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 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, 2019 and 2018, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the LIBI as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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.

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 PFRSs, 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 LIBI 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 ISSAIs 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 ISSAIs, 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 the Supplementary Information Required under Revenue Regulations No. 15-2010 and Revised Securities Regulation Code (SRC) Rule 68

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 and 27 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and complying with the Revised SRC Rule 68 issued by the Securities and Exchange Commission, respectively, 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 J. FELICES
Supervising Auditor

June 25, 2020

SEP 04 2020

LBP (Land Bank of the Phil.) INSURANCE BROKERAGE, INC.

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, 2019 and 2018 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 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
Chairman of the Board

TOMAS T. DE LEON, JR.
President and CEO

CRISPINA V. CENTENO
Corporate Treasurer

Signed this __________day of ___________, 2020.

SEP 04 2020

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ISO 9001

ISO 9001 2015 CERTIFIED

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
ASSETS			
Current Assets			
Cash and Cash Equivalents	4	243,715,871	107,186,726
Receivables, net	5	64,932,651	72,248,225
Inventories	6	92,344	128,196
Other Current Assets	7	7,702,841	11,831,152
Total Current Assets		**316,443,707**	**191,394,299**
Non-Current Assets			
Receivables, net	5	43,323,064	43,968,999
Investments	8	1,025,666,922	1,027,593,682
Investment Property	9	998,316	998,316
Property and Equipment, net	10	23,361,433	26,242,145
Intangible Assets	11	4,868,617	4,897,322
Deferred Tax Assets	25	4,052,838	4,016,383
Other Non-Current Assets	7	1,362,141	2,297,816
Total Non-Current Assets		**1,103,633,331**	**1,110,014,663**
Total Assets		**1,420,077,038**	**1,301,408,962**
LIABILITIES			
Current Liabilities			
Financial Liabilities	12	129,841,900	129,561,199
Inter-Agency Payables	13	8,647,698	9,179,934
Trust Liabilities	14	96,784,127	51,220,166
Provisions	15	6,836,076	5,455,681
Other Payables	16	481,621	42,927
Total Current Liabilities		**242,591,422**	**195,459,907**
Non-Current Liabilities			
Financial Liabilities	12	49,372,330	44,765,010
Trust Liabilities	14	9,462,612	7,117,875
Provisions	15	5,236,186	2,819,935
Total Non-Current Liabilities		**64,071,128**	**54,702,820**
Total Liabilities		**306,662,550**	**250,162,727**
EQUITY			
Share Capital	17	300,000,000	300,000,000
Retained Earnings	18	813,414,488	751,246,235
Total Equity		**1,113,414,488**	**1,051,246,235**
Total Liabilities and Equity		**1,420,077,038**	**1,301,408,962**

The Notes on pages 9 to 43 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, 2019 and 2018

(In Philippine Peso)

	Note	2019	2018
Income			
Service and Business Income	19	217,592,947	172,619,637
Other Non-Operating Income	24.1	1,344,643	1,433,869
Total Income		**218,937,590**	**174,053,506**
Expenses			
Personnel Services	20	(36,211,231)	(32,879,137)
Maintenance and Other Operating Expenses	21	(18,193,880)	(17,270,116)
Financial Expenses	22	(186,126)	(110,522)
Non-Cash Expenses	23	(6,455,572)	(5,815,501)
Other Non-Operating Loss	24.2	(70,128)	0
Total Expenses		**(61,116,937)**	**(56,075,276)**
Net Income Before Tax		**157,820,653**	**117,978,230**
Income Tax Expense	25	(35,411,228)	(24,402,050)
Net Income for the year		**122,409,425**	**93,576,180**
Total Comprehensive Income		**122,409,425**	**93,576,180**

The Notes on pages 9 to 43 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, 2019 and 2018
(In Philippine Peso)

