



LBP INSURANCE BROKERAGE, INC.
(A LANDBANK Subsidiary)

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The Management of LBP (Land Bank of the Phil.) Insurance Brokerage, Inc. is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the LBP (Land Bank of the Phil.) Insurance Brokerage, Inc.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the LBP (Land Bank of the Phil.) Insurance Brokerage, Inc. or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the LBP (Land Bank of the Phil.) Insurance Brokerage, Inc.'s financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

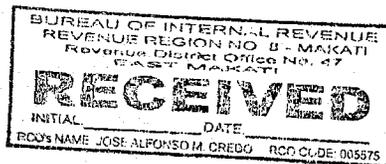
Commission on Audit, the independent auditor appointed by the stockholders, has audited the financial statements of the LBP (Land Bank of the Phil.) Insurance Brokerage, Inc. in accordance with International Standards of Supreme Audit Institutions, and in their report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

Alan V. Bornas

ALAN V. BORNAS
Acting Chairman of the Board

Tomas T. de Leon, Jr.
TOMAS T. DE LEON, JR.
Acting President and CEO

MAY 29 2019



Crispina V. Centeno
CRISPINA V. CENTENO
Corporate Treasurer

Signed this _____ day of _____, 2019.



LBP INSURANCE BROKERAGE, INC.

(A Land Bank Subsidiary)

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LBP (Land Bank of the Phils.) Insurance Brokerage, Inc.** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2018 and 2017, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

- a. Reconciliation of Retained Earnings Available for Dividend Declaration, and
- b. Schedule of PFRS Effective as of December 31, 2018

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information.

Commission on Audit, the independent auditor, has examined the financial statements of **LBP (Land Bank of the Phil.) Insurance Brokerage, Inc.**, in accordance with Philippine Public Sector Standards on Auditing and, and in its report to the Board of Directors, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature: *Alan V. Bornas*

ALAN V. BORNAS

Acting Chairman of the Board

Signature: *Raymund Francis I. Aldeguer*

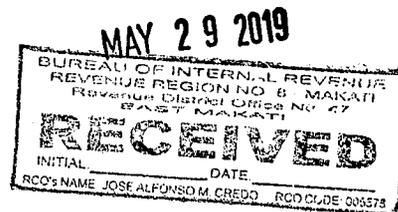
RAYMUND FRANCIS I. ALDEGUER

General Manager

Signature: *Crispina V. Centeno*

CRISPINA V. CENTENO

Corporate Treasurer



Signed this _____ day of _____, 2019.



REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Corporate Government Sector
Cluster 1 – Banking and Credit

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
LBP Insurance Brokerage, Inc.
12th Floor, SSHG Law Center
105 Paseo De Roxas
Legaspi Village, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **LBP Insurance Brokerage, Inc. (LIBI)** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the LIBI as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the LIBI in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As disclosed in Note 3.2 to the financial statements, LIBI did not adopt PFRS 9 in the measurement of its financial instruments. LIBI consider the reasonable and supportable information available in order to determine the credit risk of the account. LIBI computed its expected credit losses (ECL) using the Hold to Collect business model under PFRS 9 which resulted to an insignificant ECL, but such business model will still be presented to

the LIBI Board of Directors for approval. Our opinion is not modified in respect to these matters.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the LIBI's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the LIBI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LIBI's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 26 to the 2018 financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


ROCHIE B. FELICES
Supervising Auditor

April 24, 2019

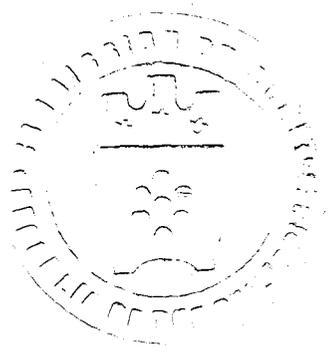
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BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 9 - MAKATI
Revenue District Office No. 47
EAST MAKATI

RECEIVED

INITIAL _____ DATE _____

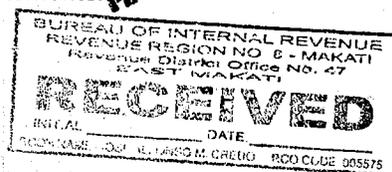
RCO NAME: JOSE ALFONSO M. CREGO RCO CODE: 005575



LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018 and 2017
(In Philippine Peso)

| | Note | 2018 | 2017 |
|--------------------------------------|------|----------------------|----------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | 4 | 107,186,726 | 128,648,801 |
| Receivables, net | 5 | 72,248,225 | 81,637,069 |
| Inventories | 6 | 128,196 | 87,927 |
| Other Current Assets | 7 | 11,831,152 | 5,458,833 |
| Total Current Assets | | 191,394,299 | 215,832,630 |
| Non-Current Assets | | | |
| Receivables, net | 5 | 43,968,999 | 44,748,015 |
| Financial Assets | 8 | 1,027,593,682 | 964,882,758 |
| Investment Property | 9 | 998,316 | 998,315 |
| Property and Equipment, net | 10 | 26,242,145 | 23,147,319 |
| Intangible Assets | 11 | 4,897,322 | 2,132,634 |
| Deferred Tax Assets | 25 | 4,016,383 | 3,870,148 |
| Other Non-Current Assets | 7 | 2,297,816 | 2,101,215 |
| Total Non-Current Assets | | 1,110,014,663 | 1,041,880,404 |
| Total Assets | | 1,301,408,962 | 1,257,713,034 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Financial Liabilities | 12 | 129,561,199 | 174,481,168 |
| Inter-Agency Payables | 13 | 9,179,934 | 5,867,439 |
| Trust Liabilities | 14 | 51,220,166 | 24,895,547 |
| Provisions | 15 | 5,455,681 | 4,265,703 |
| Other Payables | 16 | 42,927 | 439,373 |
| Total Current Liabilities | | 195,459,907 | 209,949,230 |
| Non-Current Liabilities | | | |
| Financial Liabilities | 12 | 44,765,010 | 44,644,530 |
| Trust Liabilities | 14 | 7,117,875 | 5,009,640 |
| Provisions | 15 | 2,819,935 | 7,709,551 |
| Total Non-Current Liabilities | | 54,702,820 | 57,363,721 |
| Total Liabilities | | 250,162,727 | 267,312,951 |
| EQUITY | | | |
| Share Capital | 17 | 300,000,000 | 300,000,000 |
| Retained Earnings | 18 | 751,246,235 | 690,400,083 |
| Total Equity | | 1,051,246,235 | 990,400,083 |
| Total Liabilities and Equity | | 1,301,408,962 | 1,257,713,034 |

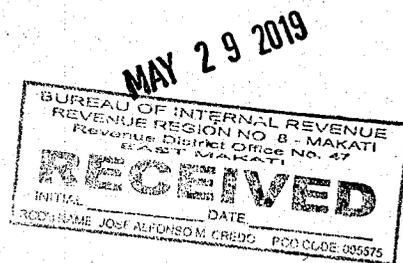
The Notes on pages 9 to 41 form part of these financial statements.



LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
(In Philippine Peso)

| | Note | 2018 | 2017 |
|--|------|---------------------|---------------------|
| Income | | | |
| Service and Business Income | 19 | 172,619,637 | 148,320,581 |
| Gains | 24.1 | 0 | 158,596 |
| Other Non-Operating Income | 24.1 | 1,433,869 | 1,391,997 |
| Total Income | | 174,053,506 | 149,871,174 |
| Expenses | | | |
| Personnel Services | 20 | (32,879,137) | (33,332,453) |
| Maintenance and Other Operating Expenses | 21 | (17,270,116) | (15,334,969) |
| Financial Expenses | 22 | (110,522) | (86,314) |
| Non-Cash Expenses | 23 | (5,815,501) | (5,272,736) |
| Total Expenses | | (56,075,276) | (54,026,472) |
| Net Income Before Tax | | 117,978,230 | 95,844,702 |
| Income Tax Expense | 25 | (24,402,050) | (18,826,295) |
| Net Income for the year/ | | | |
| Total Comprehensive Income | | 93,576,180 | 77,018,407 |

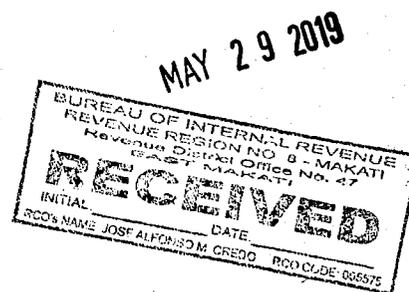
The Notes on pages 9 to 41 form part of these financial statements.



LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
(In Philippine Peso)

| | Share Capital (Note 17) | Retained Earnings | | TOTAL |
|--|----------------------------|---------------------------|--------------------|----------------------|
| | | Appropriated (Note 18) | Unappropriated | |
| BALANCE AT JANUARY 1, 2017 | 300,000,000 | 158,000,000 | 492,118,814 | 950,118,814 |
| CHANGES IN EQUITY FOR 2017 | | | | |
| Add/(Deduct): | | | | |
| Declaration of Cash Dividend | | | (37,758,827) | (37,758,827) |
| Other Adjustments | | | 1,021,689 | 1,021,689 |
| Appropriations | | 19,000,000 | (19,000,000) | 0 |
| Reversal of Appropriations | | (2,000,000) | 2,000,000 | 0 |
| Net Income for the year | | | 77,018,407 | 77,018,407 |
| BALANCE AT DECEMBER 31, 2017 | 300,000,000 | 175,000,000 | 515,400,083 | 990,400,083 |
| CHANGES IN EQUITY FOR 2018 | | | | |
| Add/(Deduct): | | | | |
| Declaration of Cash Dividend | | | (39,898,966) | (39,898,966) |
| Other Adjustments | | | 13,074,079 | 13,074,079 |
| Additional Funding for Retirement Fund | | | (5,905,141) | (5,905,141) |
| Appropriations | | 183,350,000 | (183,350,000) | 0 |
| Reversal of Appropriations | | (38,200,000) | 38,200,000 | 0 |
| Net Income for the year | | | 93,576,180 | 93,576,180 |
| BALANCE AT DECEMBER 31, 2018 | 300,000,000 | 320,150,000 | 431,096,235 | 1,051,246,235 |

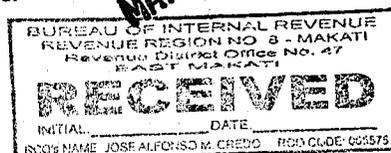
The Notes on pages 9 to 41 form part of these financial statements.



LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017
(In Philippine Peso)

| | Note | 2018 | 2017 |
|--|------|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash Inflows | | | |
| Proceeds from Sale of Foreign Currencies | | 0 | 1,230,465,102 |
| Receipt of Advance Payment of Premium | | 587,847,623 | 393,618,227 |
| Collection of Income/Revenue | | 241,051,852 | 305,789,506 |
| Collection of Receivables | | 2,602,876 | 3,918,415 |
| Total Cash Inflows | | 831,502,351 | 1,933,791,250 |
| Cash Outflows | | | |
| Payment for the Purchase of Foreign Currencies | | 0 | (1,228,820,674) |
| Payment of Premiums to Insurance Companies | | (672,243,303) | (562,038,812) |
| Payment of Expenses | | (61,080,706) | (37,693,401) |
| Purchase of Inventories | | (418,725) | (347,974) |
| Prepayments | | (3,060,673) | (7,368,854) |
| Payments of Accounts Payable | | (4,010,859) | (5,975,866) |
| Remittance of Personnel Benefit and Mandatory Deduction | | (3,146,596) | (720,429) |
| Grant of Financial Assistance/Subsidy/Contribution | | 0 | (403,613) |
| Payment of Income Taxes | | (26,274,098) | (28,414,622) |
| Total Cash Outflows | | (770,234,960) | (1,871,784,245) |
| Net Cash Provided by Operating Activities | | 61,267,391 | 62,007,005 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Cash Inflows | | | |
| Proceeds from Sale of Property, Plant & Equipment | | 0 | 4,060 |
| Proceeds of Matured Investments | | 1,853,219,403 | 2,593,113,537 |
| Receipt of Interest Earned from Investments | | 38,272,449 | 34,028,702 |
| Total Cash Inflows | | 1,891,491,852 | 2,627,146,299 |
| Cash Outflows | | | |
| Purchase of Property, Plant, Equipment | | (7,077,570) | (2,822,877) |
| Purchase of Intangible Assets | | (2,774,257) | 0 |
| Placement of Investments | | (1,924,470,525) | (2,762,710,926) |
| Total Cash Outflows | | (1,934,322,352) | (2,765,533,803) |
| Net Cash Used in Investing Activities | | (42,830,500) | (138,387,504) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash Outflows | | | |
| Payment of Cash Dividends | 18 | (39,898,966) | (37,758,827) |
| Cash Used in Financing Activities | | (39,898,966) | (37,758,827) |
| Effects of Exchange Rate Changes on Cash and Cash Equivalents | | | |
| | | 0 | 158,596 |
| Net Decrease in Cash and Cash Equivalents | | (21,462,075) | (113,980,730) |
| CASH AND CASH EQUIVALENTS, JANUARY 1 | 4 | 128,648,801 | 242,629,531 |
| CASH AND CASH EQUIVALENTS, DECEMBER 31 | 4 | 107,186,726 | 128,648,801 |

The Notes on pages 9 to 41 form part of these financial statements.



LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso, unless otherwise stated)

1. CORPORATE INFORMATION

1.1 Corporate Background

The LBP Insurance Brokerage, Inc. (LIBI) was organized as a wholly-owned subsidiary of Land Bank of the Philippines (LBP) on October 22, 1981 under Securities and Exchange Commission (SEC) Registration No. 105764. On May 16, 1983, its Articles of Incorporation was amended increasing the number of directors of the Board from 9 to 11. This was further amended on October 17, 1994 increasing the LIBI's authorized capital stock from P20,000,000 to P300,000,000 and revising its secondary purpose.

It was created primarily for the purpose of engaging in the business of general insurance brokerage management and consultancy more particularly as follows:

- To act as insurance broker for life, health, accident, motor car, casualty, surety and fidelity, marine cargo and hull, comprehensive liability insurance and other insurance coverage allied with and incident to the above-mentioned lines, and
- To engage in management and consultancy work on insurance and in this connection, to hold, own, purchase, acquire, underwrite, obtain participation in and manage the business of any corporation, partnership or equity.

Its secondary purpose is to engage in the business of buying and selling of foreign currencies; and buying, selling, importing, exporting and/or dealing in any manner, at wholesale or retail of goods and merchandise. However, the secondary purpose particularly the business of buying and selling of foreign currencies was discontinued on 18 May 2017 per Board Resolution No. 2017-004-016.

The LIBI's registered and principal office of business is located at the 12th Floor SSHG Law Centre Building, 105 Paseo de Roxas St., Legaspi Village, Makati City.

1.2 Authorization for Issue of the 2018 Financial Statements

The financial statements of LIBI for the years ended December 31, 2018 and 2017 were authorized for issue by the Board of Directors on January 31, 2019 in Board Resolution No. 2019-001-001 dated January 31, 2019 and was signed by the Chairman of the Board and President/CEO on April 10, 2019.

2. STATEMENT OF COMPLIANCE AND BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The financial statements have been prepared on the basis of historical cost except for Investment in government securities which are stated at amortized cost using effective interest method.

The Statement of Cash Flows is prepared using the direct method.

The financial statements are presented in Peso, which is the country's functional currency.

Amounts are rounded off to the nearest peso, unless otherwise stated.

The preparation of financial statements in compliance with the adopted PAS requires the use of certain accounting estimates. It also requires the entity to exercise judgment in applying the entity's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effects are disclosed in Note 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of accounting

The financial statements are prepared on accrual basis in accordance with PFRS.

3.2 Financial Instruments

The application of the provisions of PFRS 9 is deferred and effective for annual period beginning January 1, 2019. Meanwhile, LIBI consider the reasonable and supportable information available in order to determine the credit risk of the account. The computation of Expected Credit Loss (ECL) using the Hold to Collect business model on investments amounting to P1,027,593,682 resulted to an insignificant ECL amounting to P76,871 for investments in DBP Tier 2. However, the business model for managing financial assets will still be presented to the LIBI's Board of Directors for approval.

a. Financial Assets

Initial recognition and measurement

Financial assets within the scope of PAS 39 – Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial assets, as appropriate. The LIBI determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognized on the trade date, i.e. the date that the LIBI commits to purchase or sell the asset.

The LIBI's financial assets include cash and cash equivalents and investment securities at amortized cost.

LIBI's existing policy is to invest excess funds in government securities (GS) because the servicing and repayments are fully guaranteed by the National Government.

Investments in GS - Fixed Treasury Notes and Retail Treasury Bonds are stated at amortized cost using effective interest method.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

1. Loans and Receivables

LIBI acts as an agent in placing the insurable risks of its clients with insurers and as such, is not liable as principal for amounts arising from such transactions. However, Accounts Receivable (Premium Receivables) were recognized upon issuance of Statement of Accounts. Accrual of service fees from accredited insurers are based on premium production.

To fairly present the net realizable value of Accrued Service Fees Receivable and Other Receivables, allowances for impairment have been provided. The allowances were then determined based on the aging schedule multiplied by the rate or per cent of loss experienced by LIBI.

2. Held-to-Maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the LIBI has the positive intention and ability to hold it to maturity.

After initial measurements, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in the statement of comprehensive income.

Derecognition

The LIBI derecognizes a financial asset or, where applicable, a part of a financial asset or part of LIBI of similar financial assets when:

1. The contractual right to the cash flows from the financial asset expired or waived; and
2. The LIBI has transferred its contractual rights to receive the cash flows of the financial assets, or retains the contractual rights to receive cash flows of the financial assets but assumes a contractual obligation to pay the cash flows to

one or more recipients in an arrangement that meets the condition set forth in PAS 39 – Financial Instruments: Recognition and Measurement; and either the entity has:

- Transferred substantially all the risks and rewards of ownership of the financial asset; or
- Neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred the control of the asset.

Impairment of financial assets

The LIBI assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset an incurred (“loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include the following:

1. The debtors or a group of debtors are experiencing significant financial difficulty;
2. Default or delinquency in interest or principal payments;
3. The probability that debtors will enter bankruptcy or other financial reorganization; and
4. Observable data indicates a measurable decrease in estimated future cash flows e.g. changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost

For financial assets carried at amortized cost, the LIBI first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the LIBI determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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 of impairment.

If there is objective evidence that an impairment loss 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 (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the

discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collaterals have been realized or transferred to the entity. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

b. Financial Liabilities

Initial recognition and measurement

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

The LIBI's financial liabilities include insurance premium payable, accounts payable and other financial liabilities.

Subsequent measurement

Financial liabilities are subsequently measured at amortised cost.

Derecognition

A financial liability is derecognized when the obligation under the liability expires or is discharged or cancelled.

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 the statement of comprehensive income.

3.3 Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash in bank, deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

3.4 Accounts Receivables

LIBI acts as an agent in placing the insurable risks of its clients with insurers and as such, is not liable as principal for amounts arising from such transactions. However,

Accounts Receivable (Premium Receivables) is recognized upon issuance of Statement of Accounts. Accrual of service fees from accredited insurers are based on premium production.

3.5 Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory is received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. Inventories are recognized as an expense when consumed in the ordinary course of operations of the LIBI.

3.6 Investment Property

Investment property is measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment property are measured using the cost model and are depreciated over their estimated useful life.

Investment property is derecognized on disposal or when permanently withdrawn from use and no future economic benefit or service potential is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in the use.

3.7 Property and Equipment

Recognition

An item is recognized as property and equipment (PE) if it meets the characteristics and recognition criteria as PE.

The characteristics of PE are as follows:

- a. Tangible items;
- b. Held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- c. Expected to be used during more than one reporting period.

