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, 2018, 74 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 July 05, 2019 while those of the subsidiaries were approved for issue by their respective Board of Directors on various dates.

2. Summary of Significant Accounting Policies

2.1 Statement of Compliance

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

2.2 Basis of Financial Statements Preparation

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

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

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

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

2.3 Basis of Consolidation

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

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

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

2.4 Changes in Accounting Policies

PFRS 9, Financial Instruments

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

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group did not restate prior period comparative financial statements when the Group adopted the requirements of the new standard. Therefore, the comparative information for 2017 is reported under (PAS) 39 and is not comparable to information presented in 2018.

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

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

Classification and Measurement

Debt Financial Assets

Financial assets are measured at Fair Value through Profit or Loss (FVTPL) unless these are measured at Fair Value through Other Comprehensive Income (FVOCI) or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVTPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVTPL. Subsequent measurement of instruments classified as financial assets at FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets measured at FVOCI. Debt instruments that are managed on a "hold to collect" basis will be classified as investment securities at amortized cost. Subsequent measurement of instruments classified as financial assets at FVOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

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

Equity Financial Assets

All equity financial assets are required to be measured at initial recognition at FVTPL unless an irrevocable designation is made to classify the instrument as financial asset measured at FVOCI. Unlike AFS for equity securities under PAS 39, the FVOCI for equity category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss. Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

Financial liabilities

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

Derivatives

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

A Parent's reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as of January 1, 2018 follow:

	December 31, 2017 under PAS 39					January 1, 2018 under PFRS 9	
	Measurement Category	Amount	Reclassification	Re-measurement	ECL	Measurement Category	Amount
Cash and other cash items	Amortized cost	**31,384,484,693**	**0**	**0**	**0**	Amortized cost	**31,384,484,693**
Due from Bangko Sentral ng Pilipinas	Amortized cost	**305,349,912,019**	**0**	**0**	**0**	Amortized cost	**305,349,912,019**
Due from other banks	Amortized cost	**5,106,486,709**	**0**	**0**	**(2,829,846)**	Amortized cost	**5,103,656,863**
Interbank loans receivable	Amortized cost	**20,981,026,772**	**0**	**0**	**0**	Amortized cost	**20,981,026,772**
Securities purchased under agreements to resell	Amortized cost	**52,232,925,111**	**0**	**0**	**0**	Amortized cost	**52,232,925,111**
Loans and receivables-net	Amortized cost	**612,715,409,602**	**0**	**0**	**(6,700,361,502)**	Amortized cost	**606,015,048,100**
Held for Trading							
Debt	FVTPL	11,277,862,485	(11,277,862,485)	0		FVTPL	11,273,543,561
				(318,924)		Amortized cost	4,000,000
Derivatives with Positive FV	FVTPL	2,088,402,244	(2,088,402,244)	0		FVTPL	2,088,402,244
		13,366,264,729	**(13,366,264,729)**	**(318,924)**			**13,365,945,805**
Available for Sale (AFS)							
Debt	AFS	213,436,947,813	(213,436,947,813)	4,759,031,029		Amortized cost	160,412,308,334
						FVOCI	57,783,670,508
Equity	AFS	15,615,137,720	(15,615,137,720)	0		FVOCI	15,615,137,720
		229,052,085,533	**(229,052,085,533)**	**4,759,031,029**			**233,811,116,562**
Held to Maturity (HTM)							
Debt	Amortized cost	317,123,977,928	(317,123,977,928)	2,158,624,544	148,610,144	Amortized cost	300,709,670,364
				162,953,735		FVOCI	18,884,495,987
		317,123,977,928	**(317,123,977,928)**	**2,321,578,279**	**148,610,144**		**318,903,863,106**
INMES	Historical cost	7,341,084,176	(7,341,084,176)	(1,383,025,654)		FVOCI	4,838,727,434
				(1,763,698,167)		FVTPL	763,345,258
				1,407,712,337			0
		7,341,084,176	**(7,341,084,176)**	**(1,739,011,484)**			**5,602,072,692**
UDSCL	Amortized cost	10,724,049,656	(10,724,049,656)	4,818,245		Amortized cost	10,608,870,816
				(4,818,245)		FVOCI	10,187,804
						FVTPL	104,991,036
		10,724,049,656	**(10,724,049,656)**	**0**			**10,724,049,656**
OTHER INVESTMENTS	Historical cost	10,016,959	(10,016,959)	9,043,808			0
				(673,500)		Historical cost	580,000
				35,952,733		FVOCI	53,760,000
		10,016,959	**(10,016,959)**	**44,323,041**			**54,340,000**

The impact on the Parent's surplus and net unrealized gain upon adoption of PFRS 9 are as follows:

	Amount
Other Comprehensive Income, Closing Balance under PAS 39 (December 31, 2017)	**5,411,941,378**
Adjustments on initial application of PFRS 9	
a. Reversal of net unrealized losses on reclassification of securities from FVOCI to Hold to Collect (HTC)	4,759,031,029
b. Reversal of unamortized net unrealized losses on previously reclassified securities from AFS to HTM	2,158,624,544
c. Recognition of net unrealized gains on HTM reclassified to FVOCI	162,953,734
d. Recognition of net unrealized loss on equity investments reclassified to FVOCI	(525,419,092)
	6,555,190,215
Opening Balance under PFRS 9 (January 01, 2018)	**11,967,131,593**
Retained Earnings – Free, Closing Balance under PAS 39 (December 31, 2017)	**30,753,073,583**
Adjustments on initial application of PFRS 9	
a. Reversal of unrealized gain on securities classified from FVTPL to HTC	(318,924)
b. Reversal of allowance for credit losses on equity investments reclassified to FVOCI	397,690,903
c. Recognition of unrealized losses on equity securities reclassified to FVTPL	(1,566,960,256)
d. Recognition of estimated credit losses (ECL)[1/]	(6,954,826,631)
	(8,124,414,908)
Opening Balance under PFRS 9 (January 01, 2018)	**22,628,658,675**

[1/] Includes ECL for Contingent Accounts

The adoption of PFRS 9 as at January 01, 2018 resulted in the reversal of net unrealized losses in Other Comprehensive Income amounting to P6.555 billion and a reduction in the Retained Earning - free of P8.124 billion.

Credit Losses on Credit Exposures

Geared towards complying with the requirements of PFRS 9, the Bank adopted the Expected Credit Loss (ECL) methodology as of 1 January 2018 to quantify/measure the credit losses on loan receivables, investments in debt instruments that are measured at amortized cost or at Fair Value through Other Comprehensive Income (FVOCI); and credit commitments and financial guarantee contracts that are not measured at fair value through profit or loss (FVTPL).

With the Bank's adoption, the credit loss methodology changed significantly from incurred loss approach to ECL where the Bank recognized credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. Further, it considered past events, current conditions, and forecasts of future economic conditions in assessing impairment. The adoption of PFRS 9 to compute credit losses as of 1 January 2018 resulted in additional allowance of P6.955 billion.

PFRS 9 Policies-Classification and Measurement

1. The following instruments shall undergo the classification:

a. Debt Instruments – Solely Payment of Principal and Interest and Business Model (BM) Tests
b. Equity Instruments – BM Test

2. BMs shall be reviewed and recommended by the Investment and Loan Committee and approved by the Board of Directors.

3. The following are the BMs for managing financial assets:

Business Model	**Amortized Cost-Hold to Collect (HTC)**	**Fair Value through Other Comprehensive Income (FVOCI)**	**Fair Value through Profit or Loss (FVTPL)**
Objective	Collect Contractual cash flows	Collect contractual cash flows and sell	Sell Financial assets
Relevant Risks	Credit, Liquidity and Interest Rate	Liquidity, Interest Rate, Credit and Market	Market
Frequency of Sales	Rare (Only permitted sales as specified in the BM)	Less Frequent	More frequent and greater volume
KPIs and Incentives	Accrual or (net) interest income	Accrual Income and dividends	Trading/capital gains
Impairment and Credit Review	YES	YES	NO

4. Functions of the Parent's three (3) Lines of defense are as follows:

a. First Line of Defense – responsible in implementation of the policies
b. Second Line of Defense – responsible in the identification of various risk controls and compliance issues
c. Third Line of Defense – responsible in ensuring effective governance, risk management and internal controls

PFRS 9 POLICIES – EXPECTED CREDIT LOSS (ECL) ASSESSMENT

1. ECL Assessment shall be applied to the following exposures:

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

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

STAGE	**CHARACTERISTICS**	**ECL ASSESSMENT**

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

PFRS 15 – Revenue from Contracts with Customers

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

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

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

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

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.

Short-term investments – Carrying amounts approximate fair values.

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 FVTPL, the initial measurement of financial instruments includes transaction costs. For CY 2018, the Group classifies its financial assets in the following measurement categories: (1) financial assets at FVTPL, (2) financial assets at FVOCI investments, (3) financial assets at amortized cost consisting of hold to collect (HTC) investments, loans and receivables, due from BSP, due from other banks, interbank loans receivable and securities under agreement to resell. On the other hand, the financial liabilities are classified as financial liabilities at FVPL and financial liabilities at amortized cost. Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. For CY 2017, the Group classifies its financial assets in the following categories Held for Trading (HFT), Held to Maturity (HTM) investments, Available for Sale (AFS) investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. Under PAS 39, 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.

Policies applicable beginning January 1, 2018

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

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

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

a. Financial Assets at FVTPL

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

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

b. Financial Assets at FVOCI

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

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

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

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

Equity securities designated at FVOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends' when the right to receive payment has been established. Equity securities at FVOCI are not subject to impairment assessment.

c. Financial Assets at Amortized Cost

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

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

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

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

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

<u>Impairment of Financial Assets</u>

For CY 2017, 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 HTC 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 HTC 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.

FVOCI Investments

If an FVOCI investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that security previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. 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 FVOCI investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

<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 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.

Investment in Associate

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

Property and Equipment

Property and equipment 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 2018 amounts to P7.08 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 expense in 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

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

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

Service charges and penalties

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

Fees and commissions

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

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

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

b. Fee income from providing transaction services

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

Other income

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

Interest income

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

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

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

Recovery on charged-off assets

Income arising from collections on accounts or recoveries from impairment of items previously written off is recognized in the year of recovery.

Dividend income

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

Rental income

Rental income arising on leased premises is accounted for on a straight-line basis over the lease terms on ongoing leases.

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, 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. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16. The Group expects that total assets and total liabilities will increase while total equity will decrease on adoption date.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for the classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

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

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

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

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

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

- IFRIC 23, *Uncertainty over Income Tax Treatments*

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

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

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

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

Group as Lessor

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.

Group as Lessee

The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

b. Impairment losses on loans and receivables and HTC investments

For CY 2017, the Group reviews its loans and receivables and HTC 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 HTC investments of the Group and the Parent are P935,528,126,800 and P932,689,341,366 as of December 31, 2017, respectively.

