015. Accordingly, the NLDC's assets and liabilities shall be transferred to the Parent in which its net worth shall represent additional capital infusion by the National Government to the Parent. From the audited financial statements issued on May 30, 2018, the net worth of NLDC is P4.948 billion as of December 31, 2017.

- On September 28, 2017, the President of the Philippines issued Executive Order No. 44 directing the Parent to acquire Philippine Postal Savings Bank, Inc. (PPSBI) and its subsequent conversion into an Overseas Filipino Bank (OFB) through transfer of shares of the Philippine Postal Corporation and Bureau of Treasury at zero value. Likewise, the Parent shall infuse the necessary capital of the OFB which is nil as of June 30, 2018.

34. Financial Risk Management

CREDIT RISK MANAGEMENT

Credit risk arises from the failure of a counterparty to meet the terms of any contract with the Bank. Credit risk is not limited to the loan portfolio but is found in all the Bank's activities where success depends on counterparty, issuer, or borrower performance. It arises any time the Bank's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. The Bank considers its loan portfolio as the major source of credit risk. However, other sources of credit risk exist throughout the activities of the Bank, 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	2017 (In Millions)							
	Net Exposures	0%	20%	50%	75%	100%	150%	Credit RWA
Cash on Hand	31,203	31,203	0	0	0	0	0	0
Checks and Other Cash Items (COCI)	104	0	104	0	0	0	0	21
Due from Bangko Sentral ng Pilipinas (BSP)	305,350	305,350	0	0	0	0	0	0
Due from Other Banks	5,119		48	5,031		40		2,565
Available-for-Sale (AFS) Financial Assets	215,270	179,393	0	30,785	0	5,092	0	20,484
Held-to-Maturity (HTM) Financial Assets	319,974	310,331	0	4,372	0	5,271	0	7,457
Unquoted Debt Securities Classified as Loans	10,554	0	0	0	0	10,554	0	10,554
Loans and Receivables	538,951	0	4,131	22,139	75,683	434,946	2,052	506,682
1. Interbank Loans Receivables	43,897	0	3,796	17,185	0	22,893	23	32,279
2. Loans & Receivables - Others								
a. LGUs & Public Sector Entities	30,683	0	0	0	0	30,683	0	30,683
b. Government Corporation	1,943	0	0	0	0	1,943	0	1,943
c. Corporates	349,998	0	0	0	0	349,998	0	349,998
d. Micro/Small & Medium Enterprise	76,018	0	335	0	75,683	0	0	56,829
e. Loans to individuals	34,160	0	0	4,954	0	29,206	0	31,683
3. Defaulted Exposures	2,252	0	0	0	0	223	2,029	3,267
Other Loans and Receivables 1/	52,233	50,400	0	0	0	1,833	0	1,833
Sales Contract Receivable (SCR)	1,156	0	0	0	0	594	562	1,437
Real and Other Properties Acquired	4,211	0	0	0	0	0	4,211	6,317
Total Exposures Excluding Other Assets	1,484,125	876,677	4,283	62,327	75,683	458,330	6,825	557,350
Other Assets	16,819	0	0	0	0	16,819	0	16,819
Total On-BS RWA not covered by CRM	0	0	0	0	0	0	0	60
Total On-Balance Sheet Exposures	**1,500,944**	**876,677**	**4,283**	**62,327**	**75,683**	**475,149**	**6,825**	**574,229**

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	5,818	0	0	134	0	5,684	0	5,751
B. Transaction-related contingencies	46,141	0	0	0	0	46,141	0	46,141
C. Trade-related contingencies	2,363	0	0	1,600	0	763	0	1,563
D. Other commitments	0	0	0	0	0	0	0	0
Total Off-Balance Sheet Exposures	**54,322**	**0**	**0**	**1,734**	**0**	**52,588**	**0**	**53,455**
Counterparty RWA In The Trading Book	**Credit Equivalent Amount**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit RWA**
Derivative Exposures	726	0	0	99	0	627	0	677
Total Exposures	**1,555,992**	**876,677**	**4,283**	**64,160**	**75,683**	**528,364**	**6,825**	**628,361**