An item of PE is recognized as an asset if:

- a. It is probable that future economic benefits or associated with the item will flow to the entity; and
- b. The cost or fair value of the item can be measured reliably; and cost is at as least P15,000

Measurement at initial recognition

An item recognized as property and equipment is measured at cost. A PE acquired through non-exchange transaction is measured at its fair value.

Cost includes the following:

- a. Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- b. Expenditure that is directly attributable to the acquisition of the items; and
- c. Initial estimate of the costs of dismantling and removing the items and restoring the site of which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for the purposes other than to produce inventories during the period.

Subsequent Measurement

After recognition, all PE are stated at cost less accumulated depreciation and impairment losses.

When significant parts of PE are required to be replaced at intervals, LIBI recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PE as a replacement if the recognition criteria are satisfied.

Depreciation

Each part of an item of PE with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

- a. Initial recognition of depreciation

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable the manner intended by management.

For simplicity and to avoid proportionate computation, the depreciation is for one month if the PE is available for use on or before the 15th of the month. However, if the PE is available for use after the 15th of the month, depreciation will start on the succeeding month.

- b. Depreciation Method

The straight line method of depreciation is adopted.

- i. Estimated useful life

The LIBI uses the life span of PE prescribed by COA in determining the specific

estimated useful life for each asset based on its experience as follows:

| | Number of Years |
|-----------------------------------|-----------------|
| Building | 20 |
| Information Technology | 5 |
| Furniture, Fixtures and Equipment | 5 |
| Motor Vehicle | 7 |

ii. Residual Value

The LIBI uses a residual value equivalent to at least five percent of the cost of the PE.

Impairment

An asset's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable amount or recoverable service amount.

Derecognition

The LIBI derecognizes items of PE and/or any significant part of an asset upon disposal or when no future economic benefits or service potential is expected from its continuing use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognized.

3.8 Intangible Assets

Recognition and measurement

Intangible assets are recognized when the items are identifiable non-monetary assets without physical substance; it is probable that the expected future economic benefits or service potential that are attributable to the assets will flow to the entity; and the cost or fair value of the assets can be measured reliably.

Intangible assets acquired separately are initially recognized at cost.

If payment for an intangible asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as interest expense over the period of credit unless it is capitalized in accordance with the capitalization treatment permitted in PAS 23, Borrowing Costs.

Recognition of an expense

Expenditure on an intangible item is recognized when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria of an intangible asset.

Subsequent measurement

The useful life of the intangible assets is assessed as either finite or indefinite. Intangible assets with a finite life are amortized over their useful lives.

The straight line method is adopted in the amortization of the expected pattern of consumption of the expected future economic benefits or service potential.

An intangible asset not yet available for use is assessed for impairment annually and whenever there is an indication that the assets may be impaired.

The amortization period and the amortization method, for an intangible asset with a finite useful life, are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on an intangible asset with a finite life is recognized in the statement of comprehensive income as the expense category that is consistent with the nature of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit or loss when the asset is derecognized.

3.9 Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are recognized when (1) the Corporation has a present obligation (legal or constructive) as a result of a past event; (2) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation.

Where the LIBI expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense pertaining to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are reviewed at each reporting date, and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provisions are reversed.

b. Contingent Liabilities

The LIBI does not recognize a contingent liability, but discloses details of any contingencies in the notes to financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

c. Contingent Assets

The LIBI does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the LIBI in the notes to financial statements.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements on the period in which the change occurs.

3.10 Changes in Accounting Policies and Estimates

The LIBI recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

The LIBI recognizes the effects of changes in accounting estimates prospectively through the statement of comprehensive income.

The LIBI corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- a. Restating the comparative amounts for prior period(s) presented in which the error occurred; or
- b. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

3.11 Foreign Currency Transactions

Transactions in foreign currencies are initially recognized by applying the spot exchange rate between the functional currency and the foreign currency at the transaction date.

At each reporting date:

- a. Foreign currency monetary items are translated using the closing rate;
- b. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- c. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Exchange differences arising (a) on the settlement of monetary items, or (b) on translating monetary items at rates different from those at which they are translated on initial recognition during the period or in previous financial statements, are recognized in the profit or loss in the period in which they may arise, except for those arising on a

monetary item that forms part of a reporting entity's net investment in a foreign operation.

3.12 Income

Income is recognized to the extent that it is probable that the economic benefits will flow to LIBI and that revenue can be reliably measured.

Beginning 2008, LIBI recognizes commission income pertaining to service fees from private insurers based on premium billings upon rendition of brokering services to the assured and upon issuance of policies by the insurer. Accrual method is used in recognizing commission income from insurers.

Interest Income from investments is recognized using the effective interest method.

Gain or losses arising from trading of foreign currency are reported in the statement of comprehensive income.

3.13 Income Taxes

Income tax on the profit for the year comprises current tax only. Income tax is recognized in the profit or loss. Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted as of the reporting date, and any adjustment to tax payable in respect to previous years.

Deferred Tax Asset refers to tax consequence attributable to differences between the financial reporting bases of assets and liabilities. It is measured using the tax rate applicable to taxable income in the year in which those temporary differences are expected to be recorded or settled. Deferred Tax Asset is recognized to the extent of the realization of the related Income Tax Benefit through future taxable income.

3.14 Employee Benefits

In compliance with the provisions of the Retirement Law [Republic Act (R.A.) No. 7641], which requires corporation to provide retirement benefits for their employees, and the National Internal Revenue code (R.A. No. 8424), which allows tax deductibility of employer's contributions for the retirement benefits of its employees, LIBI has established a retirement fund pursuant to Board Resolution No. 2010-006-012 dated July 30, 2010. The retirement benefit plan is a defined benefit plan and is non-contributory.

The set-up of Retirement Fund Liability was approved by the Board of Directors on September 01, 2010 per Board Resolution No. 2010-007-013.

LIBI appropriated its Retained Earnings from 2000 to 2008 a total amount of P10,000,000 for retirement benefit plan. On July 18, 2011, the Retirement Fund was finally set-up by LIBI of which the LBP-TBG was appointed as Trustee of the fund. LIBI treated this fund as off books in accordance with PAS 26, Accounting and Reporting by Retirement Benefit Plan. The monitoring of this Fund would be done by the LIBI Administrative Head, which would be checked periodically by the Accounting Head.

The cost of defined benefit plan is determined by using actuarial valuation; hence, LIBI engaged the services of a duly certified independent actuarial firm on December 30, 2010. Revaluation of LIBI's Retirement Plan was done on January 01, 2015 by E. M Zalamea Actuarial Services, Inc. Due to the impact of implementation of Salary Standardization Law (SSL) effective CY2017 on the retirement fund, LIBI again engaged the services of the same actuarial firm. Below are the actuarial assumptions and valuation results as of December 31, 2017:

STATEMENT OF ACTUARIAL ASSUMPTIONS

| | | |
|---------------------------------|--|-------------|
| 1. Valuation Date | December 31, 2017 | |
| 2. Effective Date | January 1, 2010 | |
| 3. Investment Rate | 4% p.a. compounded annually | |
| 4. Mortality Rate | The 2001 CSO Table Generational (Scale AA, Society of Actuaries) | |
| 5. Disability Rate | The Disability Study, Period 2, Benefit 5 (Society of Actuaries) | |
| 6. Salary Projection Rate | 8% p.a. compounded annually | |
| 7. Normal Retirement Age | Age 60 | |
| 8. Projected Retirement Benefit | 22.5 days Pay per year of service in accordance with R.A. 7641 | |
| 9. Funding Method | Accrued Benefit Actuarial Cost Method (Projected Unit Credit) | |
| 10. Manner of Payment | Lump Sum | |
| 11. Withdrawal Rates | <u>Age</u> | <u>Rate</u> |
| | 19 - 24 | 7.50% |
| | 25 - 29 | 6.00% |
| | 30 - 34 | 4.50% |
| | 35 - 39 | 3.00% |
| | 40 - 44 | 2.00% |
| | ≥ 45 | 0.00% |

SUMMARY OF ACTUARIAL VALUATION RESULTS

As of December 31, 2017

| | MALE | FEMALE | COMBINED |
|---|-----------|------------|------------|
| 1. Number of Lives Covered | 20 | 25 | 45 |
| 2. Average Age in Years | 37.2 | 37.9 | 37.6 |
| Average Years of Remaining Working Life of the Employee Group | | | 22.4 |
| 3. Average Years of Past Service | 7.5 | 11.7 | 9.8 |
| 4. Annual Covered Payroll (ACP) | 7,419,780 | 9,550,992 | 16,970,772 |
| 5. Past Service Liability (PSL) | 8,002,504 | 17,275,444 | 25,277,948 |
| 6. Annual Normal Cost (ANC) | 857,325 | 1,252,095 | 2,109,420 |
| 7. ANC as percentage of ACP/Funding Rate [(6) ÷ (4)] | 11.6% | 13.1% | 12.4% |
| 8. Total Fund Net Assets | | | 9,782,183* |
| 9. Unfunded Past Service Liability [(5) – (8)] | | | 15,495,765 |

SUMMARY OF VESTED BENEFITS
As of December 31, 2017

| | MALE | FEMALE | COMBINED |
|---|-----------|------------|------------|
| 1. Number of Lives Eligible | | | |
| a. Compulsory Retirement | 0 | 0 | 0 |
| b. Optional Retirement | 1 | 5 | 6 |
| c. Voluntary Retirement | 8 | 9 | 17 |
| Total | 9 | 14 | 23 |
| 2. Vested Benefit (VB) | | | |
| a. Compulsory Retirement | 0 | 0 | 0 |
| b. Optional Retirement | 1,141,473 | 7,022,086 | 8,163,559 |
| c. Voluntary Retirement | 2,910,277 | 4,445,127 | 7,355,404 |
| Total | 4,051,750 | 11,467,213 | 15,518,963 |
| 3. Total Fund Net Amount | | | 9,782,183 |
| 4. Fund as a percentage of VB [(3) + (2)] | | | 63% |

**As of December 31, 2017, the Fund can pay only 63 per cent of the benefits, assuming all eligible employees will avail of their vested benefits during the valuation period.*

Based on the result of the valuation, the proposal of the management for the additional funding to cover the Unfunded Past Service Liability amounting to P15,500,000 (*item number 9 under summary of valuation results*) was approved by the members of the Board on October 20, 2018 per Board Resolution No. 2018-010-25 dated October 20, 2018. As of December 31, 2018, a total P8,000,000 was transferred to LBP-TBG. The remaining P7,500,000 will be transferred to LBP-TBG upon availability of funds in year 2019. The approval of the additional funding is covered by the appropriated amount of P20,000,000 in the Retained Earnings appropriations.