	Share Capital (Note 17)	Retained Earnings Appropriated (Note 18)	Retained Earnings Unappropriated (Note 18)	TOTAL
BALANCE AT JANUARY 1, 2018	**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**
CHANGES IN EQUITY FOR 2018				
Add/(Deduct):				
Declaration of Cash Dividend			(48,243,400)	(48,243,400)
Payment of Deficiency Tax for 2017			(7,000,238)	(7,000,238)
Other Adjustments			(106,954)	(106,954)
Additional Funding for Retirement Fund			(4,890,580)	(4,890,580)
Appropriations		95,700,000	(95,700,000)	0
Reversal of Appropriations		(10,000,000)	10,000,000	0
Net Income for the year			122,409,425	122,409,425
BALANCE AT DECEMBER 31, 2019	**300,000,000**	**405,850,000**	**407,564,488**	**1,113,414,488**

The Notes on pages 9 to 43 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, 2019 and 2018
(In Philippine Peso)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Inflows			
Receipt of Advance Payment of Premium		679,449,168	587,847,623
Collection of Income/Revenue		12,326,105	241,051,852
Collection of Receivables		268,874,348	2,602,876
Total Cash Inflows		**960,649,621**	**831,502,351**
Cash Outflows			
Payment of Premiums to Insurance Companies		(668,687,804)	(672,243,303)
Payment of Expenses		(53,130,306)	(61,080,706)
Purchase of Inventories		(246,227)	(418,725)
Prepayments		(680,592)	(3,060,673)
Payments of Accounts Payable		(3,172,959)	(4,010,859)
Remittance of Personnel Benefit and Mandatory Deduction		(9,471,043)	(3,146,596)
Payment of Income Taxes		(38,346,180)	(26,274,098)
Total Cash Outflows		**(773,735,111)**	**(770,234,960)**
Net Cash Provided by Operating Activities		**186,914,510**	**61,267,391**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Inflows			
Proceeds from Sale of Property, Plant & Equipment		10,470	0
Proceeds of Matured Investments		3,157,387,000	1,853,219,403
Receipt of Interest Earned from Investments		41,491,124	38,272,449
Total Cash Inflows		**3,198,888,594**	**1,891,491,852**
Cash Outflows			
Purchase of Property, Plant, Equipment		(1,601,730)	(7,077,570)
Purchase of Intangible Assets		0	(2,774,257)
Placement of Investments		(3,199,428,829)	(1,924,470,525)
Total Cash Outflows		**(3,201,030,559)**	**(1,934,322,352)**
Net Cash Used in Investing Activities		**(2,141,965)**	**(42,830,500)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Outflows			
Payment of Cash Dividends	18	(48,243,400)	(39,898,966)
Cash Used in Financing Activities		**(48,243,400)**	**(39,898,966)**
Net Increase (Decrease) in Cash and Cash Equivalents		**136,529,145**	**(21,462,075)**
CASH AND CASH EQUIVALENTS, JANUARY 1		107,186,726	128,648,801
CASH AND CASH EQUIVALENTS, DECEMBER 31	4	**243,715,871**	**107,186,726**

The Notes on pages 9 to 43 form part of these financial statements.

SEP 04 2020

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 nine 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.

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 2019 Financial Statements

The financial statements of LIBI for the years ended December 31, 2019 and 2018 were authorized for issue by the Board of Directors on January 30, 2020 in Board Resolution No. 2020-001-005 dated January 30, 2020 and was signed by the Chairman of the Board on January 31, 2020.

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

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

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 Philippine Accounting Standard (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 3.9.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of accounting

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

3.2 Financial Instruments

LIBI recognizes a financial asset or a financial liability in its statement of financial position when, and only when, the Corporation becomes party to the contractual provisions of the instrument.

a. Financial Assets

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets. As part of its classification process, LIBI assesses the contractual terms of financial assets to identify whether they meet the "solely payments of principal and interest" (SPPI) test. The "Principal", for the purpose of this test, is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount).

The LIBI determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The LIBI has adopted PFRS 9, the Hold-to-Collect Business Model per Board Resolution No. 2019-012-041 dated December 19, 2019.

Initial recognition and measurement

Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial assets, except for those designated at fair value through profit and loss (FVPL), includes transaction cost. The LIBI determines the classification of its financial assets at initial recognition.