For CY 2018, the Group recognized impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. Further, it considered past events, current conditions and forecasts of future economic conditions in assessing impairment. The carrying values of receivables from customers and HTC investments of the Group and the Parent are P1,296,459,918,816 and P1,288,910,231,668 as of December 31, 2018, respectively.

c. Impairment of FVOCI investments

For CY 2017, the Group determines that FVOCI 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 FVOCI investments are P238,225,846,879 for both the Group and Parent as of December 31, 2017.

For CY 2018, the Group recognized impairment/allowance for credit losses on debt securities even before an objective evidence of impairment becomes apparent. Further, it considered past events, current conditions and forecasts of future economic conditions in assessing impairment. Equity securities at FVOCI are not subject to impairment assessment. The carrying values of FVOCI investments for the Group and Parent as of December 31, 2018 are P111,268,777,036 and P110,786,754,095, 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 P8,183,696,092 and P7,960,167,665 as of December 31, 2018 and P7,704,663,099 and P7,222,632,456 as of December 31, 2017, respectively.

4. Fair Value Hierarchy

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

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

As of December 31, 2018 and 2017, the fair value hierarchy of the Parent's assets and liabilities are presented below:

	As of December 31, 2018				
	Book Value	Level 1 a/	Level 2 b/	Level 3 c/	Total Fair Value
FINANCIAL ASSETS					
FVTPL	**10,591,290,490**	**6,156,447,966**	**3,496,912,079**	**937,930,445**	**10,591,290,490**

Debt Securities	6,247,351,926	6,156,447,966	0	90,903,960	6,247,351,926
Domestic	5,920,707,906	5,829,803,946	0	90,903,960	5,920,707,906
FX-Reg	0	0	0	0	0
FCDU	326,644,020	326,644,020	0	0	326,644,020
Equity Securities	847,026,485	0	0	847,026,485	847,026,485
Domestic	0	0	0	0	0
FX-Reg	847,026,485	0	0	847,026,485	847,026,485
FCDU	0	0	0	0	0
Derivative w/ positive FV	3,496,912,079	0	3,496,912,079	0	3,496,912,079
PLFD	3,289,615,516	0	3,289,615,516	0	3,289,615,516
FX-Reg	109,311,788	0	109,311,788	0	109,311,788
FCDU	97,984,775	0	97,984,775	0	97,984,775
FVOCI	**99,053,725,226**	**105,300,922,570**	**0**	**4,697,131,966**	**109,998,054,536**
Debt Securities	88,835,479,371	87,553,488,670	0	58,989,856	87,612,478,526
Domestic	47,472,096,826	46,274,200,044	0	58,989,856	46,333,189,900
FX-Reg	3,191,978,853	3,238,333,992	0	0	3,238,333,992
FCDU	38,171,403,692	38,040,954,634	0	0	38,040,954,634
Equity Securities	10,218,245,855	17,747,433,900	0	4,638,142,110	22,385,576,010
Domestic	5,530,888,955	17,747,433,900	0	560,650,392	18,308,084,292
FX-Reg	4,687,356,900	0	0	4,077,491,718	4,077,491,718
FCDU	0	0	0	0	0
HTC	**492,170,710,901**	**423,821,161,731**	**6,995,176,652**	**9,677,817,211**	**440,494,155,594**
Debt Securities	492,170,710,901	423,821,161,731	6,995,176,652	9,677,817,211	440,494,155,594
Domestic	458,807,377,690	399,909,493,987	5,947,689,682	140,100,776	405,997,284,445
FX-Reg	8,254,006,342	1,421,726,122	0	6,867,201,747	8,288,927,869
FCDU	25,109,326,869	22,489,941,622	1,047,486,970	2,670,514,688	26,207,943,280
Total	**601,815,726,617**	**535,278,532,267**	**10,492,088,731**	**15,312,879,622**	**561,083,500,620**
FINANCIAL LIABILITIES					
Bills Payable	**31,256,837,033**	**0**	**30,999,525,399**	**257,311,634**	**31,256,837,033**
BSP Rehabilitation Program	62,154,642	0	0	62,154,642	62,154,642
Domestic Borrowings (ODA thru BTr)	195,156,992	0	0	195,156,992	195,156,992
Foreign Borrowings (ODA)	26,793,125,399	0	26,793,125,399	0	26,793,125,399
Interbank Loans-Foreign Regular	4,206,400,000	0	4,206,400,000	0	4,206,400,000
Total	**31,256,837,033**	**0**	**30,999,525,399**	**257,311,634**	**31,256,837,033**

			As of December 31, 2017		
	Book Value	**Level 1 a/**	**Level 2 b/**	**Level 3 c/**	**Total Fair Value**
FINANCIAL ASSETS					
FVTPL	**13,366,264,729**	**11,273,543,561**	**2,092,721,168**	**0**	**13,366,264,729**
Debt Securities	11,277,862,485	11,273,543,561	4,318,924	0	11,277,862,485
Domestic	11,277,862,485	11,273,543,561	4,318,924	0	11,277,862,485
FX-Reg	0	0	0	0	0
FCDU	0	0	0	0	0
Derivative w/ positive FV	2,088,402,244	0	2,088,402,244	0	2,088,402,244
FX-Reg	513,971,511	0	513,971,511	0	513,971,511
PLFD	1,481,384,331	0	1,481,384,331	0	1,481,384,331
FCDU	93,046,402	0	93,046,402	0	93,046,402
FVOCI	**228,822,603,787**	**227,912,158,561**	**1,139,926,971**	**5,688,703,995**	**234,740,789,527**
Debt Securities	217,493,023,651	212,297,020,841	1,139,926,971	0	213,436,947,812
Domestic	178,552,394,332	171,600,159,961	1,139,926,971	0	172,740,086,932
FX-Reg	4,209,735,524	4,475,265,345	0	0	4,475,265,345
FCDU	34,730,893,795	36,221,595,535	0	0	36,221,595,535
Equity Securities	3,988,495,960	15,615,137,720	0	0	15,615,137,720
Domestic	3,988,495,960	15,615,137,720	0	0	15,615,137,720
FX-Reg	0	0	0	0	0
FCDU	0	0	0	0	0
INMES (Net of VR)	7,341,084,176	0	0	5,688,703,995	5,688,703,995
HTC	**317,123,977,928**	**303,887,735,013**	**4,606,239,447**	**0**	**308,493,974,460**
Debt Securities	317,123,977,928	303,887,735,013	4,606,239,447	0	308,493,974,460
Domestic	309,021,890,200	294,651,418,445	4,606,239,447	0	299,257,657,892

	As of December 31, 2017				
	Book Value	Level 1 a/	Level 2 b/	Level 3 c/	Total Fair Value
FX-Reg	756,319,782	888,208,265	0	0	888,208,265
FCDU	7,345,767,946	8,348,108,303	0	0	8,348,108,303
UDSCL	**10,724,049,656**	**0**	**440,882,366**	**13,641,639,872**	**14,082,522,238**
Debt Securities	10,358,923,058	0	440,882,366	13,276,513,274	13,717,395,640
Domestic	434,596,528	0	440,882,366	0	440,882,366
FX-Reg	7,153,965,015	0	0	9,486,217,377	9,486,217,377
FCDU	2,770,361,515	0	0	3,790,295,897	3,790,295,897
Equity Securities	365,126,598	0	0	365,126,598	365,126,598
Domestic	365,126,598	0	0	365,126,598	365,126,598
FX-Reg	0	0	0	0	0
FCDU	0	0	0	0	0
Total	**570,036,896,100**	**543,073,437,135**	**8,279,769,952**	**19,330,343,867**	**570,683,550,954**
FINANCIAL LIABILITIES					
Bills Payable	**24,570,643,333**	**0**	**24,304,845,380**	**265,797,953**	**24,570,643,333**
BSP Rehabilitation Program	62,381,800	0	0	62,381,800	62,381,800
Domestic Borrowings (ODA thru BTr)	203,416,153	0	0	203,416,153	203,416,153
Foreign Borrowings (ODA)	24,304,845,380	0	24,304,845,380	0	24,304,845,380
Total	**24,570,643,333**	**0**	**24,304,845,380**	**265,797,953**	**24,570,643,333**

5. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2018	2017	2018	2017
Cash on hand	36,907,669,455	31,202,307,803	36,805,705,609	31,202,262,803
Checks and other cash items	51,101,841	102,351,901	51,003,136	102,351,901
Returned checks and other cash items	98,890,550	42,674,041	98,599,507	42,674,041
Miscellaneous checks and other cash items	0	68,445	0	68,445
Petty cash fund	9,944,000	8,236,000	8,892,000	7,646,000
Revolving fund	442,011	442,011	235,508	235,508
Payroll fund	3,829,729	29,245,995	3,829,729	29,245,995
	37,071,877,586	31,385,326,196	36,968,265,489	31,384,484,693

6. Due from Bangko Sentral ng Pilipinas

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

7. Due from Other Banks

This account consists of:

	Group		Parent	
	2018	2017	2018	2017

Deposit with local banks	539,066,945	264,150,453	1,357,696,336	185,845,776
Deposit with foreign banks	4,352,750,210	4,920,640,933	4,352,750,210	4,920,640,933
Allowance for Credit Losses	(2,600,060)	0	(2,600,060)	0
Accrued Interest Receivable	1,745	0	1,605,556	0
	4,889,218,840	5,184,791,386	5,709,452,042	5,106,486,709

The Group maintains nostro accounts on global basis with 23 foreign depository banks totaling 27 and 28 bank accounts in 2018 and 2017, respectively, the most significant of which are as follows:

2018	2017
1. Standard Chartered Bank, N.Y.	1. Wells Fargo Bank, N.A.
2. Wells Fargo Bank, N.A.	2. Standard Chartered Bank, N.Y.
3. The Bank of New York	3. The Bank of New York
4. JP Morgan Chase Bank	4. Standard Chartered Bank, Frankfurt
5. Citibank N.Y.	5. LandesBank Baden-Wurttemberg

8. 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:

	2018			2017		
Domestic	3.03%	to	4.97%	2.55%	to	2.75%
Foreign	0.95%	to	2.60%	0.55%	to	1.90%

9. Securities Purchased under Agreements to Resell

This account consists of:

	Group		Parent	
	2018	2017	2018	2017
Domestic				
Government Securities Purchased under Reverse Repurchase Agreement				
BSP	50,529,000,000	50,390,420,809	50,000,000,000	50,390,420,809
Private Corporation	0	1,832,343,520	0	1,832,343,520
Accrued Interest Receivable	20,159,021	10,160,782	19,791,667	10,160,782
	50,549,159,021	52,232,925,111	50,019,791,667	52,232,925,111

Securities Purchased under Agreements to Resell with BSP carry interest rate at 4.75 per cent and 3.00 per cent as at December 31, 2018 and 2017, respectively. While Repo with Private Corporation carry interest rate at 3.50 per cent as at December 31, 2017.