Credit Exposures and Credit-Related Commitments

As of 31 December 2017, the Group's Gross Loans & Receivables amounted to P538,951 million, net of credit risk mitigation which consists mainly of prime collaterals such as deposit holdout, government securities (GS) and sovereign guarantees. Net Loans & Receivables stood at Corporates at P349,998 million (64.94%), followed by Micro/Small & Medium Enterprise (MSMEs) at P76,018 million (14.10%), Loans to Individuals at P34,160 million (6.34%), and Government Entities at P32,626 million (6.05%). The Group also holds substantial receivables arising from Repurchase Agreements aggregating P52,233 million. The P53,455 million credit risk weight of net Off-balance Sheet exposures of P54,322 million is computed based on respective Credit Conversion Factors (CCFs). These accounts are composed mainly of general guarantees of indebtedness (e.g., financial standby letters of credit - domestic and foreign), performance bonds and warranties related to particular transactions, and contingencies arising from movement of goods and trust transactions. Outstanding derivative exposures are mainly over-the-counter (OTC) foreign exchange (FX) option contracts.

The Group's Total Gross Loans & Receivables reflected a Credit Risk Weighted Assets (RWA) of P506,682 million following the Standardized Approach. This represents 80.64% of the Total Credit RWA of P628,361 million. However, the Total Credit RWA increased by P114,823 million or 22.36%, from P513,538 million in 2016 to P628,361 million in 2017. The Total Credit RWA represents 90.25% of the Group's Aggregate RWA of P696,236 million.

Management of Credit Risk

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

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

The Bank 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 Bank.

The Bank manages credit risk through a structured framework duly approved by the LANDBANK 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 LANDBANK Board, whenever applicable. The approval process also covers proposed remedial actions aimed at helping problem accounts regain normal operations. The Bank 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 Bank'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 Bank conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves. As of 31 December 2017, the Parent's net Non-Performing Loan (NPL) stood at P2,190 million or 0.325% of the total loan portfolio.

Credit Risk Rating

LANBANK's Credit Risk Engine System (CRES) serves as the main platform for the generation of automated credit ratings of borrowers to help determine their credit worthiness. The Bank 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 generated credit ratings form part of the risk components required to calculate the Expected Credit Loss (ECL) under the ECL Estimation Approach Methodology in accordance with the provisions of Bangko Sentral ng Pilipinas (BSP) Circular No. 855, series of 2014 (Guidelines on Sound Credit Risk Management) as well as the Philippine Financial Reporting Standards 9 (PFRS 9) which is slated for implementation in 2018. The said credit ratings are also needed for the eventual adoption of the advance approaches in credit risk management under the Basel Committee on Banking Supervision (BCBS) principles on sound credit risk management.

Toward this end, the Bank approved in 2017 the enhancement of the following automated 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 Existing Salary Loan Availers*
- Behavioral Scoring Model for LGUs
- Behavioral Scoring Model for SMEs
- Behavioral Scoring Model for Corporates
- Behavioral Scoring Model for Cooperatives
- Application Scoring Model for Credit Card*
- Application Scoring Model for Livelihood Mobile Loan Saver

**Credit Scoring Models Only*

Nonetheless, the Bank shall continue to use the expert-based credit rating system for Universal Banks, Commercial Banks and Offshore Banks.

Further, consistent with good corporate governance, LANDBANK manages credit risk by setting limits for individual borrowers and group of borrowers and industry segments. The Bank also monitors credit exposures, and continually assesses the credit quality of counterparties. Assessment of credit quality considers credit ratings of counterparties given by BSP recognized Credit Rating Agencies such as Moody's, Fitch and Standard & Poor's.

Credit Risk Monitoring

LANDBANK 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, 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 LANDBANK Board and Senior Management.

Collateral and Other Credit Enhancements

Collateral is not the ultimate and 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 Bank diligently evaluates the enforceability, realizable value and marketability of offered collaterals. The Bank'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 (REM) and Chattel Mortgage (CM). The Bank 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

LANDBANK 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 Capital Adequacy Ratio (CAR). The stress testing also includes prescribed regulatory tests such as uniform stress test and REST stress test. 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 Bank 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 2017, the Parent's qualifying capital covering credit risk is P81.39 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P25.720 billion for direct lending and P36.008 billion for wholesale lending.