Classification

Financial assets are measured at amortized cost if both of the following conditions are met:

- The asset is held within the company's business model whose objective is to hold financial assets in order to collect contractual cash flows: and,
- The contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

The LIBI's financial assets at amortised cost include cash and cash equivalents and investments.

Subsequent measurement and Gains and Losses

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Held-to-Maturity Investments

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

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.

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.

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 expire; and

2. The LIBI has transferred its contractual rights to receive the cash flows of the financial asset, or retains the contractual rights to receive cash flows of the financial asset but assumes a contractual obligation to pay the cash flows to one or more recipients 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 financial asset.

Impairment of financial assets

The LIBI records the allowance for expected credit losses for financial assets not held at Fair Value through Profit and Loss (FVTPL), all referred to as 'financial instruments'. Equity instruments are not subject to impairment under PFRS 9.

Incurred Loss versus Expected Credit Loss (ECL) methodology

The impairment requirements under PAS 39 (incurred loss model) are significantly different from those under PFRS 9 (expected loss model). Under the incurred loss model, loan and investment assets are regarded as impaired if there is no longer reasonable assurance that the future cash flows related to them will be either collected in their entirety or when due. Under the expected loss methodology, impairment is more forward looking, in that a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. ECL represents credit losses that reflect an unbiased and probability- weighted amount, which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either:

i. 12-month ECL
ii. Lifetime ECL for those financial instruments that have experienced a Significant Increase in Credit Risk (SICR) since initial recognition (General approach).

The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of financial instrument.

Staging assessment

For no-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. The criteria for determining whether an account should be assessed under stage 1 are as follows:

    - Past due up to 30 days
    - No significant increase in Probability of Default (PD)

  The LIBI recognizes a 12-month ECL for Stage 1 financial instruments.

- Stage 2 is comprised of all financial instruments which have experienced a SICR since its initial recognition. A SICR is generally deemed present in accounts with:

- More than 30 days up to 90 days past due, or
- With significant increase in PD.

The LIBI recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Stage 3 is comprised of financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or portfolio of loans. The LIBI recognizes a lifetime ECL for stage 3 financial instruments.

PFRS 9 Loss events:

- Significant financial difficulty of the issuer or borrower
- A breach of contract, such as default or past due event
- The Lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization
- The disappearance of an active market for that financial asset because of financial difficulties
- The purchase of origination of an financial asset at deep discount that reflects the incurred credit losses

ECL parameters and methodologies

ECL is a function of the Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD), with the timing of loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experience credit judgement.

The PD is an estimate of the likelihood of default over 12-month horizon for Stage 1 or lifetime horizon for stage 2. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Forward Looking Information

The LIBI incorporated forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, exchange rate, interest rate, inflation rate and other economic indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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 profit or loss.

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 Receivables (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.

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 Revenue from Contracts with Customers

PFRS 15, *Revenue from Contracts with Customers*, is required to be applied for annual periods beginning on or after January 1, 2018. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard focuses on the identification of performance obligations and distinguishes between performance obligations that are satisfied at a point in time and those that are satisfied over time, which is determined by the manner in which control of goods or services passes to the customer. An entity must apply the five-step model to comply with the new revenue recognition standard:

Step 1: Identify the contract(s) with customers
Step 2: Define the performance obligations in each contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Amendments to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* are effective from 1 January 2018. The amendment clarifies how entities:

a. Identify a performance obligation—the promise to transfer a good or a service to a customer—in a contract;

b. Determine whether a company is a principal (the provider of a good or service) or an agent responsible for arranging for the good or service to be provided; and

c. Determine whether the revenue from granting a license should be recognized at a point in time or over time.

LIBI assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Corporation has assessed that it acts as an agent in all of its revenue sources. The LIBI's existing brokerage agreements with the accredited insurance companies of its parent company, LBP, aims to provide accessible, competitively priced and responsive insurance services and to efficiently facilitate processing of insurance requirements of all LBP clients and direct individuals. Transaction price varies per line of insurance risks. The LIBI recognizes revenue as the brokering services and issuance of policies by the insurers are rendered at a point in time. Accordingly, the adoption of PFRS 15 and its amendments has no impact in the timing of the corporation's revenue recognition.