10. Fair Value Thru Profit or Loss (FVTPL)

This consists of:

	Group		Parent	
	2018 Under FVTPL	2017 Under HFT	2018 Under FVTPL	2017 Under HFT
Government Securities – Domestic	5,874,464,812	11,273,543,561	5,829,803,946	11,273,543,561
Government Securities – Foreign	326,644,020	0	326,644,020	0
Private Securities – Domestic	937,930,444	4,318,924	937,930,444	4,318,924
Derivative with positive fair value	3,496,912,080	2,088,402,244	3,496,912,080	2,088,402,244
Accrued Interest Receivable	9,643,972	19,871,763	9,370,895	19,871,763
	10,645,595,328	13,386,136,492	10,600,661,385	13,386,136,492

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

	2018			2017		
Domestic	3.875%	to	5.50%	1.120%	to	10.50%
Foreign	3.0%	to	10.65%	0%	to	0%

FVTPL includes the foreign exchange (FX) risk cover of the Parent's borrowings from multilateral agencies amounting to P3,289,615,516 and P1,481,384,331 in 2018 and 2017, 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, 2018, the outstanding notional amount of the FX risk cover amounted to JPY16,310,675,873 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 P1,808,231,186 in 2018 and P267,623,325 in 2017.

The derivative with positive fair value comprise of the following:

	2018	2017
Foreign Exchange Risk Cover	3,289,615,516	1,481,384,331
Debt Warrants	97,984,776	93,046,402
Forward Contracts	109,311,788	513,971,511
	3,496,912,080	2,088,402,244

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

11. Fair Value Through Other Comprehensive Income (FVOCI)

This account consists of:

	Group		Parent	
	2018 Under FVOCI	**2017 Under AFS**	**2018 Under FVOCI**	**2017 Under AFS**
Domestic				
Government	46,751,087,568	171,600,159,961	46,274,200,044	171,600,159,961
Private	18,367,074,148	16,755,064,692	18,367,074,148	16,755,064,692
Foreign				
Government	41,279,288,626	38,498,020,707	41,279,288,626	38,498,020,707
Private securities	4,077,491,718	2,198,840,173	4,077,491,718	2,198,840,173
Investment in non-marketable securities, net of allowance for probable losses of P1,409,212,337 in 2017	0	7,341,084,176	0	7,341,084,176
Accrued Interest Receivable	793,834,976	1,832,677,170	788,699,559	1,832,677,170
	111,268,777,036	238,225,846,879	110,786,754,095	238,225,846,879

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

	2018			2017		
Domestic	3.875%	to	6.38%	2.12%	to	12.88%
Foreign	2.00%	to	11.63%	1.50%	to	10.63%

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

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

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

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

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

The Parent's shares of stock in MERALCO are not part of the Agrarian Reform Fund (ARF), a fund which is solely answerable to the obligation of the National Government pursuant to its Agrarian Reform Program. In accordance with Section 63 of Republic Act 6657 (Comprehensive Agrarian Reform Law), assets of the 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 with market value of P1,279,384,000, plus accrued cash dividends thereon, amounting to P403,480,679 and P358,446,362 as of December 31, 2018 and 2017, 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.

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

After the submission of the parties' respective Memoranda, the Supreme Court issued a resolution which merely noted the filing of the said pleadings. To date, we have not received a Decision on the unrecovered shares of stocks.

- The Parent's Accumulated market gains/losses on FVOCI government and private issues as of December 31, 2018 amounted to P11,908,549,439.

- Total Fair Value Through Profit/ Loss and Fair Value Through Other Comprehensive Income accounts of the Parent include investment of US$16,109,290 (P847,026,485) in Metro Rail Transit Corporation's (MRTC) preference shares and US$77,547,518 (P4,077,448,522) in Unsecuritized Equity Rental Payments, respectively.

In 2008, the National Government, as confirmed through Executive Order No. 855 dated January 18, 2010, instructed LBP and the Development Bank of the Philippines (DBP) to acquire majority interest in MRTC as a result of the recommendation made by the inter-agency Committee tasked to review the MRT III project. In the same year, the LBP Board of Directors approved the purchase of MRTC interests in the form of unsecuritized portion of the Equity Rental Payment (ERP), MRT Bonds (See Notes to the Financial Statements No.12) and Preference Shares issued by MRT III Funding Corporation. LBP together with DBP completed its acquisition in May 2009, collectively owning around 80 per cent of MRTC interests. LBP owns approximately 37.77 per cent economic interest in MRTC.

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

	Acquisition Cost As of December 31, 2018 (In US Dollars)	Book Value As of December 31, 2018 (In US Dollars)	Percentage in MRTC
▪ MRT III Bonds	78,905,963	181,394,379	
▪ MRT III Preferred Shares	54,000,000	16,109,290	
Securitized ERPs	132,905,963	197,503,669	26.65%
Unsecuritized ERPs	90,579,859	77,547,519	11.12%
	223,485,822	275,051,188	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.

12. Hold to Collect (HTC)

This account consists of:

	Group		Parent	
	2018 Under HTC	**2017 Under HTM As restated**	**2018 Under HTC**	**2017 Under HTM**
Government				
Domestic	453,805,532,225	305,504,222,949	452,657,665,521	304,414,216,748
Foreign	20,284,152,756	7,483,993,748	20,284,152,756	7,483,993,748
Private				
Domestic	6,892,613,333	4,635,366,937	6,840,015,414	4,607,673,453
Foreign	13,079,180,455	618,093,979	13,079,180,455	618,093,979
Allow. For Credit Losses	(407,001,319)	0	(407,001,319)	0
Accrued Interest Receivable	4,074,087,033	2,849,953,836	4,074,087,033	2,849,953,836
Allow. For Credit Losses	(8,740,571)	0	(8,740,571)	0
	497,719,823,912	321,091,631,449	496,519,359,289	319,973,931,764

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

	2018			2017		
Domestic	3.25%	to	18.25%	2.12%	to	18.25%
Foreign	5.25%	to	11.63%	1.50%	to	10.63%

13. Loans and Receivables

This account consists of:

	Group		Parent	
	2018	**2017 As restated**	**2018**	**2017**
Interbank loans receivable	30,676,329,585	23,381,523,497	30,676,329,585	23,381,523,497
Allowance for credit losses	(513,043,978)	(494,034,413)	(513,043,978)	(494,034,413)
	30,163,285,607	22,887,489,084	30,163,285,607	22,887,489,084
Loans to Government	96,285,348,642	85,003,110,577	97,628,514,921	86,610,312,991
Allowance for credit losses	(16,324,559)	(58,695,811)	(16,324,559)	(58,695,811)
	96,269,024,083	84,944,414,766	97,612,190,362	86,551,617,180
Agrarian Reform and other Agriculture Loans	118,857,535,711	94,308,830,739	118,475,275,248	94,296,074,627
Allowance for credit losses	(1,232,041,287)	(501,725,947)	(1,192,578,485)	(492,406,326)
	117,625,494,424	93,807,104,792	117,282,696,763	93,803,668,301
Microfinance Loans	24,857,874,336	16,711,201,915	24,845,496,416	16,711,201,915
Allowance for credit losses	(350,619,101)	(304,605,896)	(347,280,354)	(304,605,896)
	24,507,255,235	16,406,596,019	24,498,216,062	16,406,596,019
SME/MSE Loans	66,391,846,173	62,161,803,998	65,294,070,772	61,535,264,304
Allowance for credit losses	(1,557,267,631)	(1,546,538,791)	(1,430,757,268)	(1,476,935,402)
	64,834,578,542	60,615,265,207	63,863,313,504	60,058,328,902
Contract to Sell	1,297,038,637	1,086,890,095	890,538,032	1,086,890,095
Allowance for credit losses	(256,142,934)	(95,852,304)	(203,695,236)	(95,852,304)
	1,040,895,703	991,037,791	686,842,796	991,037,791
Loans to Private Corporation	427,896,778,130	287,616,688,319	424,512,701,072	286,699,962,153
Allowance for credit losses	(5,443,995,844)	(1,503,731,587)	(5,046,256,197)	(1,413,436,875)
	422,452,782,286	286,112,956,732	419,466,444,875	285,286,525,278
Loans to Individuals for Housing Purposes	5,897,009,007	5,298,893,903	5,840,863,258	5,298,893,903
Allowance for credit losses	(136,107,284)	(143,956,974)	(133,209,616)	(143,956,974)
	5,760,901,723	5,154,936,929	5,707,653,642	5,154,936,929
Loans to Individual for Consumption	30,066,089,544	23,590,846,852	29,628,271,012	23,590,846,852
Allowance for credit losses	(762,611,204)	(664,885,163)	(621,822,808)	(664,885,163)
	29,303,478,340	22,925,961,689	29,006,448,204	22,925,961,689
Loans to Individual for Other Purposes	1,559,307,250	2,163,769,452	1,337,768,352	1,955,862,989
Allowance for credit losses	(37,293,821)	(27,766,950)	(20,855,212)	(23,887,146)
	1,522,013,429	2,136,002,502	1,316,913,140	1,931,975,843
General loan loss provision	(5,239,759,885)	(14,405,608)	(5,191,145,085)	0
	788,239,949,487	595,967,359,903	784,412,859,870	595,998,137,016
Accrued interest receivable	7,026,333,612	4,316,194,489	6,976,914,603	4,312,242,942
Allowance for credit losses	(242,498,037)	(207,689,259)	(222,661,040)	(207,661,804)
	6,783,835,575	4,108,505,230	6,754,253,563	4,104,581,138
Accounts receivable	2,222,330,653	1,577,848,430	1,573,259,447	1,386,156,007
Allowance for credit losses	(1,348,944,562)	(840,614,254)	(1,290,616,035)	(800,117,462)
	873,386,091	737,234,176	282,643,412	586,038,545
Sales contract receivable	928,752,212	1,106,403,155	899,038,278	1,170,706,548
Allowance for credit losses	(39,295,323)	(23,618,359)	(39,295,323)	(23,536,124)
	889,456,889	1,082,784,796	859,742,955	1,147,170,424
Due from ARF	81,372,579	107,546,452	81,372,579	107,546,452
Unquoted debt securities	0	11,489,212,785	0	11,489,212,785
Allowance for credit losses	0	(717,276,758)	0	(717,276,758)

	Group		Parent	
	2018	2017 As restated	2018	2017
	0	10,771,936,027	0	10,771,936,027
Lease contract receivable	1,901,732,803	1,686,688,619	0	0
Allowance for credit losses	(29,638,520)	(25,559,852)	0	0
	1,872,094,283	1,661,128,767	0	0
	798,740,094,904	614,436,495,351	792,390,872,379	612,715,409,602

Interest rates on loans in 2018 range from 1.00 per cent to 15.00 per cent for peso denominated loans and from zero per cent to 9.50 per cent for foreign currency denominated loans.