Out of the original 39 eligible employees, 15 employees availed of the Retirement Fund, wherein retirement benefits totaling to P8,248,203 were withdrawn from the Fund as at December 31, 2018. Under the Statement of Financial Position provided by LBP-TBG showed that the balance of the Retirement Fund as at December 31, 2017 is P15,804,617, such balance is already gross of the P8,000,000 additional funding. Accumulated income since the transfer of the Fund on July 18, 2011 to the LBP-TBG reached P2,273,629, gross of the Net Unrealized Gains/Losses of P235,943 as of date.

3.15 Related Parties

The parent company, Land Bank of the Philippines (LBP), regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the LIBI, or vice versa.

A member of key management is regarded as related party such as the corporate secretary who is an employee of the parent company, LBP.

4. CASH AND CASH EQUIVALENTS

This account consists of:

| | 2018 | 2017 |
|-----------------------------|--------------------|--------------------|
| Cash on Hand | 50,000 | 50,000 |
| Cash in Bank-Local Currency | 82,293,598 | 128,598,801 |
| Cash Equivalent | 24,843,128 | 0 |
| Total | 107,186,726 | 128,648,801 |

Cash equivalent consists of investment in 90-day Treasury Bills with an interest rate of 5.2 per cent. It was invested on November 15, 2018 and will mature on February 13, 2019.

5. RECEIVABLES

This account consists of:

| | 2018 | | | 2017 | | |
|--|-------------------|-------------------|--------------------|-------------------|-------------------|--------------------|
| | Current | Non-Current | Total | Current | Non-Current | Total |
| Accounts Receivable | 56,681,259 | 42,516,605 | 99,197,864 | 66,396,489 | 43,223,916 | 109,620,405 |
| Accrued Service Fees Receivable | 9,145,556 | 9,322,231 | 18,467,787 | 9,156,804 | 9,524,710 | 18,681,514 |
| Allowance for Impairment-Accrued Service Fees Receivable | (1,823,188) | (9,232,998) | (11,056,186) | (1,204,962) | (9,363,772) | (10,568,734) |
| Net Value-Accrued Service Fees Receivable | 7,322,368 | 89,233 | 7,411,601 | 7,951,842 | 160,938 | 8,112,780 |
| Interest Receivable | 7,645,005 | 0 | 7,645,005 | 7,208,380 | 0 | 7,208,380 |
| Inter-Agency Receivable-SSS | 36,400 | 0 | 36,400 | 0 | 0 | 0 |
| Sub-total | 71,685,032 | 42,605,838 | 114,290,870 | 81,556,711 | 43,384,854 | 124,941,565 |
| Other Receivables | | | | | | |
| Receivable-Disallowances/Charges | 0 | 1,363,161 | 1,363,161 | 0 | 1,363,161 | 1,363,161 |
| Other Receivables | 563,193 | 0 | 563,193 | 80,358 | 0 | 80,358 |
| Sub-total | 563,193 | 1,363,161 | 1,926,354 | 80,358 | 1,363,161 | 1,443,519 |
| Total | 72,248,225 | 43,968,999 | 116,217,224 | 81,637,069 | 44,748,015 | 126,385,084 |

Accounts Receivable and Accrued Service Fees Receivable accounts include outstanding premium receivable from the assured whose insurance policies have been issued by insurance companies that are now under liquidation. Below is the breakdown:

| Insurance Company | Premium ¹¹ | Accrued Service Fee ¹² |
|---|-----------------------|-----------------------------------|
| Unexpired Premium from Philippine Prudential Life Ins. (PPLICI) | 40,876,291 | 9,023,564 |
| Long Outstanding Receivable – Easy Home Loan (EHL) PPLICI | 283,214 | 45,516 |
| Long Outstanding Receivable - Philippine Phoenix | 638,173 | 129,338 |
| Total | 41,797,678 | 9,198,418 |

Relative to the termination of LIBI's insurance business with PPLICI on September 2013 which the latter did not concur, the PPLICI filed a complaint on March 7, 2016 against the LBP and LIBI to the Regional Trial Court Branch 155, Pasig City docketed as Civil Case No. 75133 for sum of money relating to unpaid premiums by LIBI from 2013 to 2016.

Latest update on the case is as of February 04, 2019. The case was called for the hearing on the continuation of the presentation of plaintiff's evidence. Both the plaintiff's counsel and Land Bank's counsel were present while the counsel for the defendant LIBI was non-appearance. However, there is a Motion for Cancellation and Postponement of Hearing filed by the counsel of the plaintiff on the ground that she would still need some time to confer with her next witness, a former employee of PPLICI. In the interest of justice, the court granted the postponement and reset the hearing on April 08 and 15, 2019 at 8:30 in the morning. The judge warned the counsel for the plaintiff that these two settings would be the last settings given to the plaintiff to present their witness. Counsel for Land Bank was already notified in open court while notice was sent to counsel for the defendant LIBI.

Reconciliation of carrying amounts of Allowance for Impairment - Accrued Service Fee Receivable for CY 2018:

| Particulars | 2018 | 2017 |
|---|-------------------|-------------------|
| At January 1 | 10,568,734 | 19,948,859 |
| Provisions for the year | 1,823,188 | 2,455,719 |
| | 12,391,922 | 22,404,578 |
| Adjustment: | | |
| Reversal of allowance on accounts not qualified per GSIS pre-qualification (with other perils and premium payments received beyond the 30-day period) | | (2,185,269) |
| Reversal of allowance due to non-payment of extra remuneration by GSIS | | (5,330,160) |
| Reversal of allowance on Extra Remunerations from GSIS for years 2007-2013 due to subsequent collections | | (1,162,945) |
| Reversal of CYs 2016 and 2015 provisions on accrued service fees receivable from private insurance due to collection | | (3,157,470) |
| Reversal of CYs 2017, 2016 and 2015 provisions on accrued service fees receivable from private insurance due to collection (Note 25) | (1,335,736) | |
| | 1,335,736 | 11,835,844 |
| At December 31 | 11,056,186 | 10,568,734 |

6. INVENTORIES

This account consists of inventories held for consumption, namely:

| | 2018 | 2017 |
|-----------------------------|----------------|---------------|
| Office supplies inventory | 79,498 | 59,170 |
| Accountable forms inventory | 42,152 | 21,364 |
| Non-accountable forms | 6,546 | 7,393 |
| | 128,196 | 87,927 |

Reconciliation of carrying amounts:

| | 2018 | 2017 |
|--|----------------|---------------|
| Carrying Amount, January 1 | 87,927 | 80,195 |
| Additions/Acquisitions during the year | 415,531 | 347,974 |
| Consumption during the year | (375,262) | (340,242) |
| Carrying Amount, December 31 | 128,196 | 87,927 |

7. OTHER ASSETS

This account consists of:

| | 2018 | | | 2017 | | |
|--------------|-------------------|------------------|-------------------|------------------|------------------|------------------|
| | Current | Non-Current | Total | Current | Non-Current | Total |
| Prepayments | 11,831,152 | 2,106,623 | 13,937,775 | 5,365,408 | 2,003,446 | 7,368,854 |
| Deposits | 0 | 191,193 | 191,193 | 93,425 | 97,769 | 191,194 |
| Total | 11,831,152 | 2,297,816 | 14,128,968 | 5,458,833 | 2,101,215 | 7,560,048 |

The prepayments consist of tax withheld receivable, creditable withholding taxes, prepaid insurance and other prepayments.

8. FINANCIAL ASSETS – HELD TO MATURITY

This account consists of investment securities at amortized cost. Below is the summary of changes in this account during the year:

As at December 31, 2018

| | Retail Treasury Bonds | Fixed Treasury Notes | DBP Tier II | Treasury Bills | Total |
|-----------------------------------|-----------------------|----------------------|-------------------|----------------|----------------------|
| Balance, January 1, 2018 | 620,899,192 | 268,983,566 | 75,000,000 | 0 | 964,882,758 |
| Additional investment | 34,922,594 | 29,576,356 | 0 | 0 | 64,498,950 |
| Amortization of discount | 0 | 364,858 | 0 | 0 | 364,858 |
| Amortization of premium | (1,677,766) | (475,118) | 0 | 0 | (2,152,884) |
| Investment sold/collected | 0 | 0 | 0 | 0 | 0 |
| Balance, December 31, 2018 | 654,144,020 | 298,449,662 | 75,000,000 | 0 | 1,027,593,682 |

As at December 31, 2017

| | Retail Treasury Bonds | Fixed Treasury Notes | DBP Tier II | Treasury Bills | Total |
|-----------------------------------|-----------------------|----------------------|-------------------|----------------|--------------------|
| Balance, January 1, 2017 | 552,524,935 | 150,521,747 | 75,000,000 | 19,795,792 | 797,842,474 |
| Additional investment | 70,000,000 | 118,704,661 | 0 | 29,763,532 | 218,468,193 |
| Amortization of discount | 0 | 238,699 | 0 | 430,603 | 669,302 |
| Amortization of premium | (1,625,743) | (481,541) | 0 | 0 | (2,107,284) |
| Investment sold/collected | 0 | 0 | 0 | (49,989,927) | (49,989,927) |
| Balance, December 31, 2017 | 620,899,192 | 268,983,566 | 75,000,000 | 0 | 964,882,758 |

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

| | 2018 | 2017 |
|-----------------------|---------------------------------|--------------------------|
| Retail Treasury Bonds | 6.125%, 4.875%, 4.625% ,3.500% | 6.125%, 3.50% and 4.625% |
| DBP-Tier II | 4.875% | 4.875% |
| Fixed Treasury Notes | 5.500%, 3.60%, 3.50% and 3.375% | 3.375%, 3.50% and 3.60% |

Board Resolution No. 2014-009-027 dated October 29, 2014 approved the request of LBP Leasing and Finance Corporation (LLFC), for the assignment of LIBI's P500,000,000 worth of government securities – Retail Treasury Bonds as partial collateral for LLFC's existing short term loan from Land Bank of the Philippines. The Deed of Assignment by way of security was executed on October 31, 2014 by and between LIBI and LLFC for a period of two years. In consideration of the assignment, LLC shall pay LIBI a guarantee/assignment fee equivalent to 1/8 of 1 per cent or P625,000 per annum or P52,083.33 per month. The guarantee/assignment fee is being paid by LLFC on a quarterly basis. However, due to the maturity of the Retail Treasury Bonds on August 19, 2015 and March 03, 2016 totaling P82,855,000, the assignment fee was reduced to P530,638.92 per annum or P44,219.91 per month which was based on the remaining amount of P424,511,129.56 with the same guarantee/assignment fee rate. LLFC did not request for replacement of the matured assigned investment.