3.12 Leases

PFRS 16, *Leases,* which is effective beginning January 1, 2019, replaces PAS 17, Leases.

The new standard requires lessees to recognize all leases on their statement of financial position except for relatively small-value assets and leases with terms of 12 months or less. This single accounting model no longer distinguishes a finance lease from an operating lease. Under its core principle, a lessee recognizes a right-of-use (ROU) asset and a lease liability on its balance sheet for most leases, including operating leases.

Leases where the Corporation does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term.

The LIBI's existing lease agreement as a Lessor at December 31, 2019 with Masaganang Sakahan Inc. (MSI) indicates that the agreement will continue to meet the definition of lease under PFRS 16. Consequently, the adoption of PFRS 16 has no impact on the LIBI's financial statements.

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-Trust Banking Group (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	Age / Rate 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, 2019, a total P7,000,000 was transferred to LBP-TBG. The approval of the additional funding is covered by the appropriated amount of P32,000,000 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, 2019. Under the Statement of Financial Position provided by LBP-TBG showed that the balance of the Retirement Fund as at December 31, 2019 is P22,804,617, such balance is already gross of the P7,000,000 additional funding. Accumulated income since the transfer of the Fund on July 18, 2011 to the LBP-TBG reached P2,990,802, gross of the Net Unrealized Gains/Losses of P367,799 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:

	2019	2018
Cash on Hand	50,000	50,000
Cash in Bank-Local Currency	163,661,164	82,293,598
Cash Equivalent	80,004,707	24,843,128
Total	**243,715,871**	**107,186,726**

Cash equivalent consists of investment in 90-day Treasury Bills with an average interest rate of 3.165 per cent which were invested on December 2019 and will mature on March 4, 2020.

5. RECEIVABLES

This account consists of:

	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Accounts Receivable	50,357,755	41,931,898	92,289,653	56,681,259	42,516,605	99,197,864
Accrued Service Fees Receivable	8,562,493	9,180,687	17,743,180	9,145,556	9,322,231	18,467,787
Allowance for Impairment-Accrued Service Fees Receivable	(1,948,150)	(9,152,682)	(11,100,832)	(1,823,188)	(9,232,998)	(11,056,186)
Net Value-Accrued Service Fees Receivable	6,614,343	28,005	6,642,348	7,322,368	89,233	7,411,601
Interest Receivable	7,679,838	0	7,679,838	7,645,005	0	7,645,005
Inter-Agency Receivable	244,575	0	244,575	36,400	0	36,400
Due from BIR	224,355	0	224,355	0	0	0
Due from-SSS	20,220	0	20,220	36,400	0	36,400
Sub-total	64,896,511	41,959,903	106,856,414	71,685,032	42,605,838	114,290,870
Other Receivables						
Receivable-Disallowances/Charges	3,000	1,363,161	1,366,161	0	1,363,161	1,363,161
Due from Officers and employees	12,173	0	12,173	0	0	0
Other Receivables	20,967	0	20,967	563,193	0	563,193
Sub-total	36,140	1,363,161	1,399,301	563,193	1,363,161	1,926,354
Total	**64,932,651**	**43,323,064**	**108,255,715**	**72,248,225**	**43,968,999**	**116,217,224**

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	Accrued Service Fee
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 January 27, 2020 hearing. LIBI was able to present its lone witness against PPLIC, LIBI's former President and General Manager (PGM) during the hearing. The counsel of LIBI was able to present to the court the testimony of the former PGM that were stated on his sworn judicial affidavit. The next hearing of the case is set on March 09, 2020 at 8:30 in the morning.