Allowance for credit losses

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

	2018	2017
Balance, January 1	5,168,696,310	5,077,435,761
Provision	3,718,467,212	1,097,966,193
Write-offs	(193,233,393)	(518,577,316)
Transfers and other adjustments	6,023,038,669	(488,128,328)
Balance, December 31	14,716,968,798	5,168,696,310

As of December 31, 2018 and 2017, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2018		2017	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	89,339,776,349	11.18	74,009,347,617	12.31
Various guarantees	206,480,595,081	25.84	171,630,612,724	28.55
Various mortgages	247,732,936,587	31.00	201,152,010,569	33.46
	543,553,308,017	68.02	446,791,970,910	74.32
Unsecured loans	255,576,520,651	31.98	154,374,862,416	25.68
Gross loan at amortized cost	799,129,828,668	100.00	601,166,833,326	100.00

Non-performing loans (NPLs) included in the total loan portfolio of the Parent are presented below as net of specific allowance for credit losses on NPLs in compliance with BSP Circular No. 772 and 941, which amends regulations governing non-performing loans.

	2018	2017
Total NPLs	9,134,879,593	6,599,423,133
Allowance for credit losses	(5,419,467,970)	(4,409,334,072)
Net NPLs	3,715,411,623	2,190,089,061

14. Investment in Subsidiaries

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

Name	2018	2017
Overseas Filipino Bank, Inc.	1,021,758,876	0
LBP Leasing and Finance Corporation (formerly LBP Leasing Corporation)	310,252,630	310,252,630
LBP Insurance Brokerage, Inc.	52,500,000	52,500,000
LBP Resources and Development Corporation	51,467,436	51,467,436
Masaganang Sakahan, Inc.	24,554,940	24,554,941
	1,460,533,882	438,775,007

Pursuant to the directive of Malacañang Executive Order (EO) No. 44 dated September 28, 2017, the Parent through Investment and Loan Committee Resolution No. 18-088 and Board Resolution No. 18-119 approved the capital infusion of up to P1.701 Billion into Overseas Filipino Bank (OFBank). The initial infusion in the amount of P428,992,000.00 was released on July 06, 2018. Further, the OFBank per Board Resolution No. 2018-73 has approved the increase in Authorized Capital Stock (ACS) amounting to P3.5 Billion where P3 Billion is allocated as common shares. Pending approval by the proposed increase of ACS by BSP and the Securities and Exchange Commission (SEC), the second tranche of the Parent's capital infusion amounting to P500,000,000.00 was released to OFBank on January 04, 2019 as Deposit for Stock Subscription (DSS). The same EO directed the Philippine Postal Corporation (PPC) and Bureau of Treasury (BTr) to transfer their respective OFBI shares to the Parent at zero value. The shares were transferred in March 2018 and the investment was recorded at provisional value since the fair value of the net assets on acquisition date has not yet been established.

15. Investment in Associates

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

16. Investment Property

This account consists of:

	Group						
	2018				2017		
	Land	Building	Others	Total	Land	Building	Total
At Cost							
At January 1	4,645,667,587	2,625,360,056	0	7,271,027,643	5,324,096,900	2,751,086,499	8,075,183,399
Additions/(Disposals)	(209,693,295)	280,886,659	19,393,890	90,587,254	(671,694,313)	(116,272,443)	(787,966,756)
Transfers/Adjustment	0	0	0	0	(6,735,000)	(9,454,000)	(16,189,000)
At December 31	4,435,974,292	2,906,246,715	19,393,890	7,361,614,897	4,645,667,587	2,625,360,056	7,271,027,643
Accumulated depreciation and impairment							
At January 1	550,223,525	1,036,804,551		1,587,028,076	719,348,362	1,067,699,132	1,787,047,494

	Group						
	2018				2017		
	Land	Building	Others	Total	Land	Building	Total
Depreciation	0	144,515,074	2,895,296	147,410,370	0	125,027,255	125,027,255
Transfers/Adjustment	926,344	(123,151,522)	12,651,300	(109,573,878)	0	(213,147,246)	(213,147,246)
Impairment	(127,242,090)	80,632,166	3,847,293	(42,762,631)	(169,124,837)	57,225,410	(111,899,427)
At December 31	423,907,779	1,138,800,269	19,393,889	1,582,101,937	550,223,525	1,036,804,551	1,587,028,076
Net book value	4,012,066,513	1,767,446,446	1	5,779,512,960	4,095,444,062	1,588,555,505	5,683,999,567

	Parent					
	2018			2017		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	4,561,363,317	2,540,275,283	7,101,638,600	5,227,972,998	2,667,188,503	7,895,161,501
Additions/(Disposals)	(336,424,752)	94,230,527	(242,194,225)	(666,609,681)	(126,913,220)	(793,522,901)
At December 31	4,224,938,565	2,634,505,810	6,859,444,375	4,561,363,317	2,540,275,283	7,101,638,600
Accumulated depreciation and impairment						
At January 1	539,601,581	990,426,016	1,530,027,597	713,010,845	1,022,242,560	1,735,253,405
Depreciation	0	126,686,428	126,686,428	0	123,455,943	123,455,943
Transfers/Adjustment	0	(138,613,592)	(138,613,592)	0	(212,367,291)	(212,367,291)
Impairment	(136,072,319)	80,632,166	(55,440,153)	(173,409,264)	57,094,804	(116,314,460)
At December 31	403,529,262	1,059,131,018	1,462,660,280	539,601,581	990,426,016	1,530,027,597
Net book value	3,821,409,303	1,575,374,792	5,396,784,095	4,021,761,736	1,549,849,267	5,571,611,003

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

As of December 31, 2018 and 2017, the carrying value of investment properties still subject to redemption amounted to P181,110,058 and P148,055,156 , respectively, for the Parent Company. Investment properties with on-going cases amounted to P685,985,377 and P1,297,840,959 as of December 31, 2018 and 2017, respectively. Properties amounting to P45,795,824 and P44,392,431 as of December 31, 2018 and 2017, respectively, are agricultural lands covered by the government's agrarian reform program.

In 2018, and 2017, rental income (included under 'Rent' in the statements of income) on investment properties, which are leased out under operating leases, amounted to P9,789,590 and P14,883,828, respectively, for the Parent Company. In 2018 and 2017, direct operating expenses, consisting of depreciation and amortization and repairs and maintenance (included in the statements of comprehensive income) pertaining to investment properties amounted to P126,686,428 and P123,455,943, respectively.

17. Property and Equipment

This account consists of:

	Group									
									Total	
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	2018	2017 As restated
At Cost										
At January 1,as restated	615,866,513	178,330,312	4,749,151,532	949,901,436	60,444,761	7,915,570,171	772,239,543	99,617,946	15,341,122,214	14,468,237,465
Additions	877,720,127	70,160,332	297,831,104	207,698,686	30,953,833	660,866,227	71,886,554	88,790,148	2,305,907,011	1,612,246,122
Disposals	0	0	(833,310)	(20,186,362)	(5,248,421)	(269,781,599)	(313,165,914)	(18,369,901)	(627,585,507)	(507,917,489)

Group	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2018	Total 2017 As restated
Transfers	(600,000)	(100,165,757)	(118,976,907)	28,376,400	28,504,933	151,802,697	(5,455,331)	(50,632,745)	(67,146,710)	(231,443,884)
At December 31	1,492,986,640	148,324,887	4,927,172,419	1,165,790,160	114,655,106	8,458,457,496	525,504,852	119,405,448	16,952,297,008	15,341,122,214
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	1,975,683,666	385,727,070	40,547,351	4,798,489,978	323,917,135	86,295,052	7,610,660,252	7,299,072,029
Depreciation & amortization	0	0	120,382,485	87,214,551	2,412,102	720,192,373	24,389,172	22,365,337	976,956,020	814,761,450
Disposals	0	0	(31,058,043)	(3,189,484)	(4,067,893)	(253,700,107)	(2,354,401)	(16,530,631)	(310,900,559)	(371,895,152)
Transfers/Adjustments	0	0	203,831,105	8,011,772	52,519,287	214,654,204	(1,630,495)	(42,719,381)	434,666,492	(131,278,075)
At December 31	0	0	2,268,839,213	477,763,909	91,410,847	5,479,636,448	344,321,411	49,410,377	8,711,382,205	7,610,660,252
Allow for Losses	0	0	34,503,790	1,248,985	7,987,971	18,968,972	0	(5,491,007)	57,218,711	25,798,863
Net book value	1,492,986,640	148,324,887	2,623,829,416	686,777,266	15,256,288	2,959,852,076	181,183,441	75,486,078	8,183,696,092	7,704,663,099

Parent	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2018	Total 2017
At Cost										
At January 1	605,084,513	179,569,300	4,650,603,399	947,920,160	40,217,834	7,881,869,694	336,987,339	80,235,200	14,722,487,439	13,839,716,070
Additions	746,712,127	70,160,332	256,329,204	207,691,047	30,953,833	645,388,746	71,886,554	88,163,367	2,117,285,210	1,551,645,287
Disposals			(833,310)	(19,457,249)	(2,903,693)	(269,781,581)	(1,811,662)	(18,369,901)	(313,157,396)	(439,357,831)
Transfers	(600,000)	(179,643,035)	75,119,409	2,130,655	14,682,285	(34,256,263)	0	(50,612,816)	(173,179,765)	(229,516,087)
At December 31	1,351,196,640	70,086,597	4,981,218,702	1,138,284,613	82,950,259	8,223,220,596	407,062,231	99,415,850	16,353,435,488	14,722,487,439
Accumulated Depreciation & Amortization										
At January 1	0	0	1,930,790,094	385,722,119	28,137,999	4,776,163,917	281,060,450	72,181,541	7,474,056,120	7,171,147,631
Depreciation & amortization	0	0	113,864,760	85,840,045	446,749	711,174,888	16,170,312	21,157,126	948,653,880	797,772,106
Disposals	0	0	(31,058,043)	(3,189,484)	(1,931,556)	(253,700,107)	0	(16,530,631)	(306,409,821)	(364,595,252)
Transfers/Adjustments	0	0	189,725,969	(12,549,737)	39,906,569	47,016,008	(1,630,495)	(42,719,381)	219,748,933	(130,268,365)
At December 31	0	0	2,203,322,780	455,822,943	66,559,761	5,280,654,706	295,600,267	34,088,655	8,336,049,112	7,474,056,120
Allow for Losses	0	0	34,503,790	1,248,985	7,987,971	18,968,972	0	(5,491,007)	57,218,711	25,798,863
Net book value	1,351,196,640	70,086,597	2,743,392,132	681,212,685	8,402,527	2,923,596,918	111,461,964	70,818,202	7,960,167,665	7,222,632,456

Depreciation and amortization of the Group amounting to P976,956,020 and P814,761,450 and of the Parent amounting to P948,653,880 and P797,772,106 in 2018 and 2017, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Office equipment, furniture and vehicles with carrying amount of P218,628,267 and P125,586,902 in 2018 and 2017, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P46,026,465 and P45,737,950 in 2018 and 2017, respectively.