9. INVESTMENT PROPERTY

This account consists of assets acquired through dacion en pago from the former employee with outstanding obligation amounting to P998,316. The dacioned properties consist of two parcels of land containing a total area of 5,847 square meters are located at Catbalogan, Western Samar. The appraised value of these properties amounted to P2,924,000 per appraisal report of the LBP Property Valuation and Credit Information Department dated 22 May 2017.

10. PROPERTY AND EQUIPMENT

This account consists of the following:

As at December 31, 2018

| | Office Equipment | Information and Communi- cation Technology | Furniture and Fixtures | Building | Motor Vehicles | Total |
|--|---------------------|---|------------------------------|-------------------|-------------------|-------------------|
| Cost, January 1 | 5,780,512 | 4,430,899 | 2,411,296 | 38,670,505 | 4,425,107 | 55,718,319 |
| Acquisitions | 5,960,178 | 789,178 | 328,215 | 0 | 0 | 7,077,571 |
| Disposal | 0 | 0 | 0 | 0 | 0 | 0 |
| Cost, December 31 | 11,740,690 | 5,220,077 | 2,739,511 | 38,670,505 | 4,425,107 | 62,795,890 |
| Accumulated Depreciation, January 1 | 4,142,420 | 516,750 | 2,027,469 | 23,697,624 | 2,186,737 | 32,571,000 |
| Depreciation | 1,383,998 | 249,213 | 77,148 | 1,802,596 | 469,790 | 3,982,745 |
| Adjustments | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulated Depreciation, December 31 | 5,526,418 | 765,963 | 2,104,617 | 25,500,220 | 2,656,527 | 36,553,745 |
| Net Carrying Amount, December 31 | 6,214,272 | 4,454,114 | 634,894 | 13,170,285 | 1,768,580 | 26,242,145 |

As at December 31, 2017

| | Office Equipment | Information and Communi- cation Technology | Furniture and Fixtures | Building | Motor Vehicles | Total |
|--|---------------------|---|---------------------------|-------------------|-------------------|-------------------|
| Cost, January 1 | 5,717,187 | 3,175,368 | 2,394,689 | 38,670,505 | 3,349,214 | 53,306,963 |
| Acquisitions | 474,846 | 1,255,531 | 16,607 | 0 | 1,075,893 | 2,822,877 |
| Disposal | (411,521) | 0 | 0 | 0 | 0 | (411,521) |
| Cost, December 31 | 5,780,512 | 4,430,899 | 2,411,296 | 38,670,505 | 4,425,107 | 55,718,319 |
| Accumulated Depreciation, January 1 | 4,138,260 | 390,063 | 1,983,557 | 21,786,604 | 1,862,961 | 30,161,445 |
| Depreciation | 368,826 | 126,687 | 43,912 | 1,911,019 | 323,776 | 2,774,220 |
| Adjustments | (364,666) | 0 | 0 | 1 | 0 | (364,665) |
| Accumulated Depreciation, December 31 | 4,142,420 | 516,750 | 2,027,469 | 23,697,624 | 2,186,737 | 32,571,000 |
| Net Carrying Amount, December 31 | 1,638,092 | 3,914,149 | 383,827 | 14,972,882 | 2,238,370 | 23,147,319 |

11. INTANGIBLE ASSETS

This account consists of the cost of computer software upgrade of the LIBI's existing Integrated Insurance Business System (IIBS) version 3.3 to 4.0 web version systems which development is in progress. The total cost of the project is P6,439,219. The project duration to upgrade the LIBI IIBS was extended until March 19, 2018. However, the project was further extended to several times due to system incident reports (SIRs) that were encountered during testing and have to be resolved prior to retesting again and also due to the delay in the migration of data. Latest schedule to Go Live is on

March 19, 2019. As of December 31, 2018, the down payment amounted to P2,084,790.

Another intangible asset procured during the year is the Online Insurance Application system with Virtual Assistant (CHATBOT) which will help clients in facilitating their insurance queries and needs. However, it is not yet fully operational due to its dependencies on IIBS upgraded version.

LIBI's upgraded payroll system costing P143,528 was fully operational in September 2018. Amortization expense for four months amounting to P9,568 was recognized using the straight method over a useful life of five (5) years.

12. FINANCIAL LIABILITIES

This account consists of:

| | 2018 | | | 2017 | | |
|--|--------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
| | Current | Non-Current | Total | Current | Non-Current | Total |
| Insurance/Reinsurance Premium Payable | 74,417,074 | 44,270,488 | 118,687,562 | 114,522,179 | 44,116,065 | 158,638,244 |
| Accounts Payable | 47,104,622 | 494,522 | 47,599,144 | 52,996,230 | 525,921 | 53,522,151 |
| Due to Officers and Employees | 8,925 | 0 | 8,925 | 144 | 2,544 | 2,688 |
| Other Financial Liabilities Handling Fees Payable ⁴ | 8,030,578 | 0 | 8,030,578 | 6,962,615 | 0 | 6,962,615 |
| Total | 129,561,199 | 44,765,010 | 174,326,209 | 174,481,168 | 44,644,530 | 219,125,698 |

Insurance/Reinsurance Premium Payable pertains to insurance premiums payable to insurance companies as at December 31, 2018.

Accounts Payable includes unreleased checks and authority to debit totaling P46,073,237 for payment of insurance premiums to various insurance companies that remain under the custody of the Cashiering Unit as at December 31, 2018 awaiting corresponding tax certificates (BIR Form 2307) from various insurance companies. This also includes accrual of expenses awaiting billing from suppliers.

Due to Officers and Employees pertains to tax refunds to officers and employees.

Other Financial Liabilities pertains to handling fees payable to LBP units, lending centers, branches which are due every March and September of the year.

13. INTER-AGENCY PAYABLES

This account consists of:

| | 2018 | 2017 |
|-------------------------|------------------|------------------|
| Due to BIR | 521,361 | 449,739 |
| Value Added Tax Payable | 1,133,040 | 1,549,698 |
| Income Tax Payable | 7,525,533 | 3,868,002 |
| Total | 9,179,934 | 5,867,439 |

14. TRUST LIABILITIES

This account consists of:

| | 2018 | | | 2017 | | |
|------------------------------------|-------------------|------------------|-------------------|-------------------|------------------|-------------------|
| | Current | Non-Current | Total | Current | Non-Current | Total |
| Customer's Deposits Payable | 51,220,166 | 6,812,675 | 58,032,841 | 24,645,547 | 4,784,440 | 29,429,987 |
| Guaranty/Security Deposits Payable | 0 | 305,200 | 305,200 | 250,000 | 225,200 | 475,200 |
| Total | 51,220,166 | 7,117,875 | 58,338,041 | 24,895,547 | 5,009,640 | 29,905,187 |

The Customer's Deposits Payable pertains to advance payments of premiums by clients/assured awaiting issuance of insurance policies and/or matching of premium invoices. Transactions representing excess payments of premiums are also recorded under this account awaiting instruction from assured/LBP for refund or application to future renewal of policies.

15. PROVISIONS

This account consists of:

| | 2018 | | | 2017 | | |
|------------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| | Current | Non-Current | Total | Current | Non-Current | Total |
| Leave Benefits Payable | 836,814 | 2,819,935 | 3,656,749 | 1,036,896 | 2,539,485 | 3,576,381 |
| Pension Payable | 2,109,420 | 0 | 2,109,420 | 753,293 | 1,341,566 | 2,094,859 |
| Other Provisions | 2,509,447 | 0 | 2,509,447 | 2,475,514 | 3,828,500 | 6,304,014 |
| Total | 5,455,681 | 2,819,935 | 8,275,616 | 4,265,703 | 7,709,551 | 11,975,254 |

Pension Payable pertains to the accrual of Annual Normal Cost (ANC) under the Accrual Benefit Valuation Method.

Other Provisions refers to the estimated Performance Based Bonus (PBB) of LIBI's officers and staff and the Performance Based Incentive (PBI) of LIBI's Board of Directors for CY2018.

16. OTHER PAYABLES

This account consists of Undistributed Collection, which pertains to credit advices issued by the bank as of the close of the transaction date. However, LIBI had not issued yet official receipt thereof due to lack of details.

17. SHARE CAPITAL

As at December 31, 2018, the total authorized, paid, issued and outstanding shares are 3,000,000 shares with par value of P100.

18. RETAINED EARNINGS

Cash dividend of P39,737,063 was declared and approved on April 26, 2018 per Board Resolution Nos. 2018-004-0017. An additional cash dividend declaration of P161,903 was approved per Board Resolution No. 2018-004-021 due to the revised computation of cash dividend under Department of Finance Revised Implementing Rules and Regulation to R. A. 7656, "an act requiring GOCC to declare Dividends to the National Government. Hence, a total of P39,898,966 cash dividend was remitted to the Bureau of Treasury on May 08, 2018 and June 18, 2018, respectively.