Overall credit risk management oversight is a function of the Board of Directors (BOD)-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 Risk Management 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 Bank ensures that the credit risks undertaken are commensurate with the risk appetite and the Bank'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 Bank 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 2017 and 2016, the Bank does not have credit concentration in any particular industry.

As of December 31, 2017 and 2016, information on the concentration of credit as to industry based on carrying amount is shown below:

	Parent			
	2017		**2016**	
	Amount	%	Amount	%
Financial intermediation	71,713,093,339	12	41,499,841,256	8
Agriculture, hunting and forestry	51,536,263,324	8	82,848,337,774	17
Real estate, renting and business activities	58,048,731,998	10	51,448,278,099	11
Public administration and defense	76,784,032,439	13	43,684,643,149	9
Manufacturing	51,985,570,951	9	35,062,538,415	7
Community, social and personal services	13,346,062,576	2	12,480,366,557	3
Electricity, gas and water	93,537,592,974	15	77,787,367,744	16
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	57,639,838,178	10	41,239,331,755	8
Transport, storage and communication	43,994,810,674	7	39,356,260,435	8
Construction	37,899,953,536	6	28,760,843,760	6
Private households	23,646,244,827	4	20,989,139,302	4
Hotel and restaurant	4,637,321,925	1	3,241,279,187	1
Others	16,397,316,585	3	10,677,208,313	2
	601,166,833,326	**100**	**489,075,435,746**	**100**
Allowance for losses	**(5,168,696,310)**		**(5,077,435,761)**	
	595,998,137,016		**483,997,999,985**	

MARKET RISK MANAGEMENT

Market Risk Management Framework

LANDBANK is exposed to market risks in both its trading and non-trading banking activities. The Bank assumes market risk in market making and position taking in government securities and other debt instruments, equity, 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 Bank's exposure on derivatives is currently limited to currency swaps and currency forwards to manage FX exposure. The Bank is also exposed to derivatives that are embedded in some financial contracts, although, these are relatively insignificant in volume.
The Bank uses a combination of risk sensitivities, Value-at-Risk (VaR), stress testing, CAR and capital metrics to manage market risks and establish limits. The LANDBANK Board, RISKCOM and the Asset and Liability Committee (ALCO), a Management-level Committee, 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 Bank'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 at all times 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 Bank 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 Bank. In the same way, certain subsidiaries of the Bank independently quantify and manage their respective market risk exposures by maintaining their respective RM system and processes in place.

Market Risk Weighted Assets (RWA)

As of 31 December 2017, the Group's Total Market RWA stood at P6,722 million, broken down as follows:

PARTICULARS	AMOUNT (In Millions)
Interest Rate Exposure	2,860
Equity Exposure	0
FX Exposure	239
Options	3,623
Total Market RWA	6,722

The Total Market RWA represents 0.97% of the Group's Aggregate RWA of P696,236 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 Bank 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 and Foreign Securities 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		
Government Securities	P20,000.00	P150.00	YTD Gain Erosion Group Target	P200.00
Foreign Securities	$20.00	$0.20		$0.64

YTD: Year-to-Date

The Foreign Exchange Risk in Foreign Securities are 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	90.00

3. Foreign Exchange 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	1.15
FS	20.00	0.20	Group Target	0.64

FS: Foreign Securities

The Parent had the following significant exposures denominated in foreign currencies as of 31 December 2017:

In $ Thousands

PARTICULAR	USD	JPY	EUR	AUD	Others	Total
ASSETS						
Fx Currency Notes & Coins on Hand (FCNCH)/ Cash and Other Cash Items (COCI)	23,149	72	50	6	34	23,311
Due from banks	84,952	687	15,155	263	689	101,746
Held for Trading	1,864	0	0	0	0	1,864
Available For Sale Investment	787,732	0	1	0	0	787,733
Investments in Bonds and Other Debt Instruments (IBODI)	505,729	0	0	0	0	505,729
Interbank Loans Receivable	420,000	0	0	0	0	420,000
Loans & Receivables	377,092	56,350	0	0	0	433,442
Other Assets	15,929	887	1,862	246	525	19,449
Gross Fx Assets	2,216,447	57,996	17,068	515	1,248	2,293,274
LIABILITIES						
Deposit Liabilities	1,488,178	514	7,996	0	7	1,496,695
Bills Payable	168,155	287,654	30,969	0	0	486,778
Others	180,146	1,229	7,110	246	525	189,256
Gross Fx Liabilities	1,836,479	289,397	46,075	246	532	2,172,729