18. Other Intangible Assets

This account consists of:

	Group 2018	Group 2017	Parent 2018	Parent 2017
Cost				
At January 1	2,335,318,875	1,923,488,547	2,307,297,599	1,916,129,516
Additions	296,003,302	391,738,401	292,824,447	391,168,083

	Group		Parent	
	2018	2017	2018	2017
Deduction:Reclassification to Office Equipment	0	(35,000)	0	0
At December 31	2,631,322,177	2,315,191,948	2,600,122,046	2,307,297,599
Accumulated Depreciation and Amortization				
At January 1	1,040,801,162	928,414,397	1,037,542,894	925,479,859
Additions	417,742,899	112,386,765	407,357,703	112,063,035
At December 31	1,458,544,061	1,040,801,162	1,444,900,597	1,037,542,894
Net Book Value	1,172,778,116	1,274,390,786	1,155,221,449	1,269,754,705

19. Other Assets

This account consists of:

	Group		Parent	
	2018	2017 As restated	2018	2017
Sundry debits	1,278,286,491	3,300,224,422	1,278,231,690	3,300,224,422
Prepaid expenses	237,576,331	849,626,810	247,477,751	863,054,159
Documentary stamps	620,493,947	50,995,687	615,212,716	50,995,687
Stationery & supplies on hand	120,953,546	87,296,290	114,202,442	85,706,112
Accounts receivable-net	98,623,887	142,106,131	96,104,355	110,683,017
Inter-office float items	145,851	1,849,331	145,851	1,849,331
Others	2,714,788,265	2,541,632,826	2,772,875,214	2,472,228,495
Allowance for credit losses	(58,034,681)	(36,948,489)	(28,034,681)	(36,948,489)
	5,012,833,637	6,936,783,008	5,096,215,338	6,847,792,734

20. Allowance for Credit Losses and Impairment Losses

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

	2018	2017
Balance at beginning of year:		
Loan portfolio	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
Provisions charged to operations	3,852,491,480	1,109,626,624
Accounts charged off and others	(216,269,860)	(518,577,316)
Transfer/adjustments	4,499,694,229	(540,724,100)
	8,135,915,849	50,325,208
Balance December 31	17,419,935,415	9,284,019,566
Balance at end of year:		
Loan portfolio (Note 13)	14,716,968,798	5,168,696,310
Receivables from customers and other assets	2,702,966,617	4,115,323,256
	17,419,935,415	9,284,019,566

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:

	2018	2017
Loans and receivables	3,718,467,212	1,097,966,193
Other loans and receivables	8,967,360	3,939,242
Property and equipment	31,882,888	2,123,622
Others	93,174,020	5,597,567
	3,852,491,480	1,109,626,624

21. Deposit Liabilities

This account consists of:

	Group		Parent	
	2018	2017	2018	2017
Domestic				
Demand deposits	798,178,666,838	709,255,131,727	798,036,465,982	709,508,966,307
Savings deposits	758,183,038,776	629,561,441,753	751,240,612,971	629,561,456,064
Time certificate of deposits	617,284,897	639,712,721	582,649,579	639,712,721
Long Term Negotiable Certificate of Deposits	11,000,000,000	11,000,000,000	11,000,000,000	11,000,000,000
	1,567,978,990,511	1,350,456,286,201	1,560,859,728,532	1,350,710,135,092
Foreign				
Demand deposits –FCDU/EFCDU	0	0	0	0
Savings deposit –FCDU/EFCDU	19,489,379,305	16,209,512,264	19,488,220,995	16,209,512,264
Time certificate of deposit-FCDU/EFCDU	75,793,870,608	58,553,708,641	75,793,327,845	58,553,708,641
	95,283,249,913	74,763,220,905	95,281,548,840	74,763,220,905
	1,663,262,240,424	1,425,219,507,106	1,656,141,277,372	1,425,473,355,997

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.100 to 6.50 per cent and 0.25 to 3.75 per cent in 2018 and 2017, respectively. Foreign deposit rates range from 0.15 to 2.05 per cent and from 0.31 to 1.12 per cent in 2018 and 2017, respectively. In 2018 and 2017, P1,217,823,862,578 or 74 per cent and P1,046,327,990,132 or 73 per cent, respectively, of the Parent's deposit portfolio came from the government while the rest came from private depositors.

22. Bills Payable

This account consists of:

	Group		Parent	
	2018	2017	2018	2017
Bangko Sentral ng Pilipinas	62,154,642	62,381,800	62,154,642	62,381,800
Domestic borrowings	1,369,156,992	998,416,153	195,156,992	203,416,153
Foreign borrowings	26,793,125,399	24,314,309,706	26,793,125,399	24,314,309,706
Foreign interbank borrowings	4,206,400,000	0	4,206,400,000	0
	32,430,837,033	25,375,107,659	31,256,837,033	24,580,107,659

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

Creditor/Funder	2018	2017
World Bank/IBRD	12,530,950,113	11,251,244,042
Asian Development Bank (ADB)	492,587,972	526,700,409
Japan International Cooperation Agency (JICA)	12,266,376,573	10,990,095,259

Kreditanstalt fur Wiederaufbau (KfW)	1,503,210,741	1,546,269,996
	26,793,125,399	24,314,309,706

The total foreign borrowings of P26,793,125,399 is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P14,323,526,049 are provided with foreign exchange risk cover (FXRC) by the National Government. This has historical value of P13,146,716,329. 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 2018 range from 0.01 to 2.70 per cent and 4.75 per cent, respectively, while for 2017, the rates range from 0.01 to 2.70 per cent and 0.75 to 4.75 per cent, for foreign and domestic borrowings, respectively.

23. Other Liabilities

This account consists of:

	Group		Parent	
	2018	**2017 As restated**	**2018**	**2017 As restated**
Accrued interest, fringe benefits, taxes and other expense payable	6,175,795,214	5,795,025,725	6,120,705,590	6,311,144,395
Accounts payable	22,844,729,311	21,393,744,012	22,683,310,064	21,190,391,391
Due to Agrarian Reform Fund	171,130,728	200,709,929	171,130,728	200,709,929
Sundry credits	750,917,089	1,180,757,638	750,917,089	1,180,757,638
Unearned income	48,446,223	29,963,772	15,622,034	32,984,303
Withholding tax payable	315,183,924	237,128,397	311,520,042	234,805,308
Miscellaneous liabilities	2,942,108,580	4,766,310,850	2,908,723,167	4,735,230,233
Provision for estimated credit losses	431,529,554	0	431,529,554	0
Others	2,264,451,019	1,574,771,145	1,839,216,314	1,121,567,976
	35,944,291,642	35,178,411,468	35,232,674,582	35,007,591,173

24. Income and Other Taxes

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

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

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

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

	Group		Parent	
	2018	2017	2018	2017
Current:				
Normal income tax (NIT)	985,466,889	903,386,491	898,463,001	805,019,191
Income tax-final	0	1,503,541	0	0
	985,466,889	904,890,032	898,463,001	805,019,191
Deferred	(729,480,019)	(493,046,526)	(736,988,242)	(485,406,737)
	255,986,870	411,843,506	161,474,759	319,612,454

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

	Group		Parent	
	2018	2017	2018	2017
Statutory income tax	5,135,156,762	4,803,421,108	5,025,429,122	4,747,493,247
Additions to (reductions in) income taxes arising from:				
Non-deductible interest expense	2,615,323,963	2,178,034,747	2,615,305,510	2,178,021,352
Other deductible/Non-deductible expense	556,567,426	392,325,701	562,183,730	390,061,416
FCDU income	(1,194,716,408)	(989,519,824)	(1,194,716,408)	(989,519,824)
Tax exempt & tax paid income	(6,866,452,263)	(5,622,687,915)	(6,855,274,323)	(5,610,414,044)
Others	10,107,390	(349,730,311)	8,547,128	(396,029,693)
	255,986,870	411,843,506	161,474,759	319,612,454

The net deferred income tax asset reported by the Parent amounted to P3,418,973,804 and P2,808,807,996 for CY 2018 and 2017, respectively while the subsidiaries recognized deferred tax assets of P64,618,884 and P69,977,925 for CY 2018 and 2017, 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	
	2018	2017
Deferred tax asset:		
Allowance for credit losses	3,515,380,405	2,681,985,562
Accrued expenses	651,465,894	200,112,888

	Parent	
	2018	2017
Unrealized loss on foreign exchange/financial assets & liabilities-held for trading	0	149,709,634
	4,166,846,299	3,031,808,084
Deferred tax liability:		
Unrealized gain on financial assets and liabilities-held for trading	188,370,835	223,000,088
Unrealized gain on foreign exchange	559,501,660	0
	747,872,495	223,000,088
	3,418,973,804	2,808,807,996

25. 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, 2018, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues	
Services/operations	34,751,215,531
Non-operating and taxable other income:	
Service charges, fees and commissions	1,664,212,047
Profit from assets sold	553,884,992
Income from trust operations	160,331,621
Others	253,959,207
Total Revenues	37,383,603,398
Expenses	
Cost of services:	
Compensation and fringe benefits	8,824,944,758
Others	10,179,020,208
	19,003,964,966
Itemized deductions:	
Compensation and fringe benefits	2,124,052,943
Taxes and licenses	4,106,808,746
Documentary stamps used	3,840,206,896
Security, messengerial and janitorial	892,211,152
Bad debts	215,961,880
Information technology expenses	608,727,101
Communications, light and water	528,806,861
Depreciation and amortization	633,518,094
Management and professional fees	400,904,686
Fees and commission	258,113,083
Advertising	176,649,948
Transportation and travel	216,144,498

Rent	427,208,952
Trainings and seminars	63,046,058
Representation and entertainment	182,075,610
Insurance	98,832,649
Repairs and maintenance	107,170,214
Others	504,322,391
	15,384,761,762
Total expenses	34,388,726,728
Net taxable income	2,994,876,670

Supplementary information Under RR No. 15-2010

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

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

I. The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2018 are as follows:

Documents / transactions	DST Paid
Debt instruments, bonds, certificate of time deposits	6,258,420,685
Mortgages, pledges, deed of assignments/trust	606,079,950
Foreign bills of exchange, letters of credit	185,033,105
Acceptance of bills of exchange payable in the Philippines	63,214,481
Bank, checks, drafts and telegraphic transfer/others	2,287,479
On assignments and renewal of certain instruments	982,471
Certificates	272,980
Bills of exchange or drafts	94,897
Leases and other hiring agreements	28,206
Sales, agreements to sell, memoranda of sales	2,095
Policies on insurance upon property	586
	7,116,416,935

II. All other taxes, local and national, paid for 2018:

National	
Percentage taxes (GRT)	3,579,457,332
Fringe benefits tax	13,675,680
National taxes	694,730
	3,593,827,742
Local	
Real estate tax	56,807,810
Local business tax	41,934,658
Mayor’s Permit/Municipal License/Other Regulatory Fees/License Permit	92,201,244
Other local taxes	10,575,379
	201,519,091
	3,795,346,833

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

Tax on Compensation and benefits	1,308,743,627
Creditable withholding taxes	168,707,819
Final withholding taxes	2,302,458,983
	3,779,910,429

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

Tax Credits against Income Tax	2,627,869,959
Tax Credits against Gross Receipts Tax	240,648,841
	2,868,518,800

26. 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 2018 and 2017 amounted to P1,061,178,663 and P595,744,261, respectively.