Reconciliation of carrying amounts of Allowance for Impairment - Accrued Service Fee Receivable for CY 2019:

Particulars	2019	2018
At January 1	**11,056,186**	**10,568,734**
Provisions for the year	1,948,150	1,823,188
	13,004,336	12,391,922
Adjustment:		
Reversal of CYs 2017, 2016 and 2015 provisions on accrued service fees receivable due to collection (Note 25)	(80,316)	(1,335,736)
Reversal of CY 2018 due to collections	(1,823,188)	0
	(1,903,504)	(1,335,736)
At December 31	**11,100,832**	**11,056,186**

6. INVENTORIES

This account consists of inventories held for consumption, namely:

	2019	2018
Office supplies inventory	73,005	79,498
Accountable forms inventory	15,571	42,152
Non-accountable forms	3,768	6,546
	92,344	**128,196**

Reconciliation of carrying amounts:

	2019	2018
Carrying Amount, January 1	**128,196**	**87,927**
Additions/Acquisitions during the year	361,598	415,531
Consumption during the year	(397,450)	(375,262)
Carrying Amount, December 31	**92,344**	**128,196**

7. OTHER ASSETS

This account consists of:

	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Prepayments	7,702,841	1,194,519	8,897,360	11,831,152	2,106,623	13,937,775
Deposits	0	167,622	167,622	0	191,193	191,193
Total	**7,702,841**	**1,362,141**	**9,064,982**	**11,831,152**	**2,297,816**	**14,128,968**

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

8. INVESTMENTS

This account consists of financial assets-held to maturity. Below is the summary of changes in this account during the year:

As at December 31, 2019

	Retail Treasury Bonds	Fixed Treasury Notes	DBP Tier II	Treasury Bills	Total
Balance, January 1, 2019, at Par Value	**606,558,000**	**298,632,000**	**75,000,000**	**0**	**980,190,000**
Additional investment	0	0	0	70,000,000	70,000,000
Investment sold/collected	0	0	0	(70,000,000)	(70,000,000)
Total Investment at Par Value	**606,558,000**	**298,632,000**	**75,000,000**	**0**	**980,190,000**
Discount on Investment	(39,239)	(718,982)	0	0	(758,221)
Premium on Investment	45,895,102	493,782	0	0	46,388,884
Allowance for Impairment	0	0	(153,741)	0	(153,741)
Balance, December 31, 2019	**652,413,863**	**298,406,800**	**74,846,259**	**0**	**1,025,666,922**

As at December 31, 2018

	Retail Treasury Bonds	Fixed Treasury Notes	DBP Tier II	Treasury Bills	Total
Balance, January 1, 2018 at Par Value	**571,558,000**	**268,632,000**	**75,000,000**	**0**	**915,190,000**
Additional investment	35,000,000	30,000,000	0	0	65,000,000
Total Investment at Par Value	**606,558,000**	**298,632,000**	**75,000,000**	**0**	**980,190,000**
Discount on Investment	(65,402)	(1,162,360)	0	0	(1,227,762)
Premium on Investment	47,651,422	980,022	0	0	48,631,444
Balance, December 31, 2018	**654,144,020**	**298,449,662**	**75,000,000**	**0**	**1,027,593,682**

Financial Asset - Held-to-Maturity investments of LIBI carry interest rates at December 31 as follows:

	2019	**2018**
Retail Treasury Bonds	6.125%, 4.875%, 4.625%, 3.500%, and 3.250%	6.125%, 4.875%, 4.625%, 3.500%
DBP-Tier II	4.875%	4.875%
Fixed Treasury Notes	5.500%, 3,60%, 3.50% and 3.375%	5.500%, 3,60%, 3.50% and 3.375%

Total interest earned from the investments amounts to P39,783,227 and P36,638,060 for years 2019 and 2018, respectively, as disclosed in Note 19.