Market Risk Measurement and Validation Tools

1. Value-at-Risk 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% confidence level, assuming a static portfolio.

The Bank uses internally developed Historical Simulation Model in computing VaR of Equities, Foreign Securities (FS), GS and FX trading portfolios as well as FX Net Open Position which is acceptable to BSP. Moreover, the Bank continuously pursues initiatives to improve processes in preparation for the migration towards an Internal Model Approach for capital charging. 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 2017. The Bank 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 Bank 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 Bank utilizes Stress Tests to estimate possible losses which the VaR does not capture.

The Bank’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 Bank can absorb certain levels of stress, to explore the events that could cause a significant impact to the Bank 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 Bank to a particular tail event.

Results of the PSA are also simulated in the CAR computation to be able to assess its impact on the CAR compliance set at 10% and the Common Equity Tier (CET) 1 ratio of at least 8.5% set by BSP with conservation buffers.

3. Back-Test

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

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

ZONE CLASSIFICATION	NUMBER OF EXCEPTIONS
safe/green zone	0-4 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 who conducted an independent model validation.

Interest Rate Risk Management

Interest Rate Risk in the banking book

For interest rate risk in the banking book, a key component of LANDBANK's asset and liability policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the maturity or re-pricing characteristics of rate sensitive assets and liabilities.

The Bank establishes the lending rates for its loans based on a spread over its internal base rate, reflecting the average cost of funds that is generally reset at the beginning of every two weeks. Interest rates on floating rate loans are typically reset every 30 to 90 days. For deposits, regular savings and time deposit account rates are set by reference to prevailing market rates.

The Bank manages interest risk based on approved policies and guidelines, established 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), Economic Value of Equity (EVE)-at-Risk, Bond Duration Report and Balance Sheet Duration Report.

The two interest rate risk perspectives adopted by the Bank in measuring interest rate risk in the banking book are as follows:

a. Earnings Perspective: The Bank uses the Earnings-at-Risk (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 interest rate risk in the Banking Book in terms of earnings (accrual basis).

   To determine the actual behavior of Non-Maturing Deposits (NMDs) and capture the Bank's actual interest rate risk exposure, the Bank analyzed its deposit base to estimate the proportion of core and non-core deposits and determine how actual maturity or re-pricing behavior may vary from the contractual terms.

   Core Deposits are NMDs which are unlikely to re-price even under significant changes in interest rate environment while Non-Core (Volatile) Deposits are NMDs that are characterized by 'activity' as manifested by the behavior based on withdrawal patterns, computed through statistical analysis of net withdrawal levels. Non-Core NMDs are re-bucketed based on net withdrawal pattern for the past five years and Core NMDs are allocated in the 'more than five years'.

   Excluded in the analysis of actual maturity or re-pricing are behavioral models for the determination of Re-pricing Gap for fixed rate loans subject to prepayment risk and term deposits subject to early redemption risk. Prepayment of loans and early withdrawal of maturing deposits are considered isolated cases which will have minimal effect on the Bank's interest rate risk estimation.

The following table sets the Re-pricing Gap position of the Parent as of 31 December 2017 and the increase/decline in earnings for upward and downward interest rate shocks in the banking book:

In Millions

PARTICULARS	Within 1 month	> 1 month to 3 months	> 3 months to 6 months	> 6 months to 12 months
Financial Assets				
Liquid Assets	43,000	0	0	0
Total Investments	0	16	349	3,159
Total Loans	152,382	187,480	82,037	30,938
Other Assets	64	5	7	5
Total Financial Assets	**195,446**	**187,501**	**82,393**	**34,102**
Financial Liabilities				
Deposits	319,754	156,260	30,557	15,138
Bills Payable	0	527	11,251	0
Others	0	0	0	0
Total Financial Liabilities	**319,754**	**156,787**	**41,808**	**15,138**
Off-Balance Sheet				
Commitments	0	0	0	(44,730)
Total Off-Balance Sheet	**0**	**0**	**0**	**(44,730)**
Re-pricing Gap	**(124,308)**	**30,714**	**40,585**	**(25,766)**

Change in Interest Rates - in basis points (bps)

In Millions

	-300	-200	-100	-50	+50	+100	+200	+300
EaR	2,238	1,492	746	373	(373)	(746)	(1,492)	(2,238)

b. Economic Value Perspective: The Parent uses the EVE-at-Risk 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-at-Risk Model to measure interest rate risk in the banking book.