27. Lease Contracts

Operating lease commitments – as lessee

The Parent Company leases the premises occupied by some of its branches (about 84% of the total branches lease their office sites). The terms of these contracts are renewable at the Parent Company's option under certain terms and conditions. Various lease contracts contain escalation clauses. In 2018 and 2017, rent expense (included in the statement of income) of the Parent amounted to P1,558,253,666 and P1,002,226,002, respectively.

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

	Parent	
	2018	**2017**
Within one year	499,178,091	432,634,240
After one year but not more than five years	1,200,237,594	1,030,923,809

More than five years	578,415,256	583,407,886
	2,277,830,941	2,046,965,935

Operating lease commitments – as lessor

The Group has entered into commercial property leases with various tenants on its investment property portfolio and part of its bank premises, consisting of the Group's offices and acquired real properties. Various lease contracts include escalation clauses. Rent income from leases (included in the statements of income) of the Parent amounted to P26,280,770 in 2018 and P21,593,777 in 2017.

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

	Parent	
	2018	**2017**
Within one year	4,462,188	7,403,215
After one year but not more than five years	11,699,081	10,135,869
More than five years	1,473,983	0
	17,635,252	17,539,084

28. Related Party Transactions

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

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

Total outstanding DOSRI loans of the Parent as of December 31, 2018 amounted to P93,043,217,629 of which P92,737,508,407 are government borrowings covered by BSP Circular No. 547.

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

	2018				2017			
	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	30,053,992	1,699,472,695	93,013,163,638	94,742,690,325	21,617,258	1,736,964,454	77,805,962,709	79,564,544,421
Deposit liabilities		195,279,965	0	195,279,965		253,848,891	0	253,848,891
Other liabilities		987,539,196	0	987,539,196		791,071,980	0	791,071,980

	30,053,992	2,882,291,856	93,013,163,638	95,925,509,486	21,617,258	2,781,885,325	77,805,962,709	80,609,465,292

The following are the percentage of DOSRI loans:

	2018	2017
DOSRI to Total Loans	11.64%	12.95%
Unsecured DOSRI to Total DOSRI	1.04%	1.64%
Past due DOSRI to Total DOSRI	0	0
Non-performing DOSRI to Total DOSRI	0	0

The following are the significant transactions with subsidiaries:

	2018	2017
Sales/(Purchases)	(23,167,006)	(56,764,955)
Interest income	63,281,558	58,169,133
Interest expense	(35,713,976)	(114,685,640)
Lease expense	(296,059,599)	(50,932,708)
Other income	912,464	10,249,108
Other expenses	(418,499,956)	(180,283,148)

Transactions with other related parties:

Compensation of key management personnel:

	Group		Parent	
	2018	2017 As restated	2018	2017
Short-term employee benefits	171,011,639	112,170,407	138,954,834	92,988,227
Post-employment benefits	34,172,458	26,712,442	32,599,167	25,372,307
Other long-term benefits	49,470,685	38,992,197	49,470,685	38,992,197
	254,654,782	177,875,046	221,024,686	157,352,731

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, 2018 and 2017, the Group has not made any provision for doubtful accounts relating to amounts owed by related parties. This assessment is undertaken each financial year through examination of the financial position of the related party and the market in which the related party operates.

29. Trust Operations

The Parent is authorized under its Charter to offer trust services and administer trust funds through its Trust Banking Group. The Parent accepts funds entrusted by clients and undertakes as trustee to invest such funds in acceptable securities or other investment outlets. Trust funds or assets under Management of the Parent under its trust operations amounted to P305,691,511,509 and P232,391,242,067 as at December 31, 2018 and 2017, respectively.

Summary of Assets under Management is as follows:

	2018 (Unaudited)	2017 (Unaudited)
Special Purpose Trust	452,844,171	470,422,546
Other Fiduciary Accounts	266,885,917,999	187,518,284,717
Agency	31,718,083,091	33,600,066,906
Trust	6,634,666,248	10,802,467,898
	305,691,511,509	232,391,242,067

In compliance with the requirements of the General Banking Law, government securities with total face value of P850,000,000 in 2018 and 2017 are deposited with BSP as security for the Parent's faithful performance of its fiduciary obligation.

30. Derivative Financial Instruments

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

Freestanding Derivatives

Currency Forwards

As of December 31, 2018, the outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P12,389,921,699 with market value of P12,283,670,903.

Over the Counter Interest Rate Option Contract Bought

As of December 31, 2018, the outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P81,025,872 with market value of P97,984,775.

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, 2018, the outstanding notional amount of the FX risk cover amounted to JPY16,310,675,873 and EUR6,932,914.

Embedded Derivatives

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.

31. Commitments and Contingent Liabilities

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

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

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

	Parent	
	2018	**2017**
Trust Department accounts	305,691,511,509	232,391,242,067
Commitments	118,472,200,701	92,695,411,258
Standby/commercial letters of credit	27,154,664,872	31,880,361,020
Derivatives	20,645,529,081	27,574,406,990
Outstanding guarantees	1,034,961,286	805,133,223
Spot exchange contracts	1,840,300,000	1,497,900,000
Late deposits received	659,251,689	529,930,060
Outward bills for collection	60,362,867	98,516,034
Liability Indemnity Fund	80,042,571	43,481,662
Others	2,354,614,597	132,685,499
	477,993,439,173	387,649,067,813

32. Financial Performance

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

	2018	**2017 As restated**

Net interest margin ratio	3.04%	3.31%
Return on average assets	0.96%	1.04%
Return on average equity	14.05%	15.57%

33. Equity

As of December 31, 2018, the Parent's authorized capital stock consisted of 2 billion common shares with par value of P100 per share totaling P200 billion.

As of December 31, 2018, the Parent's Paid-up capital increased to P26.29 billion equivalent to 262,907,777 shares with par value of P100 per share due to the capital infusion of P5.310 billion in June 2018 by the National Government representing the transferred net assets of NLDC and PCFC pursuant to EO No. 85 series of 2015.

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

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

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

	Group		**Parent**	
	2018	**2017**	**2018**	**2017**
	(Amounts in Millions)			
Reserve for trust business	5,058.99	5,000.00	5,058.99	5,000.00
Reserve for contingencies	5,032.50	2,532.50	5,002.50	2,502.50
Reserve for PPE and software acquisition	190.60	294.00	0	0
Reserve for retirement fund and insurance	20.00	98.00	0	0
Reserve for business expansion	935.00	600.00	0	0
Reserve for others	43,460.59	33,786.95	43,351.04	33,768.95
	54,697.68	42,311.45	53,412.53	41,271.45

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

	Group			
	Re-measurement of retirement benefit obligation	**Net Unrealized Gain/(loss) on AFS securities**	**Translation Adjustment and Others**	**Total**
Balances, as of January 1, 2017	(111,524)	3,536,033,144	0	3,535,921,620
Increase/(decrease) in CY 2017	(5,176,642)	1,875,908,234	0	1,870,731,592

Balances, as of December 31, 2017, as restated	(5,288,166)	5,411,941,378	0	5,406,653,212
Effect of PFRS 9 adoption		6,555,190,215		6,555,190,215
Beginning balance under PFRS 9	(5,288,166)	11,967,131,593	0	11,961,843,427
Increase/decrease in CY 2018	1,142,828	(106,340,459)	231,756,287	126,558,656
Balance, as of December 31, 2018	(4,145,338)	11,860,791,134	231,756,287	12,088,402,083

	Parent		
	Net Unrealized Gain/(loss) on AFS securities	**Translation Adjustment and Others**	**Total**
Balances, as of January 1, 2017	3,536,033,144	0	3,536,033,144
Increase/(decrease) in CY 2017	1,875,908,234	0	1,875,908,234
Balances, as of December 31, 2017, as restated	5,411,941,378	0	5,411,941,378
Effect of PFRS 9 adoption	6,555,190,215		6,555,190,215
Beginning balance under PFRS 9	11,967,131,593	0	11,967,131,593
Increase/decrease in CY 2018	(58,582,154)	231,756,287	173,174,133
Balance, as of December 31, 2018	11,908,549,439	231,756,287	12,140,305,726

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. FVOCI and FVTPL Equity were included as regulatory adjustments/deduction to Tier 1 capital.

	Group		Parent	
	2018	**2017**	**2018**	**2017**
	(Amounts in Millions)			
Tier 1 Capital	131,593	104,397	131,617	104,596
Tier 2 Capital	7,522	5,807	7,490	5,790
Less: Required Deductions	24,213	28,285	25,645	28,999
Total Qualifying Capital	114,902	81,919	113,462	81,387
Risk Weighted Assets	905,541	696,236	596,620	693,497
Common Equity Tier 1 Ratio (CET1)	11.86%	10.93%	11.82%	10.90%
Total Capital Adequacy Ratio (CAR)	12.69%	11.77%	12.65%	11.74%

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

The Bangko Sentral ng Pilipinas (BSP) thru its letter dated October 26, 2018 granted the Bank regulatory relief in the form of non-deduction of the Bank's equity investment in MRTC in the computation of its Common Equity Tier 1 (CET1), Capital Adequacy Ratio (CAR) and Basel 3 Leverage Ratio (BLR) until December 31, 2020.

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

BASEL 3 Leverage Ratio

The Bank adopted the Basel 3 Leverage Ratio (BLR) pursuant to BSP Circular No. 881 and 990 dated May 2015 and January 5, 2018, respectively.

LAND BANK OF THE PHILIPPINES
Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure
As of December 31, 2018
(Amounts in Millions)

Item		Leverage Ratio Framework	
		Group	Parent
1.	Total consolidated assets as per published financial statements	1,885,619.829	1,876,258.34
2.	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3.	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4.	Adjustments for derivative financial instruments	726.100	726.100
5.	Adjustments for securities financial transactions (i.e., repos and similar secured lending)	529.000	0.000
6.	Adjustments for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)	67,579.078	66,545.332
7.	Other adjustments	(18,764.716)	(19,700.522)
8.	**Leverage ratio exposure**	**1,935,689.291**	**1,923,829.247**

LAND BANK OF THE PHILIPPINES
Basel III Leverage Ratio Common Disclosure Template
As of December 31, 2018
(Amounts in Millions; Ratios in Percent)

	Item	Leverage Ratio Framework	
		Group	**Parent**
	On-balance sheet exposures		
1.	On-balance sheet items [1/]	1,889,116.007	1,880,251.425
2.	Asset amounts deducted in determining Basel III Tier 1 Capital	(24,212.613)	(25,645.328)
3.	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**1,864,903.394**	**1,854,606.097**
	Derivative exposures		
4.	Replacement cost associated with all derivatives transactions	1,951.719	1,951.719
5.	Add-on amounts for Potential Future Exposure associated with all derivative transactions	726.100	726.100
6.	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework [2/]		
7.	Deductions of receivables assets for cash variation margin provided in derivatives transactions [2/]		
8.	Exempted CCP leg of client-cleared trade exposures		
9.	Adjusted effective notional amount of written credit derivatives	0.000	0.000
10.	Adjusted effective offsets and add-on deductions for written credit derivatives [2/]	0.000	0.000
11.	**Total derivative exposures (sum of lines 4 to 10)**	**2,677.819**	**2,677.819**
	Securities financing transaction exposures		
12.	Gross SFT assets (with no recognition of netting)	0.000	0.000
13.	Netted amounts of cash payables and cash receivables of gross SFT assets [2/]		
14.	CCR exposures for SFT assets	529.000	0.000
15.	Agent transaction exposures [3/]	0.000	0.000
16.	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**529.000**	**0.000**
	Other off-balance sheet exposures		
17.	Off-balance sheet exposure at gross notional amount	141,857.789	139,723.738
18.	Adjustments for conversion to credit equivalent amounts	0.000	0.000
19.	**Off-balance sheet items**	**67,579.078**	**66,545.332**
	Capital and total exposures		
20.	**Tier 1 capital**	**107,380.273**	**105,972.164**
21.	**Total exposures (sum of lines 3, 11, 16 and 19)**	**1,935,689.291**	**1,923,829.247**
	Leverage ratio		
22.	**Basel III leverage ratio**	**5.55%**	**5.51%**

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

34. Prior Period Adjustments

In 2018 the Parent made adjustments to its financial statements as of and for the year ended December 31, 2017 as a result of the set up of accrual for GRT.