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, LLFC 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, 2019

	Office Equipment	Information and Communi-cation Technology	Furniture and Fixtures	Building	Motor Vehicles	Total
Cost, January 1	**11,740,690**	**5,220,077**	**2,739,511**	**38,670,505**	**4,425,107**	**62,795,890**
Acquisitions	1,335,481	266,249	0	0	0	1,601,730
Disposal	(474,229)	0	(12,272)	0	0	(486,501)
Cost, December 31	**12,601,942**	**5,486,326**	**2,727,239**	**38,670,505**	**4,425,107**	**63,911,119**
Accumulated Depreciation, January 1	**5,526,418**	**765,963**	**2,104,617**	**25,500,220**	**2,656,527**	**36,553,745**
Depreciation	1,577,728	401,800	118,487	1,802,596	501,235	4,401,846
Adjustments	(405,905)	0	0	0	0	(405,905)
Accumulated Depreciation, December 31	**6,698,241**	**1,167,763**	**2,223,104**	**27,302,816**	**3,157,762**	**40,549,686**
Net Carrying Amount, December 31	**5,903,701**	**4,318,563**	**504,135**	**11,367,689**	**1,267,345**	**23,361,433**

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**

	Office Equipment	Information and Communication Technology	Furniture and Fixtures	Building	Motor Vehicles	Total
Net Carrying Amount, December 31	**6,214,272**	**4,454,114**	**634,894**	**13,170,285**	**1,768,580**	**26,242,145**

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 31, 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 for re-migration of data as December 31, 2019 is on March 02, 2020. As of December 31, 2019, the down payment amounted to P2,084,790.

Another intangible asset procured in PY2019 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. Accumulated amortization amounted to P38,274 was recognized using the straight method over a useful life of five years.

12. FINANCIAL LIABILITIES

This account consists of:

	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Insurance/Reinsurance Premium Payable	69,495,318	43,181,216	112,676,534	74,417,074	44,270,488	118,687,562
Accounts Payable	50,658,576	6,191,114	56,849,690	47,104,622	494,522	47,599,144
Due to Officers and Employees	4,395	0	4,395	8,925	0	8,925
Other Financial Liabilities						
Handling Fees Payable	9,683,611	0	9,683,611	8,030,578	0	8,030,578
Total	129,841,900	49,372,330	179,214,230	129,561,199	44,765,010	174,326,209

Insurance/Reinsurance Premium Payable pertains to insurance premiums payable to insurance companies as at December 31, 2019.

Accounts Payable includes unreleased checks and authority to debit totaling P50,658,576 for payment of insurance premiums to various insurance companies that remain under the custody of the Cashiering Unit as at December 31, 2019 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 due for payment every March and September of the year.

13. INTER-AGENCY PAYABLES

This account consists of:

	2019	2018
Due to BIR	442,312	521,361
Value Added Tax Payable	1,283,322	1,133,040
Income Tax Payable	6,922,064	7,525,533
Total	**8,647,698**	**9,179,934**

The Due to BIR account represents five per cent government VAT withheld from suppliers of goods and services; withholding tax withheld on compensation and the one per cent or two per cent withholding tax at source. Withholding taxes withheld during the month are remitted to the BIR every 10 days and 15 days following the end of the month, respectively.

The Value Added Tax Payable account represents the 12 per cent output tax on the collected accrued service fees receivable for the month and remitted to the BIR every twenty 25th day following end of the month while the quarterly remittance is filed not later than the 25th day following the close of each taxable quarter.

The Income Tax Payable account represents 30 per cent corporate income tax remitted to the BIR within 60 days following the close of each of the first three quarters of the taxable year and April 15 of the following year.

14. TRUST LIABILITIES

This account consists of:

	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Customer's Deposits Payable	96,784,127	9,235,412	106,019,539	51,220,166	6,812,675	58,032,841
Guaranty/Security Deposits Payable	0	227,200	227,200	0	305,200	305,200
Total	**96,784,127**	**9,462,612**	**106,246,739**	**51,220,166**	**7,117,875**	**58,338,041**

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:

	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
Leave Benefits Payable	2,112,705	2,726,739	4,839,444	836,814	2,819,935	3,656,749
Pension Payable	2,109,420	0	2,109,420	2,109,420	0	2,109,420
Other Provisions	2,613,951	2,509,447	5,123,398	2,509,447	0	2,509,447
Total	**6,836,076**	**5,236,186**	**12,072,262**	**5,455,681**	**2,819,935**	**8,275,616**

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 CYs 2019 and 2018.