Change in Interest Rates - in bps

In Millions

Peso	Dollar	EVE-at-Risk
+300	+300	68,695
+267	+200	61,538
+255	+71	57,761
+180	+50	42,480
+100	+125	25,896
+50	+75	13,498
-50	-75	(14,385)
-100	-125	(29,337)
-180	-50	(52,897)
-255	-71	(78,876)

Change in Interest Rates - in bps		
		In Millions
Peso	Dollar	EVE-at-Risk
-267	-200	(85,313)
-300	-300	(99,574)

Both viewpoints are assessed to determine the full scope of the Parent's interest rate risk exposure (especially if the Parent has significant long-term or complex interest rate risk positions). Moreover, interest risk in the Parent is not managed in isolation. Interest risk 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-at-Risk Model.

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 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, recommend 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 twice a month 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 as tool the Consolidated LGR covering the bank-wide balance sheet. 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

   The Parent performs liquidity gap analysis using the LGR which is a risk measurement tool 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. The RMG, through TRMD, assists ALCO in its function by preparing the LGR based on the Peso, FX Regular, FCDU, RBU and Consolidated Books.

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

	Parent					
	In Thousands					
	2017			2016 (As restated)		
PARTICULARS	Due within 1 year	Due > 1 year	Total	Due within 1 year	Due > 1 year	Total
ASSETS						
Cash & Other Cash Items	31,384,485	0	31,384,485	28,250,784	0	28,250,784
Due from BSP	305,343,193	0	305,343,193	355,405,020	0	355,405,020
Due from Other Banks	5,104,789	1,698	5,106,487	11,620,068	1,692	11,621,760
Interbank Loan Receivable	20,970,600	0	20,970,600	15,562,360	0	15,562,360
Security Purchased Under Agreement to Resell	52,222,764	0	52,222,764	14,803,584	0	14,803,584
Loans & Receivables	266,386,189	346,329,221	612,715,410	175,805,122	324,151,602	499,956,724

Parent						
In Thousands						
	2017			2016 (As restated)		
PARTICULARS	Due within 1 year	Due > 1 year	Total	Due within 1 year	Due > 1 year	Total
Investments	31,881,973	535,440,215	567,322,188	41,770,353	410,897,766	452,668,119
Other Assets	4,537,445	24,234,943	28,772,388	1,747,689	22,709,586	24,457,275
Total Assets	717,831,438	906,006,077	1,623,837,515	644,964,980	757,760,646	1,402,725,626
LIABILITIES						
Deposits						
Demand	709,508,966	0	709,508,966	558,645,451	0	558,645,451
Savings	645,770,968	0	645,770,968	621,493,284	0	621,493,284
Time	57,114,142	2,079,279	59,193,421	43,741,305	1,097,295	44,838,600
LTNCD		11,000,000	11,000,000		11,000,000	11,000,000
Bills Payable	1,998,296	22,581,812	24,580,108	8,678,194	21,357,140	30,035,334
Unsecure Subordinated Debt	0	0	0	0	0	0
Due to BTr, BSP, & MCs/PCIC	1,650,798	299,984	1,950,782	1,626,972	165,894	1,792,866
Due to Local Banks	0	0	0	1,723	0	1,723
Other Liabilities & Payable	258,523	57,550,820	57,809,343	300,931	41,432,087	41,733,018
Total Liabilities	1,416,301,693	93,511,895	1,509,813,588	1,234,487,860	75,052,416	1,309,540,276

The Bank also prepares on a quarterly basis the Consolidated LGR (Parent and Subsidiaries).

- Core Deposit: Core Deposit is calculated based on Net Withdrawal Pattern. It serves as a buffer that protects the Bank's assets, which are subject to interest rate risks. Core Deposit level is computed to determine the lowest deposit level that is expected to be retained under normal operating conditions. The computation involves determining the deposit mix comprising of volatile and non-volatile or Core Deposits.