The effects of these restatements in the financial statements as of and for the year ended December 31, 2017 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
Parent			
Changes in the Statement of Financial Position			
Liabilities			
Other liabilities	34,677,450,701	330,140,472	35,007,591,173
Equity			
Undivided Profit	15,505,365,035	(330,140,472)	15,175,224,563
Changes in the Statement of Comprehensive Income			
Other operating expenses			
Taxes and licenses	3,097,464,757	330,140,472	3,427,605,229

35. Miscellaneous Income

This account is composed of:

	Group		Parent	
	2018	2017 As restated	2018	2017
Gain from sale/derecognition of non-financial assets	748,550,585	678,729,147	732,926,956	666,394,383
Rent income	46,050,513	89,901,851	26,280,771	21,562,277
Miscellaneous income	1,929,859,798	576,729,419	1,742,018,600	361,329,446
Recovery on charged-off assets	56,530,727	73,489,717	41,966,691	73,489,717
	2,780,991,623	1,418,850,134	2,543,193,018	1,122,775,823

36. Miscellaneous Expenses

This account is composed of:

	Group		Parent	
	2018	2017	2018	2017
Finance Charges	80,342	0	0	0
Management and other professional fees	334,187,893	322,051,029	306,146,738	319,669,363
Supervision fees	414,144,350	407,083,016	411,319,527	406,633,016
Fines, penalties and other charges	1,172,474	8,157,911	537,466	8,150,157
Insurance	3,211,880,100	2,989,640,362	3,185,223,420	2,980,602,579
Fees and commission expense	266,981,077	298,229,270	271,575,956	298,229,270

	Group		Parent	
	2018	2017	2018	2017
Litigation/asset acquired expenses	182,041,589	110,563,820	121,320,950	108,361,349
Bad debts written-off	184,193	193,140	184,193	193,140
Other Expenses	8,749,931,962	6,514,038,772	8,238,847,726	6,237,041,139
	13,160,603,980	10,649,957,320	12,535,155,976	10,358,880,013

37. Events After the End of Reporting Period

- **Cash Dividend Declaration**

On May 8, 2019, the Board of Directors of the Parent, through its Board Resolution No. 19-301, approved the declaration of cash dividends on CY 2017 net income amounting to P1,960,000,000.00 and remitted the same to the National Government on May 30, 2019.

38. Financial Risk Management

CREDIT RISK MANAGEMENT

Credit risk arises from the failure of a counterparty to meet the terms of any contract with the 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	2018 (In Millions)							
	Net Exposures	0%	20%	50%	75%	100%	150%	Credit RWA
Cash on Hand	36,941	36,941	0	0	0	0	0	0
Checks and Other Cash Items (COCI)	51	0	51	0	0	0	0	10
Due from Bangko Sentral ng Pilipinas (BSP)	334,804	334,804	0	0	0	0	0	0
Due from Other Banks	4,718	0	67	4,563	0	88	0	2,383
Financial Assets Designated at FVTPL	912	0	0	0	0	912	0	912
Available-for-Sale (AFS) Financial Assets	92,902	65,926	0	22,898	0	4,078	0	15,527
Held-to-Maturity (HTM) Financial Assets	496,134	462,778	0	15,075	0	18,281	0	25,819
Loans and Receivables	723,222	0	7,652	16,295	87,501	606,498	5,276	689,716
1. Interbank Loans Receivables	48,449	0	7,364	10,732	0	30,323	30	37,207
2. Loans & Receivables - Others								
a. LGUs & Public Sector Entities	33,044	0	0	0	0	33,044	0	33,044
b. Government Corporation	1,988	0	0	0	0	1,988	0	1,988
c. Corporates	511,703	0	0	0	0	511,703	0	511,703
d. Micro/Small & Medium Enterprise	87,995	0	288	0	87,501	206	0	65,889
e. Loans to individuals	34,574	0	0	5,563	0	29,011	0	31,793

On-Balance Sheet (BS) Items	2018 (In Millions) Net Exposures	0%	20%	50%	75%	100%	150%	Credit RWA
3. Defaulted Exposures	5,469	0	0	0	0	223	5,246	8,092
Other Loans and Receivables 1/	50,549	50,549	0	0	0	0	0	0
Sales Contract Receivable (SCR)	890	0	0	0	0	425	465	1,123
Real and Other Properties Acquired	4,855	0	0	0	0	0	4,855	7,283
Total Exposures Excluding Other Assets	1,745,978	950,998	7,770	58,831	87,501	630,282	10,596	742,773
Other Assets	17,511	17	0	0	0	17,494	0	17,494
Total On-BS RWA not covered by CRM	0	0	0	0	0	0	0	72
Total On-Balance Sheet Exposures	**1,763,489**	**951,015**	**7,770**	**58,831**	**87,501**	**647,776**	**10,596**	**760,339**

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	4,810	0	0	158	0	4,652	0	4,731
B. Transaction-related contingencies	59,888	0	0	0	0	59,888	0	59,888
C. Trade-related contingencies	2,308	0	0	1,126	0	1,182	0	1,745
D. Other commitments	0	0	0	0	0	0	0	0
Total Off-Balance Sheet Exposures	**67,006**	**0**	**0**	**1,284**	**0**	**65,722**	**0**	**66,364**
Counterparty RWA In The Trading Book	**Credit Equivalent Amount**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit RWA**
Derivative Exposures	231	0	10	85	0	136	0	181
Total Exposures	**1,830,726**	**951,015**	**7,780**	**60,200**	**87,501**	**713,634**	**10,596**	**826,884**

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

Credit Exposures and Credit-Related Commitments

As of 31 December 2018, the Group's Gross Loans & Receivables amounted to P723,222 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, Corporates stood at P511,703 million (70.75%), followed by Micro, Small & Medium Enterprise (MSMEs) at P87,995 million (12.17%), Government Corporation/Entities at P35,032 million (4.84%) and Loans to Individuals at P34,574 million (4.78%). The Group also holds substantial receivables arising from Repurchase Agreements aggregating P50,549 million. The P66,364 million credit risk weighted asset of net Off-balance Sheet exposures of P67,006 million is computed based on respective Credit Conversion Factors. These accounts are composed mainly of general guarantees of indebtedness (e.g., financial standby letters of credit - domestic and foreign), performance bonds and warranties related to particular transactions, and contingencies arising from movement of goods and trust transactions. Outstanding derivative exposures are mainly over-the-counter foreign exchange option contracts.

The Group's Gross Loans & Receivables reflected a Credit Risk Weighted Assets (RWA) of P689,716 million following the Standardized Approach. This represents 83.41% of the Total Credit RWA of P826,884 million. The Total Credit RWA increased by P198,523 million or 31.59%, from P628,361 million in 2017 to P826,884 million in 2018. The Total Credit RWA represents 91.31% of the Group's Aggregate RWA of P905,541 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 2018, the Parent's net Non-Performing Loan (NPL) stood at P3,715 million or 0.428% of the total loan portfolio of P867,217 million.

Credit Risk Rating

LANDBANK's Credit Risk Engine System (CRES) serves as the main platform for the development of statistically-based credit rating models which will be used to conduct automated credit ratings of borrowers to help determine their credit worthiness. The 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 said credit ratings are also needed for the eventual adoption of the advance approaches in credit RM under the Basel Committee on Banking Supervision principles on sound credit RM.

Toward this end, the Bank has developed the following statistically-based credit scoring models and their corresponding rating guidelines in 2018:

- Application Scoring Model for Individual Home Buyers
- Application Scoring Model for Salary Loan Availers

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

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

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

The Bank adopts a cash flow lending principles and collateral is not the primary factor in granting credit. The required amount and type of collateral and other credit enhancements to mitigate credit exposures depend primarily on the results of the holistic and prudent credit assessment. When needed, the 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 and Chattel Mortgage. 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 Bank's loan portfolio, on the Credit RWA, and finally on the Common Equity Tier 1 (CET1) Ratio. The stress testing also includes prescribed

[1] *Credit Scoring Models Only*

regulatory tests such as uniform stress test and REST. 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 2018, the Parent's qualifying capital covering credit risk is P113.46 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P32.552 billion for direct 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 2018 and 2017, the Bank does not have credit concentration in any particular industry.