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, 2019, the total authorized, paid, issued and outstanding shares are 3,000,000 shares with par value of P100.

18. RETAINED EARNINGS

Cash dividend of P48,243,400 was declared and approved on May 03, 2019 per Board Resolution Nos. 2019-004-005.

The Board in its Resolution No. 2019-004-0014 dated May 03, 2019 approved the reversal of a total appropriations of P10,000,000 because its purpose had already been served.

Appropriation for Virtual Assistant (Chat Bot)	P 3,000,000
Appropriation for Document Management System	3,000,000
Appropriation for International Organization for Standardization (ISO) Certification	3,000,000
Appropriation for Operating system and Microsoft Office 2016	500,000

Appropriation for structured cabling of data	500,000
	P 10,000,000

As at December 31, 2019, total appropriations amounted to P405,850,000 detailed as follows:

Particulars	Amount
Appropriations for procurement of office space	P 200,000,000
Appropriation for non-collection of refund of premium from Prudential Life	63,000,000
Appropriation for additional Retirement fund due the SSL implementation and latest actuarial valuation	32,000,000
Appropriation for other contingencies	30,000,000
Appropriation for the technology and computer upgrades	18,000,000
Appropriation for the reversal of related service fee	15,000,000
Appropriation for replacement of lighting system and replacement of office ceiling	8,000,000
Appropriation for the re-arrangement and renovation of office area	6,000,000
Appropriation for Career Program in Life/Non-life Insurance Data Analytics/Non-life Actuarial Science	6,000,000
Appropriation for Directors' Training on Good Governance	5,000,000
Appropriations for QMS/Surveillance Audit	5,000,000
Appropriation for one vehicle for officer	2,500,000
Appropriation for replacement of carpets	2,500,000
Appropriation for skills/competency training	2,000,000
Appropriation of premium internet gateway service	2,000,000
Appropriation for structured cabling of data	1,750,000
Appropriation for one vehicle for employees' service	1,600,000
Appropriation for Private Automatic Branch Exchange	1,400,000
Appropriation for procurement of office equipment, furniture and fixtures	1,000,000
Appropriation for digital ads (ARTA requirements)	1,000,000
Appropriation for email system upgrade	800,000
Appropriation for Operating System Windows 10	500,000
Appropriation for additional CCTV camera to include rented space area	500,000
Appropriation for Anti-Virus system	300,000
	P 405,850,000

Other adjustments to the Retained Earnings for CY 2019 and 2018 are presented below:

CY2019

Accounts Affected	Particulars	Amount
Withholding Tax Receivable	Lapsed withholding tax certificates (not received) from prior years because year 2017 was already audited by the BIR	(1,867,828)
Accounts Payable - Accrued Expenses Payable	Reversal of excess accrual on estimates for 2018 Audit Fee	258,042
Meal Allowance Expense	Disallowance of meal allowance expense given to employees in CY 2018 in compliance with COA's recommendation	247,250

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 of accrued service fee in prior years	1,903,504
Financial assets - Held-to-Maturity	Allowance for impairment for investment in bonds-DBP Tier II	(76,871)
Deferred Tax Asset	Reversal of deferred tax asset relating to allowance for probable losses on COA disallowance	(571,051)
		(106,954)

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 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

19. SERVICE AND BUSINESS INCOME

	2019	2018
Service Income		
Fees and Commission Income	195,001,936	150,641,800
Other Discounts	(17,192,216)	(14,660,223)
Net Fees and Commission Income	**177,809,720**	**135,981,577**
Business Income		
Interest Income	39,783,227	36,638,060
Total Business Income	**39,783,227**	**36,638,060**
Total	**217,592,947**	**172,619,637**

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 such as Retail Treasury Bonds, DBP-Tier II, Fixed Treasury Notes and Treasury Bills and from current and savings depository accounts.