The Board in its Resolution No. 2018-004-0018 dated April 26, 2018 approved the reversal of a total appropriations of P38,200,000 because its purpose had already been served or did not materialized.

| | |
|---|---------------------|
| Appropriation for Risk Modeling System (did not materialized) | P 27,000,000 |
| Appropriation for VRF air-conditioning system | 8,000,000 |
| Appropriation for 2 units Motor Vehicles | 3,000,000 |
| Appropriation for CCTV camera | 200,000 |
| | P 38,200,000 |

As at December 31, 2018, total appropriations amounted to P320,150,000 detailed as follows:

| Particulars | Amount |
|---|----------------------|
| Appropriations for procurement of office space | P 150,000,000 |
| Appropriation for non-collection of refund of premium from Prudential Life | 63,000,000 |
| Appropriation for other contingencies | 30,000,000 |
| Appropriation for additional Retirement fund due the SSL implementation | 20,000,000 |
| Appropriation for the technology and computer upgrades | 18,000,000 |
| Appropriation for the reversal of related service fee | 15,000,000 |
| Appropriation for trainings and seminars for ISO/GQMSS certification | 3,000,000 |
| Appropriation for replacement of lighting system and replacement of office ceiling | 3,000,000 |
| Appropriation for Virtual Assistant (Chat Bot) | 3,000,000 |
| Appropriation for Document Management System | 3,000,000 |
| Appropriation for Career Program in Life/Non-life Insurance Data Analytics/Non-life Actuarial Science | 3,000,000 |
| Appropriation for Directors' Training on Good Governance | 2,000,000 |
| Appropriation for one vehicle for employees' service | 1,600,000 |
| Appropriation of premium internet gateway service | 1,000,000 |
| Appropriation for procurement of office equipment, furniture and fixtures | 1,000,000 |
| Appropriation for email system upgrade | 800,000 |
| Appropriation for structured cabling of data | 750,000 |
| Appropriation for PABX | 700,000 |
| Appropriation for replacement of carpets | 500,000 |
| Appropriation for Operating System and Microsoft Office 2016 | 500,000 |
| Appropriation for Anti-Virus system | 300,000 |
| | P 320,150,000 |

Other adjustments to the Retained Earnings for CY 2018 and 2017 are presented below:

CY2018

| Accounts Affected | Particulars | Amount |
|---|--|-------------------|
| Other Provisions | Reversal of 2015, 2016 and 2017 PBI of Board of Directors due to failed ratings from GCG | 4,470,900 |
| Other Provisions | Reversal of 2016 and 2017 PBB of LIBI employees due to failed ratings from GCG | 1,834,014 |
| Accounts Payable - Accrued Expenses Payable | Reversal of excess accrual on estimates for 2017 on personnel services due SSL implementation | 5,404,790 |
| Accounts Payable - Accrued Expenses | Reversal on the excess accrual on 2017 Audit Fee | 430,260 |
| Allowance for probable losses- Accrued Service Fee Receivable (ASFR) and Deferred Tax Asset | Reversal of allowance for probable losses and corresponding deferred tax asset due to collection and non-payment of accrued service fee in prior years | 1,335,736 |
| Deferred Tax Asset | Reversal of deferred tax asset relating to allowance for probable losses on COA disallowance | (400,721) |
| | | 13,074,979 |

CY2017

| Accounts Affected | Particulars | Amount |
|---|--|------------------|
| Allowance for probable losses- Accrued Service Fee Receivable (ASFR) and Deferred Tax Asset | Reversal of allowance for probable losses and corresponding deferred tax asset due to collection and non-payment by the GSIS of accrued service fee in prior years | 1,155,004 |
| Deferred Tax Asset | Reversal of deferred tax asset relating to allowance for probable losses on COA disallowance | (133,315) |
| | | 1,021,689 |

19. SERVICE AND BUSINESS INCOME

| | 2018 | 2017 |
|---------------------------------------|--------------------|--------------------|
| Service Income | | |
| Fees and Commission Income | 150,641,800 | 123,645,238 |
| Other Discounts | (14,660,223) | (11,071,174) |
| Net Fees and Commission Income | 135,981,577 | 112,574,064 |
| Business Income | | |
| Interest Income | 36,638,060 | 33,090,385 |
| Other Business Income | 0 | 2,656,132 |
| Total Business Income | 36,638,060 | 35,746,517 |
| Total | 172,619,637 | 148,320,581 |

The fees and commission income were derived from performance of services to customers/clients, while the other discounts pertains to the handling expenses

/incentives given to LBP branches, groups, units and subsidiaries for appraisal, inspection of property to be insured and for performance of other administrative matters such as collection of payments of insured properties.

Interest income pertains to earnings from investments at amortized cost such as Retail Treasury Bonds, DBP-Tier II, Fixed Treasury Notes and Treasury Bills and from current and savings depository accounts.

Other Business Income was derived from buying and selling, and brokering of foreign currencies.

LIBI-Forex discontinued its business operations effective 19 May 2017 per Board Resolution No. 2017-004-016 dated 18 May 2017.

20. PERSONNEL SERVICES

| | 2018 | 2017 |
|--|-------------------|-------------------|
| <i>Salaries and Wages</i> | | |
| Salaries and Wages-Regular | 18,012,836 | 17,999,671 |
| Salaries and Wages-Contractual | 478,603 | 911,798 |
| | 18,491,439 | 18,911,469 |
| <i>Other Compensation</i> | | |
| Other Bonuses and Allowances | | |
| Mid-year Bonus | 2,349,586 | 784,800 |
| Performance Based Bonus | 1,856,997 | 746,757 |
| Rice Allowance | 650,900 | 1,277,050 |
| Medical, Dental and Hospitalization | 598,000 | 507,000 |
| Productivity Enhancement Incentive | 235,500 | 240,000 |
| Christmas Raffle | 0 | 1,750,000 |
| Anniversary Bonus | 0 | 306,000 |
| Teller's Allowance | 1,800 | 7,200 |
| | 5,692,783 | 5,618,807 |
| Overtime and Night Pay | 1,598,658 | 2,526,302 |
| Year-End Bonus | 1,223,223 | 1,559,598 |
| Personnel Economic Relief Allowance (PERA) | 656,627 | 0 |
| Representation Allowance | 563,750 | 522,000 |
| Transportation Allowance | 381,500 | 279,000 |
| Clothing/Uniform Allowance | 251,143 | 162,009 |
| Meal Subsistence Allowance | 247,250 | 0 |
| Cash Gift | 229,000 | 218,000 |
| Longevity Pay | 34,929 | 169,714 |
| | 10,878,863 | 11,055,430 |
| <i>Personnel Benefit Contributions</i> | | |
| Employees Compensation Insurance Premium | 647,703 | 558,217 |
| PhilHealth Contributions | 175,240 | 112,763 |
| Pag-IBIG Contributions | 55,700 | 49,450 |
| | 878,643 | 720,430 |
| <i>Other Personnel Benefits</i> | 2,630,192 | 2,645,124 |
| Total | 32,879,137 | 33,332,453 |

The other personnel benefits pertain to the money value of leave credits that were earned by LIBI personnel and the ANC under Note 15 Provisions - Pension payable.

21. MAINTENANCE AND OTHER OPERATING EXPENSES

| | 2018 | 2017 |
|---|------------------|------------------|
| Training and Scholarship Expenses | 945,522 | 173,160 |
| Travelling Expenses | 642,736 | 751,294 |
| Supplies and Materials Expenses | | |
| Office Supplies Expenses | 575,366 | 582,257 |
| Accountable Forms Expenses | 160,384 | 125,133 |
| Non-Accountable Forms | 4,826 | 2,746 |
| | 740,576 | 710,136 |
| Utility Expenses | | |
| Electricity Expenses | 841,895 | 901,442 |
| Water Expenses | 141,521 | 107,692 |
| | 983,416 | 1,009,134 |
| Communication Expenses | | |
| Postage and Courier Services | 1,062,771 | 693,980 |
| Telephone Expenses | 405,393 | 433,097 |
| Internet Subscription Expenses | 145,679 | 179,127 |
| | 1,613,843 | 1,306,204 |
| Professional Fees | | |
| Other Professional Services | 1,211,836 | 46,852 |
| Auditing Services | 660,571 | 1,026,748 |
| Legal Services | 240,000 | 240,000 |
| | 2,112,407 | 1,313,600 |
| Other General Services | | |
| Other General Services | 513,275 | 840,573 |
| Security Services | 228,458 | 249,288 |
| Janitorial Services | 0 | 29,747 |
| | 741,733 | 1,119,608 |
| <i>Repairs and Maintenance</i> | | |
| Repairs and Maintenance-Machinery and Equipment | 700,256 | 16,013 |
| Repairs and Maintenance-Transportation Equipment | 219,844 | 223,296 |
| Repairs and Maintenance-Furniture, Fixture and Books | 99,428 | 7,219 |
| Repairs and Maintenance-Semi-Expendable Machinery and Equipment | 40,509 | 15,536 |
| | 1,060,037 | 262,064 |
| Taxes, Insurance Premium and Other Fees | | |
| Taxes, Duties and Licenses | 1,338,980 | 1,366,560 |
| Insurance Expenses | 532,974 | 186,675 |
| | 1,871,954 | 1,553,235 |
| Other Maintenance and Operating Services | | |
| Directors' and Committee Members' Fees | 3,746,000 | 3,796,000 |
| Representation Expenses | 1,166,950 | 1,548,726 |
| Advertising, Promotional and Marketing | 207,630 | 29,010 |
| Rent/Lease Expenses | 154,123 | 280,843 |

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Membership Dues and Contribution to Organizations | 12,000 | 12,000 |
| Subscription Expenses | 6,740 | 4,050 |
| Donations | 0 | 403,613 |
| Other Maintenance and Operating Expenses | 1,264,449 | 1,062,292 |
| Total | 6,557,892 | 7,136,534 |
| | 17,270,116 | 15,334,969 |

22. FINANCIAL EXPENSES

| | 2018 | 2017 |
|-------------------------|----------------|---------------|
| Other Financial Charges | 80,342 | 61,994 |
| Bank Charges | 30,180 | 24,320 |
| Total | 110,522 | 86,314 |

Other Financial Charges pertains to broker's fee and other incidental charges in placement or sale of investment securities.