As of December 31, 2018 and 2017, information on the concentration of credit as to industry based on carrying amount is shown below:

	Parent			
	2018		**2017**	
	Amount	%	Amount	%
Financial intermediation	114,310,426,882	14	71,713,093,339	12
Agriculture, hunting and forestry	67,602,346,878	8	51,536,263,324	8
Real estate, renting and business activities	68,426,309,747	9	58,048,731,998	10

	Parent			
	2018		2017	
	Amount	%	Amount	%
Public administration and defense	80,850,276,420	10	76,784,032,439	13
Manufacturing	56,021,690,692	7	51,985,570,951	9
Community, social and personal services	21,725,073,913	3	13,346,062,576	2
Electricity, gas and water	116,484,048,169	15	93,537,592,974	15
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	76,255,818,839	9	57,639,838,178	10
Transport, storage and communication	73,669,726,711	9	43,994,810,674	7
Construction	53,828,241,433	7	37,899,953,536	6
Private households	29,699,897,529	4	23,646,244,827	4
Hotel and restaurant	12,601,992,410	2	4,637,321,925	1
Others	27,653,979,045	3	16,397,316,585	3
	799,129,828,668	**100**	**601,166,833,326**	**100**
Allowance for losses	**(9,525,823,713)**		**(5,168,696,310)**	
	789,604,004,955		**595,998,137,016**	

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, Foreign Exchange (FX) and other securities, as well as, in derivatives or financial instruments that derive their values from price, price fluctuations and price expectations of an underlying instrument (e.g., share, bond, FX or index). The 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, Capital Adequacy Ratio (CAR) and capital metrics to manage market risks and establish limits. The LANDBANK BoD, RISKCOM and the Asset and Liability Committee (ALCO), define and set the various market risk limits for each trading portfolio. The Treasury and Investment Banking Sector (TIBS), particularly the Financial Markets Group (FMG) which manages the 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 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 2018, the Group's Total Market RWA stood at P9,302 million, broken down as follows:

PARTICULARS	AMOUNT (In Millions)
Interest Rate Exposure	858
Equity Exposure	0
FX Exposure	138
Options	8,306
Total Market RWA	9,302

The Total Market RWA represents 1.03% of the Group's Aggregate RWA of P905,541 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 (FS) 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	P200.00

Foreign Securities	$20.00	$0.20	Group Target	$0.64

YTD: Year-to-Date

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

2. Equity Price Risk Management

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

PARTICULAR	DAILY LIMIT(In Millions)		MAT	STOP LOSS (In Millions)
	POSITION	VaR		
Equity	1,000.00	15.00	YTD Gain Erosion Group Target	90.00

3. FX Risk Management

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

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

PARTICULAR	DAILY LIMIT(In $ Millions)		MAT	STOP LOSS
	POSITION	VAR		
Fx Trading	50.00	0.36	YTD Gain Erosion	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 2018:

In $ Thousands

PARTICULAR	USD	JPY	EUR	AUD	Others	Total
ASSETS						
Fx Currency Notes & Coins on Hand (FCNCH)/ Cash and Other Cash Items (COCI)	31,162	155	110	23	194	31,644
Due from banks	78,419	1,761	6,567	208	1,130	88,085
Held for Trading	8,076	0	0	0	0	8,076
Available For Sale Investment	867,096	0	1	0	0	867,097
Investments in Bonds and Other Debt Instruments (IBODI)	636,840	0	0	0	0	636,840
Interbank Loans Receivable	344,000	0	0	0	0	344,000
Loans & Receivables	427,314	49,074	0	0	0	476,388
Other Assets	32,467	785	0	174	710	34,136
Gross Fx Assets	2,425,374	51,775	6,678	405	2,034	2,486,266
LIABILITIES						

In $ Thousands

PARTICULAR	USD	JPY	EUR	AUD	Others	Total
Deposit Liabilities	1,805,536	1,649	3,915	0	0	1,811,100
Bills Payable	268,081	292,899	28,589	0	0	589,569
Others	130,273	1,565	1,680	174	710	134,402
Gross Fx Liabilities	2,203,890	296,113	34,184	174	710	2,535,071

Market Risk Measurement and Validation Tools

1. Value-at-Risk (VaR) Analysis

   VaR is a statistical approach for measuring the potential variability of trading revenue. It is used to measure market risk in the trading book under normal conditions, estimating the potential range of loss in the market value of the trading portfolio, over a one-day period, at 99.0% 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 its processes. The VaR disclosure is intended for external disclosure and for regulatory purposes.

   The VaR both at portfolio and across portfolio level are monitored. Daily VaR calculations are compared against VaR limits which is the monetary amount of risk deemed tolerable by Management. The over-all VaR limit for the Treasury trading activities was set at P193 million throughout 2018. 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 Common Equity Tier (CET) 1 ratio set at 10.17% by BSP for LANDBANK as Domestic Systemically Important Banks (DSIB) for 2018.

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 (MTM) and trading loss exceeds the result of the model-generated risk measure. The number of exceptions is noted and the model is classified into one of the three zones as follows:

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

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

4. Model Validation

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

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'.

   Furthermore, to enhance the process of forecasting cash flows from prepayment of loans and come up with a more accurate analysis of risk associated to interest rate in the banking book, a portion of the loan balance originally distributed across time bands is deducted representing loan prepayment and slotted in the nearest tenor "1 to 7-day bucket" based on the result of the behavioral analysis of prepayment of loans.

   Excluded at the moment in the analysis of actual maturity or re-pricing behavior for the determination of Re-pricing Gap are the term deposits subject to early redemption risk. Early withdrawal of maturing deposits is considered an isolated case which will have minimal effect in the Bank's interest rate risk estimation.

   The following table sets the Re-pricing Gap position of the Parent as of 31 December 2018 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	51,500	0	0	0
Total Investments	4,531	5,268	6,731	30,783
Total Loans	226,238	252,277	85,078	49,207
Other Assets	10	4	3	5

In Millions

PARTICULARS	Within 1 month	> 1 month to 3 months	> 3 months to 6 months	> 6 months to 12 months
Total Financial Assets	**282,279**	**257,549**	**91,812**	**79,995**
Financial Liabilities				
Deposits	438,550	152,076	40,953	12,195
Bills Payable	4,206	493	12,531	0
Others	0	0	0	0
Total Financial Liabilities	**442,756**	**152,569**	**53,484**	**12,195**
Off-Balance Sheet				
Commitments	0	0	0	(59,521)
Total Off-Balance Sheet	**0**	**0**	**0**	**(59,521)**
Re-pricing Gap	**(160,477)**	**104,980**	**38,328**	**8,279**

Change in Interest Rates - in basis points (bps)

In Millions

	-300	-200	-100	-50	+50	+100	+200	+300
EaR	1,208	806	403	201	(201)	(403)	(806)	(1,208)

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.

Basis	Change in Interest Rates - in bps		
	Interest Rate Scenario		EVE-at-Risk (In Millions)
	Peso	Dollar	
Hypothetical	+300	+200	1,662
BIS-IRRBB Calculation	+271	+200	1,330
5-year Historical Data (Year-on-Year Change on Average Rates at 99% Level Confidence Level)	+251	+153	1,631
5-year Historical Data (Year-on-Year Change on Average Rates at 95% Level Confidence Level)	+178	+108	1,252
Market Sentiment	+100	+50	903
Market Sentiment	+50	+50	136
Market Sentiment	-50	-50	(151)
Market Sentiment	-100	-50	(1,099)
5-year Historical Data (Year-on-Year Change on Average Rates at 95% Level Confidence Level)	-178	-108	(1,811)
5-year Historical Data (Year-on-Year Change on Average Rates at 99% Level Confidence Level)	-251	-153	(2,749)
BIS-IRRBB Calculation	-271	-200	(2,404)
Hypothetical	-300	-200	(3,153)

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, recommends measures to promote diversification of its liabilities according to source, instrument and currency to minimize liquidity risks resulting from concentration in funding sources.

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

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

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

Parent In Thousands						
	2018			2017 As restated		
PARTICULARS	Due within 1 year	Due > 1 year	Total	Due within 1 year	Due > 1 year	Total
ASSETS						
Cash & Other Cash Items	36,968,265	0	36,968,265	31,384,485	0	31,384,485
Due from BSP	331,197,576	0	331,197,576	305,349,912	0	305,349,912
Due from Other Banks	5,707,747	1,705	5,709,452	5,104,789	1,698	5,106,487
Interbank Loan Receivable	18,096,177	0	18,096,177	20,981,027	0	20,981,027
Security Purchased Under Agreement to Resell	50,019,792	0	50,019,792	52,232,925	0	52,232,925
Loans & Receivables	354,791,109	437,599,763	792,390,872	266,386,189	346,329,221	612,715,410
Investments	80,551,059	539,397,877	619,948,936	36,584,475	535,440,215	572,024,690
Other Assets	4,784,696	18,577,569	23,362,265	4,537,445	19,505,134	24,042,579
Total Assets	882,116,421	995,576,914	1,877,693,335	722,561,247	901,276,268	1,623,837,515
LIABILITIES						
Deposits						
Demand	798,036,466	0	798,036,466	709,508,966	0	709,508,966
Savings	770,728,834	0	770,728,834	645,770,968	0	645,770,968

Parent						
In Thousands						
	2018			2017 As restated		
PARTICULARS	Due within 1 year	Due > 1 year	Total	Due within 1 year	Due > 1 year	Total
Time	73,336,620	3,039,357	76,375,977	57,114,142	2,079,279	59,193,421
LTNCD	5,000,000	6,000,000	11,000,000		11,000,000	11,000,000
Bills Payable	5,953,285	25,303,552	31,256,837	1,998,296	22,581,812	24,580,108
Due to BTr, BSP, & MCs/PCIC	1,473,410	305,976	1,779,386	1,650,798	299,984	1,950,782
Other Liabilities & Payable	955,909	52,601,640	53,557,549	258,523	57,880,960	58,139,483
Total Liabilities	1,655,484,524	87,250,525	1,742,735,049	1,416,301,693	93,842,035	1,510,143,728

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 2018 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	323,533	0	50,340	0	2	373,875
Total Loans	257,773	93,884	71,250	176,883	260,717	860,507
Total Investments	19,241	6,731	54,579	219,817	319,581	619,949
Other Assets	3,118	0	1,666	114	18,464	23,362
Total Assets	603,665	100,615	177,835	396,814	598,764	1,877,693
Financial Liabilities						
Deposits	30,121	972	1,603	451	1,622,994	1,656,141
Borrowings	4,651	224	1,078	8,044	17,260	31,257
Other Liabilities & Unsecured Subordinated Debt	1,473	0	956	0	52,908	55,337
Total Capital					134,958	134,958

	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
Total Liabilities & Capital	36,245	1,196	3,637	8,495	1,828,120	1,877,693
Gap Position	567,420	99,419	174,198	388,319	(1,229,356)	0

As of 31 December 2018, 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	2018 (Unaudited)	2017 (Audited)	2016 (Audited)	2015 (Audited)
Liquid Assets (*)	P1,032,595	P972,283	P867,250	P722,850
Financial Ratios:				
Liquid Assets to Total Assets	54.99%	59.88%	61.83%	60.08%
Liquid Assets to Total Deposits	62.35%	68.21%	70.17%	69.09%

*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

Moreover, the Parent has adopted a more granular approach in analyzing funding sources against the resulting gaps for each liquidity stress test scenario. Instead of matching directly the entire funding source to the resulting funding gap for each liquidity stress event, an additional simulation is conducted which considers a more detailed analysis by excluding fund sources that will no longer be available in some stress scenario or risk events.

4. Liquidity Coverage Ratio (LCR)

The LCR is reported monthly to BSP to ensure that the Bank 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:

HQLA - Refer to assets that can be converted easily and immediately into cash at little or no loss of value in private markets to meet the Bank's liquidity needs during times of stress.
Total Net Cash Outflows - Pertains to the sum of the stressed outflow amounts less the sum of the stressed inflow amounts, with the inflow amounts limited to seventy-five percent (75%) of outflow amounts.

As of 31 December 2018, 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)

To ensure that the Parent has sufficient liquidity at all times, it formulated LCP using extreme scenarios of adverse conditions to evaluate the Parent's ability to withstand these scenarios. The contingency plan focuses on the Parent's strategy for coordinating managerial action during a crisis and includes 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 Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) 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 FVOCI and Hold-to-Collect (HTC) 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.