- Non-Maturing Deposits: Regular savings (Total savings less High Yield Savings Accounts and Easy Savings Plus) and demand deposits are Non-Maturing Deposits (NMDs). An analysis made to proximate scenario is to simulate behavioral withdrawal pattern. This is done by observing the pattern of deposit decays of the total end-of-day data for demand deposit account based on a five-year historical demand deposit data. The highest withdrawal percentage change is determined for each tenor bucket. The percentages are used as basis for slotting the NMD amount under the different tenors.

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 2017 based on contractual repayment arrangements which take into account 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	276,249	0	65,583	0	2	341,834
Total Loans	196,247	99,366	43,967	151,349	194,981	685,910
Total Investments	12,759	349	18,774	196,904	338,536	567,322
Other Assets	3,304	0	1,233	44	24,191	28,772
Total Assets	488,559	99,715	129,557	348,297	557,710	1,623,838
Financial Liabilities						
Deposits	32,240	1,271	2,125	631	1,389,207	1,425,474
Borrowings	2,073	556	1,020	7,137	15,745	26,531
Other Liabilities & Unsecured Subordinated Debt	0	0	258	0	57,551	57,809
Total Capital	0	0	0	0	114,024	114,024
Total Liabilities & Capital	34,313	1,827	3,403	7,768	1,576,527	1,623,838
Gap Position	454,246	97,888	126,154	340,529	(1,018,817)	0

As of 31 December 2017, 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. It is a measure of the liquidity gap between maturing assets and liabilities. 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	2017 (Audited)	2016 (Audited)	2015 (Audited)	2014 (Audited)
Liquid Assets (*)	P967,553	P867,250	P722,850	P625,897
Financial Ratios:				
Liquid Assets to Total Assets	59.58%	61.83%	60.08%	50.23%
Liquid Assets to Total Deposits	67.88%	70.17%	69.09%	68.55%

*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 that are conducted by the Parent:

- Liquidity Stress Test/Scenario Analysis
- Fund Source Stress Test
- FX Regular Stress Test
- FCDU Stress Test

4. Liquidity Coverage Ratio

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

The Parent computes the LCR using the BSP prescribed formula:

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

Where:

<u>High Quality Liquid Assets</u> - Comprised of cash or assets that can be converted into cash at little or no loss of value in private markets, to offset the net cash outflows it could encounter under a liquidity stress scenario

<u>Total Net Cash Outflows</u> - the total expected cash outflows minus total expected cash inflows, in the specified stress scenario for the subsequent 30 calendar days

As of 31 December 2017, the Parent's LCR is higher than the 90% minimum requirement for the CY 2018 and maximum LCR trigger alert of 100% targeted for the CY 2019.

5. Liquidity Contingency Plan (LCP)

The Parent formulated the Liquidity Contingency Plan (LCP) using extreme scenarios of adverse conditions under different time horizons to evaluate the Parent's ability to withstand and address these scenarios. The contingency plan focuses on the Parent's strategy for coordinating managerial action and communication plan during a crisis and includes triggering events that will activate the plan, contingency funding measures and procedures for making up cash flow shortfalls in adverse situations.

The plan details the amount of funds the Parent can access and the scenarios under which it could use them. It also provides guidance for managing liquidity risks in the following market scenarios:

- Ordinary Course of Business – The Parent manages its liquidity risk by: a) requesting depositors to roll-over their deposit by offering competitive deposit rates, b) drawing from its interbank credit lines, and/or c) the early termination of Government Securities Purchased under Reverse Repurchase Agreements (GSPURRA).

- Seasonal/Intermediation Duration – The Parent manages its liquidity risk in the longer-term through: a) the liquidation of marketable AFS category securities, b) the solicitation of government deposits, and c) the use of derivative instruments in the swap market.

- Acute/Institution Specific – In acute or institution specific circumstances, the Bank will seek to manage its liquidity risk by: a) the proportional liquidation of AFS and Held-to-Matuirty (HTM) government securities, b) the non-renewal of maturing short-term loans, and c) borrowings from the BSP and the Philippine Deposit Insurance Corporation (PDIC) using eligible securities as collateral and generating cash infusions through large deposits.

The LCP likewise contains guidelines on Business Resumption Plan towards a transition to normal liquidity condition. This plan defines expectations from various sectors during the transition period from crisis to normal condition.