23. NON-CASH EXPENSES

| | 2018 | 2017 |
|---|------------------|------------------|
| <i>Depreciation</i> | | |
| Depreciation-Building | 1,802,596 | 1,911,019 |
| Depreciation-Office Equipment | 1,383,998 | 368,826 |
| Depreciation-Motor Vehicles | 469,790 | 323,776 |
| Depreciation-Information and Communication Technology | 249,213 | 126,687 |
| Depreciation-Furniture and Fixtures | 77,148 | 43,912 |
| | 3,982,745 | 2,774,220 |
| <i>Amortization</i> | | |
| Amortization-Intangible Assets (Note 11) | 9,568 | 0 |
| <i>Impairment Loss</i> | | |
| Impairment Loss-Receivables (Note 5) | 1,823,188 | 2,455,719 |
| <i>Non-cash Expenses</i> | | |
| Loss on sale of unserviceable property and equipment | 0 | 42,797 |
| Total | 5,815,501 | 5,272,736 |

24. NON-OPERATING INCOME, GAINS OR LOSSES

24.1 Non-Operating Income/Gain

| | 2018 | 2017 |
|-----------------|------|---------|
| Gains | | |
| Gain from Forex | 0 | 158,596 |

| | 2018 | 2017 |
|-----------------------------------|------------------|------------------|
| Other Non-Operating Income | | |
| Rental income | 810,000 | 810,000 |
| Miscellaneous Income | 623,869 | 581,997 |
| Total | 1,433,869 | 1,391,997 |

25. INCOME TAX EXPENSE

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

| | 2018 | 2017 |
|--------------------|-------------------|-------------------|
| Income tax expense | 24,949,007 | 19,563,011 |
| Income tax benefit | (546,957) | (736,716) |
| | 24,402,050 | 18,826,295 |

Reconciliation of Income before income tax against taxable income is as follows:

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Income before income tax | 117,978,230 | 95,844,702 |
| Non-deductible expenses | | |
| Impairment loss-loans and receivables | 1,823,188 | 2,455,720 |
| Non-taxable income and income subjected to final tax: | | |
| Interest income | (36,638,060) | (33,090,385) |
| | (34,814,872) | (30,634,665) |
| Net taxable income | 83,163,358 | 65,210,037 |
| Income tax rate | 30% | 30% |
| Income Tax Expense | 24,949,007 | 19,563,011 |

Deferred tax asset/Income tax benefit is computed as follows:

| | 2018 | 2017 |
|---|-------------|--------------------|
| Balance, beginning of year | 3,870,148 | 6,817,500 |
| Reversal of CYs 2017, 2016 and 2015 provisions on accrued service fees receivable from private insurance due to collection (Note 5) | (1,335,736) | (3,157,470) |
| Reversal of provisions on receivable-extra remuneration due to collection: | | |
| PY2013 accrued extra remuneration | 0 | (969,607) |
| PY2011 accrued extra remuneration | 0 | (12,676) |
| PY2010 accrued extra remuneration | 0 | (9,727) |
| PY2009 accrued extra remuneration | 0 | (69,781) |
| PY2008 accrued extra remuneration | 0 | (41,281) |
| PY2007 accrued extra remuneration | 0 | (59,873) |
| | 0 | (1,162,945) |

| | 2018 | 2017 |
|---|--------------------|---------------------|
| Reversal not qualified per GSIS pre-qualification (with other perils and premium payments received beyond the 30-day period): | | |
| PY2013 accrued extra remuneration | 0 | (565,590) |
| PY2012 accrued extra remuneration | 0 | (675,953) |
| PY2011 accrued extra remuneration | 0 | (383,331) |
| PY2010 accrued extra remuneration | 0 | (214,394) |
| PY2009 accrued extra remuneration | 0 | (331,542) |
| PY2008 accrued extra remuneration | 0 | (10,682) |
| PY2007 accrued extra remuneration | 0 | (3,777) |
| | 0 | (2,185,269) |
| Reversal due to non-payment of extra remuneration by GSIS: | | |
| PY2013 accrued extra remuneration | 0 | (324,948) |
| PY2012 accrued extra remuneration | 0 | (437,762) |
| PY2011 accrued extra remuneration | 0 | (1,056,927) |
| PY2010 accrued extra remuneration | 0 | (1,747,635) |
| PY2009 accrued extra remuneration | 0 | (854,622) |
| PY2008 accrued extra remuneration | 0 | (52,304) |
| PY2007 accrued extra remuneration | 0 | (855,962) |
| | 0 | (5,330,160) |
| Total reversals | (1,335,736) | (11,835,844) |
| Provision for probable losses recorded at year end: | | |
| Accrued service fees receivable from private insurance recorded October 2017 to August 31, 2018 (Note 5) | 1,823,188 | |
| Accrued service fees receivable from private insurance recorded in CYs 2015, 2016 and January to September 2017 | | 2,455,719 |
| | 487,452 | 9,380,125 |
| Prevailing income tax rate | 30% | 30% |
| Deferred tax asset/income tax benefit reversed at year end | 146,236 | (2,814,037) |
| Reversal of deferred tax asset on allowance provided to the receivable from COA disallowance | | (133,315) |
| Balance, end of year | 4,016,384 | 3,870,148 |

Income tax benefits shall be deducted from the LIBI's future tax obligations to the extent of the amount of provision for accrued service fees receivable that will have no economic benefits to the Corporation.

26. SUPPLEMENTARY INFORMATION ON REVENUE REGULATION

In compliance with the requirements set forth in RR 15-2010, hereunder are the information on taxes, duties and license fees paid and accrued during the taxable year.

A. LBP Insurance Brokerage, Inc. is a VAT-registered Corporation with VAT output tax declaration of P18,209,274 based on actual collections during the year of service

fees and rental income amounting to P151,743,950. Actual VAT paid for the year amounted to P16,522,463 after applying Input Tax of P1,636,622 and creditable withholding tax of P50,189. The VAT payable of P1,133,040 (Note 13) was remitted in the following month/year. Government VAT of P886,518 withheld from payments to suppliers of goods and services was also remitted to the BIR within the reglementary period.

Changes in the balance of the input tax are as follows:

| | | |
|--|-------------|------------------|
| Balance, beginning of year | | 898,793 |
| Current year's purchases: | | |
| Capital goods | 1,152,759 | |
| Goods other than for resale or manufacture | 303,956 | |
| Services lodged under other accounts | 1,002,325 | |
| Input taxes claimed for the year | (1,636,622) | 822,418 |
| Balance, end of year | | 1,721,211 |

B. Other taxes and licenses recorded under Taxes and licenses account are as follows (Note 21):

| | | |
|---|--|------------------|
| Local | | |
| Mayor's permit | | 942,522 |
| Real property tax | | 188,049 |
| Real estate tax | | 101,353 |
| Community tax certificate | | 10,500 |
| Electrical and occupancy permit fee | | 830 |
| Barangay clearance | | 2,570 |
| | | 1,245,824 |
| National | | |
| License and filing fee – Insurance Commission | | 52,269 |
| Soliciting fee license issued to an insurance broker | | 30,300 |
| Registration of motor vehicle at LTO | | 7,587 |
| Certification fee for tax exemption for retirement plan | | 2,000 |
| BIR annual registration | | 500 |
| Certification 2016 Audited Financial Statements | | 500 |
| | | 93,156 |
| | | 1,338,980 |

C. The income taxes/withholding taxes paid/accrued for the year amounted to:

| | | |
|---|--|-------------------|
| Corporate tax | | |
| Income Tax | | 4,741,744 |
| Creditable withholding tax at source (paid in advance by LIBI and used as tax credits) | | 20,207,263 |
| | | 24,949,007 |
| Tax on compensation and benefits | | 2,754,377 |
| Expanded withholding tax from suppliers | | 696,179 |
| | | 28,399,563 |

The income tax payable as of December 31, 2018 amounted to P7,525,533 (Note 13).

There are outstanding Letter Notices (LN) No. 047-RLFTRS-12-00-00402 and No. 047-RLF-11-00-00123 dated June 10, 2014 and January 28, 2013, respectively regarding the discrepancies resulting from Reconciliation of Listing for Enforcement (RELIEF) and Third Party Matching – Tax Reconciliation system (TRS) as declared in LIBI's tax returns filed for CY2012 and 2011 particularly VAT returns filed by suppliers. The required documents needed to refute the findings were forwarded to the BIR.

27. RELATED PARTY DISCLOSURES

The financial statements include various transactions with its parent and affiliated companies. The more significant related party transactions, arising from normal course of business include the following:

- a. To defray expenses in the appraisal, inspection of property to be insured and other administrative matters such as collection of insurance premium payments of insured properties; handling fees are given to LIBI's clients, the LBP units, branches and subsidiaries. For the current year, handling fee accrued and payable to LBP units, branches and subsidiaries reached 14,660,223 (Note 19).
- b. Compensation of key management personnel for 2018 and 2017 are as follows:

| | 2018 | 2017 |
|--|------------------|------------------|
| For the President and General Manager | | |
| Total salaries and wages | 2,447,634 | 3,152,400 |
| Total short-term employee benefits (RA, PEI, per diem, bonuses, medical benefits) | 1,263,676 | 1,282,143 |
| | 3,711,310 | 4,434,543 |
| For Corporate officers who are employees of the parent company, LBP: | | |
| Total short-term employee benefits (per diems and reimbursable expenses) | 164,000 | 174,500 |
| | 3,875,310 | 4,609,043 |

- c. A Trust Agreement was made and entered into by and between LBP Insurance Brokerage, Inc. (LIBI) and LBP – Trust Banking Group (LBP-TBG) on July 18, 2011 thereby appointing the latter as the Trustee of the LIBI's Retirement Benefit Plan. The essential terms and conditions of the agreement are as follows:

- The Trustor (LIBI) shall deliver and pay to the Trustee such sums representing the annual contributions of the Trustor as provided in the Plan, starting with the contribution for the current year in the amount of PESOS: Ten Million One Thousand Pesos (Php10,001,000.00).

- The Trustor hereby waives all its rights and interest to the money or properties which are and will be paid or transferred to the Fund, to the extent required to provide the benefits pursuant to the Plan.
- The Trustee shall hold the title to the Fund to be held in trust for the purpose stated in and subject to all the terms and conditions of the Agreement as well as the Plan, which shall be deemed part of this Agreement. The Trustee shall invest and re-invest the Fund, together with all increments and proceeds in fixed-income government securities like Treasury Bills or Notes, Agrarian Reform Bonds, Retail Treasury Bonds, BSP Special Deposit Account and other financial instruments duly guaranteed by the Republic of the Philippines; deposit arrangements/special deposit account with reputable banks including the Trustee's own commercial banking sector; and common or preferred shares of stocks, bonds or note issued by blue-chips private and government-owned corporations. Other investment outlets shall require prior written approval of the Trustor.
- To cause any asset acquired from the investment/reinvestment of the Fund to be held, registered and issued in its own name as Trustee or in the name of its nominee, provided, that the books and records of the Trustee shall at all times show that all such properties are part of the Fund. To pay all costs, fees, charges and such other expenses connected with the investments, administration, reservation and maintenance of the Fund and to charge the same to the Fund.
- In the management of the fund, the Trustee shall pay to the beneficiaries the benefits under the Plan upon written advice of the Trustor. To keep and maintain books of accounts and/or records of the management and operations of the Fund, which the Trustor or its authorized representative may inspect from time to time. At the end of every calendar quarter, to submit the financial reports, investment activity reports or such other reports as may be requested by the Trustor. The Trustee shall administer the funds held in trust with such degree of skill and care as a prudent man would exercise in the conduct of an enterprise of like character and with similar aims.
- For its services, the Trustee shall be entitled to a fee equivalent to 0.75 per cent per annum of the average total assets of the Fund, computed daily and collected at the end of each quarter. The Trustee is hereby authorized to debit its fees from the Fund. The above fee is quoted with the understanding that the same may be reviewed at the request of either party and adjusted in a mutually satisfactory basis.
- Except for fraud, bad faith or gross negligence, the Trustee shall not be liable for any losses or depreciation in the value of the Fund resulting from investments or reinvestments thereof as authorized herein, or from the performance of any act in accordance with the provision of the Agreement. This Agreement shall not guarantee a yield, return of income on the investment/reinvestments of the Fund as the same can fall as well as rise depending on prevailing market conditions and is not covered by

Philippine Deposit Insurance Corporation. Losses, if any, shall be for the account of the Trustor (pursuant to Section X409.1 of the Manual of Regulations for Banks-Part IV).

- The Agreement shall remain in full force and effect until the termination of the Plan unless sooner terminated by either party hereto by giving thirty days advance notice to the other.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

LIBI recognizes the importance of an effective financial risk management program and a Risk Management Manual was finalized and approved by the members of the Board in 2009.

The objective of the Manual is to serve as basis and reference for consistent risk management that is applicable to all employees of LBP Insurance Brokerage, Inc. (LIBI). It aims to create a culture of risk-awareness, not risk-aversion based on the prudential framework required by BSP circulars. It provides a general set of risk principles delegated to each business unit through its reporting and approval procedures.

An Audit and Risk Management Committee was created to be primarily responsible for the development and oversight of the risk management programs of LIBI which include oversight of management functions and approval of proposals regarding LIBI's policies, procedures and best practices relative to asset and liability management, credit, market and business operations risks ensuring that: (a) insurance requirements of its parent, Land Bank of the Philippines, and their lending units are passed on to LIBI; (b) system of limits remain effective; and (c) immediate corrective actions are taken whenever limits are breached or whenever necessary.

As part of identification risk, the following are classified as major risks that LIBI manages in the course of its business.

Market Risk

Market risk can be generally defined as risk of loss, immediate or over time, due to adverse, fluctuations in price or market value of instruments, products and transactions in LIBI's overall portfolio. Market risks are central focus of risk measurement methodologies and limits, as well as gauge by which LIBI can determine returns it will require for its activities.

Net premium volume produced during the year reached P714,822,059 representing an increase of 16.89 per cent or P103,318,128 compared to last year's P611,503,931 net premium volume. This was due to the increase in LBP Branches Livelihood Loan Saver (LLS) and LandBank Mobile Loan Saver (LMLS) releases. Likewise, increase in volume in loan releases for both LBP Agricultural Development Lending Sector (ADLS) and Provident Fund Department (PFD).

Net service fees from insurance brokering for the year of P135,981,577 is P23,407,513 or 20.79 per cent higher compared to last year's P112,574,064 net service fees (Note 19).

LIBI, as a subsidiary of LBP, has already a captured LBP as market for its products and services. Nonetheless, LIBI continues to intensify its campaign to solicit more direct business from private corporations and other government entities.

Liquidity Risk

It is the risk that LIBI will be unable to make a timely payment of any of its financial obligations to customers or counterparties in any currency. Trading Liquidity risk refers to inability to unwind positions created from markets, exchanges and counterparties due to temporary or permanent factors.

Prudent liquidity risk management implies sufficient cash and cash equivalents and marketable securities. Insurance cash inflows from operations and readily marketable government securities investments provide the bulk of LIBI's liquidity buffer.

Interest Rate Risk

This is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. LIBI's fixed rate investments in held-to-maturity investments are exposed to such risk. Interest income derived from investments and savings deposits this year of P36,638,060 was higher by 10.72 per cent or equivalent to P3,547,675 compared to last year's interest income of P33,090,385 (Note 19).

It is the policy of LIBI to invest excess funds in government securities (GS) where the servicing and repayments are fully guaranteed by the government. The investment in GS may be placed with the LBP Treasury and Investment Banking Group or LBP Trust Banking Group.

LIBI's Investment Committee observes diversified GS portfolio, varied maturity spectrum and optimum yields in deciding the type and term of investment. When yields of GS are expected to go down, LIBI buys long-term GS in order to lock-in on high yielding GS. Conversely, when yields are expected to go up, it buys short-term GS to stay liquid and be able to switch to high yielding GS when rates start to pick up.

LIBI's principal financial instruments comprise of cash deposits, held-to-maturity investments consisting primarily of investment in government securities like Retail Treasury Bonds and DBP Tier-II (Note 8). These are not subjected to mark-to-market valuation but impairment testing is being done on HTM in RTBs.

Total investments at amortized cost as at December 31, 2018 is P1,027,593,682 which is 78.96 per cent of the LIBI's total assets of P1,301,408,962. Liquid assets of P107,186,726 are 0.548 times the current liabilities of P195,459,907.

The table below summarizes the Maturity Profile of the Corporation's Assets and Liabilities.

| | Up to 3 mos. | 3 to 6 mos. | 6 mos. to 1 year | More than 1 year | TOTAL |
|-----------------------------|---------------------|-------------------|---------------------|----------------------|----------------------|
| ASSETS | | | | | |
| Cash and Cash equivalents | 107,186,726 | 0 | 0 | 0 | 107,186,726 |
| Receivables, net | 38,660,445 | 18,026,364 | 15,561,416 | 43,968,999 | 116,217,224 |
| Inventories | 18,482 | 68,422 | 41,292 | 0 | 128,196 |
| Financial Assets | | | | 1,027,593,682 | 1,027,593,682 |
| Investment Property | | | | 998,316 | 998,316 |
| Property and Equipment, net | | | | 26,242,145 | 26,242,145 |
| Intangible Assets | | | | 4,897,322 | 4,897,322 |
| Deferred Tax Assets | | | | 4,016,383 | 4,016,383 |
| Other Assets | 7,981,477 | 2,272,942 | 1,576,733 | 2,297,816 | 14,128,968 |
| Total Assets | 153,847,130 | 20,367,728 | 17,179,441 | 1,110,014,663 | 1,301,408,962 |
| LIABILITIES | | | | | |
| Financial Liabilities | 115,373,943 | 6,374,600 | 7,812,656 | 44,765,010 | 174,326,209 |
| Inter-agency payables | 9,179,934 | 0 | 0 | 0 | 9,179,934 |
| Trust liabilities | 39,069,434 | 8,340,013 | 3,810,719 | 7,117,875 | 58,338,041 |
| Provisions | 5,455,681 | 0 | 0 | 2,819,935 | 8,275,616 |
| Other payables | 42,927 | 0 | 0 | 0 | 42,927 |
| Total Liabilities | 169,121,919 | 14,714,613 | 11,623,375 | 54,702,820 | 250,162,727 |
| Asset-Liability Gap | (15,274,789) | 5,653,115 | 5,556,066 | 1,055,311,843 | 1,051,246,235 |

Return on Equity (ROE) for CY 2018 is 9.17 per cent, while Return on Asset (ROA) is 7.31 per cent, higher by 1.23 per cent and 1.15 per cent compared to last year's ROE of 7.94 per cent and ROA of 6.16 per cent, respectively. Likewise, per capita income is P1.83 million, higher by 7.02 per cent or P0.120 million compared to the per capita income of P1.71 million last year.

Credit Risk

a. Direct Credit Risk is the risk that a customer or counterparty will be unable to pay obligations on time or in full as expected or previously contracted, subjecting LIBI to a financial loss. It lasts for the entire tenor and is set at full amount of a transaction. The possibility of non-collection of Accounts Receivable within one year is moderate due to intensified collection through faster sending of Statement of Accounts thru fax, email, mail and frequent follow-ups by phone. LIBI's collection rate of 92 per cent for the current year is one per cent higher than the 91 per cent collection rate last year.

b. Management has negotiated with Land Bank of the Philippines for the advance payment of policies by the branches/lending units.

29. COMMITMENT

LIBI has renewed its Full Service and Maintenance Agreement (FSMA) with Fuji Xerox Philippines, Inc. for another term of 48 months that commenced on July 11, 2017 and shall expire on July 11, 2021. New and upgraded equipment had been installed to replace the old model. The renewed FSMA contains same terms and conditions as with previous one.