OPERATIONAL RISK MANAGEMENT

The Bank continued to take steps to strengthen the functions (ORMF) to fully adhere with BSP Circular 900 (Guidelines on Operational Risk Management).

Among the major initiatives to strengthen the ORMF is the revision of the Guidelines on Reporting and Monitoring of Operational Risk Events. The amendment aims to reinforce compliance of the Bank on the proper and effective reporting and monitoring of all operational risk events. This will capture internal loss data to assess the Bank's operational risk exposure and effectiveness of internal controls.

Another improvement introduced to adhere with BSP Circular 900 is the continued enhancement of the following ORM frameworks:

- Business Process Risk Management Framework (BPRMF)
- People Risk Management Framework (PRMF)
- Business Continuity Management Framework (BCMF)
- Legal Risk Management Framework (LRMF)
- Risk Management Framework on Trust Banking Operations

The frameworks aim to establish and implement RM strategies and best practices to effectively address and manage operational risk that are embedded in the day-to-day operations.

On 20 March 2017, BSP issued Circular 951 or Guidelines on Business Continuity Management (BCM). The Bank conducted gap assessment to determine the Parent's level of compliance with the requirements and formulate action plans necessary to close the gaps that were identified. Results of the gap assessment showed that the Parent is generally compliant with the requirements of BSP.

To further strengthen the Bank's compliance with BSP Circular 951, the Bank's BCM Framework and General Policy were enhanced and approved by the Management Committee and Risk Oversight Committee in 2017. The BCM Framework and General Policy is composed of the BCM governance structure and the BCM process as follows:

- Board and Senior Management Oversight
- Business Impact Analysis and Risk Assessment
- Business Resumption and Recovery Strategy Formulation
- Plan Development
- Plan Testing and Exercising
- Personnel Training and Plan Maintenance

As part of the Bank's BCM process, the Business Continuity Plan (BCP) components are being reviewed, updated and tested annually. The BCP was reinforced with the establishment of back-up/alternate sites for critical and vital operations of the Bank. The new back-up site for Trust and Treasury Operations was established and tested in 2017 with successful results in October 2017. The IT Systems Prioritization List was likewise reviewed and revised based on results of Business Impact Analysis conducted among Bank units.

The Bank has also supported the continuing education of officers and staff of Risk Management Group (RMG) through the certification program of the American Academy of Financial and Management (AAFM), where five employees were duly admitted and licensed as a Certified Risk Analyst (CRA) and Asian Institute of Chartered Banks (AICB) where the BRMD Head passed the Bank Risk Management – Module 1 certification exam. Also, the Parent's Business Continuity Officer (BCO) was certified by ICOR based in Illinois, USA.

Embedding of ORM across the institution is manifested with the BUs becoming aware of the specific operational risks they are confronted with. Taking a proactive stance in managing and escalating breaches as soon as they occur strengthens governance and enhances the oversight of these risks. BUs conduct self-assessment using various RM tools such as RCSA, Business Impact Assessment (BIA), BCQ, heat maps, and hazard maps to quantify potential operational losses which serve as their dashboard in monitoring operational risk. RMG regularly monitors and escalate to RISKCOM and Management Committee (MANCOM) the 2017 actual losses versus estimated losses.

Operational Risk Exposure

LANDBANK uses the Basic Indicator Approach for 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 increasing with business expansion, the Operational RWA has also been increasing annually. As of 31 December 2017, the Group's Total Operational RWA using the Basic Indicator Approach was P61,152 million or 8.78% of the Group's Aggregate RWA of P696,236 million.

Cognizant that Gross Revenues (BSP proxy data) is but a shadow indicator of operational risks in the Basic Indicator Approach, LANDBANK conducts a simulation of the computation of the estimated losses using the Bank'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, systems/IT, event and legal risks) shows that the total estimated loss is way below the Total Operational RWA under the Basic Indicator Approach.

Among the five components of operational risk, systems/IT risk registered the highest estimated loss. However, numerous controls are being implemented to mitigate systems/IT risk. The Bank has an established IT Governance Structure, frameworks and policies on the development of IT systems aligned with best practices on IT standards.

The Bank is confident that substantial loss on operational risk can be mitigated because the existing controls and preparedness measures are in place.