20. PERSONNEL SERVICES

	2019	2018
Salaries and Wages		
Salaries and Wages-Regular	19,887,407	18,012,836
Salaries and Wages-Contractual	584,693	478,603
	20,472,100	**18,491,439**
Other Compensation		
Other Bonuses and Allowances		
Mid-year Bonus	1,757,900	2,349,586
Performance Based Bonus	859,949	1,856,997
Rice Allowance	0	650,900
Medical, Dental and Hospitalization	0	598,000
Service Recognition Incentive	517,000	0
Productivity Enhancement Incentive	259,500	235,500
Anniversary Bonus	0	0
Teller's Allowance	0	1,800
	3,394,349	**5,692,783**
Overtime and Night Pay	1,856,293	1,598,658
Year-End Bonus	1,786,298	1,223,223
Personnel Economic Relief Allowance (PERA)	1,202,091	656,627
Representation Allowance	580,750	563,750
Transportation Allowance	376,000	381,500
Clothing/Uniform Allowance	257,143	251,143
Meal Subsistence Allowance	0	247,250
Cash Gift	258,000	229,000
Longevity Pay	90,603	34,929
	9,801,527	**10,878,863**
Personnel Benefit Contributions		
Employees Compensation Insurance Premium	907,714	647,703
PhilHealth Contributions	236,368	175,240
Pag-IBIG Contributions	61,000	55,700
	1,205,082	**878,643**
Other Personnel Benefits		
Other Personnel Benefits	2,623,102	2,630,192
Pension Benefits	2,109,420	0
	4,732,522	**2,630,192**
Total	**36,211,231**	**32,879,137**

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

	2019	2018
Travelling Expenses	**826,736**	**642,736**
Training and Scholarship Expenses	**530,197**	**945,522**
Supplies and Materials Expenses		
Office Supplies Expenses	727,211	575,366
Accountable Forms Expenses	131,491	160,384
Non-Accountable Forms	4,387	4,826
	863,089	**740,576**
Utility Expenses		
Electricity Expenses	905,357	841,895
Water Expenses	144,696	141,521
	1,050,053	**983,416**
Communication Expenses		
Postage and Courier Services	1,031,276	1,062,771
Telephone Expenses	434,494	405,393
Internet Subscription Expenses	189,490	145,679
	1,655,260	**1,613,843**
Professional Fees		
Auditing Services	876,500	660,571
Consultancy Services	574,292	0
Other Professional Services	381,148	1,211,836
Legal Services	240,000	240,000
	2,071,940	**2,112,407**
Other General Services		
Other General Services	313,677	513,275
Security Services	237,673	228,458
Janitorial Services	0	0
	551,350	**741,733**
Repairs and Maintenance		
Repairs and Maintenance-Machinery and Equipment	367,017	700,256
Repairs and Maintenance-Transportation Equipment	142,570	219,844
Repairs and Maintenance-Semi-Expendable Machinery and Equipment	116,761	40,509
Repairs and Maintenance-Furniture, Fixture and Books	62,853	99,428
	689,201	**1,060,037**
Taxes, Insurance Premium and Other Fees		
Taxes, Duties and Licenses	1,487,550	1,338,980
Insurance Expenses	733,377	532,974
	2,220,927	**1,871,954**
Other Maintenance and Operating Services		
Directors' and Committee Members' Fees	3,810,000	3,746,000
Representation Expenses	1,296,205	1,166,950
Advertising, Promotional and Marketing	611,103	207,630
Rent/Lease Expenses	252,108	154,123
Membership Dues and Contribution to Organizations	105,000	12,000
Subscription Expenses	8,665	6,740
Other Maintenance and Operating Expenses	1,652,046	1,264,449

	2019	2018
	7,735,127	6,557,892
Total	**18,193,880**	**17,270,116**

22. FINANCIAL EXPENSES

	2019	2018
Other Financial Charges	158,361	80,342
Bank Charges	27,765	30,180
Total	**186,126**	**110,522**

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

23. NON-CASH EXPENSES

	2019	2018
Depreciation		
Depreciation-Building	1,802,596	1,802,596
Depreciation-Office Equipment	1,577,728	1,383,998
Depreciation-Motor Vehicles	501,235	469,790
Depreciation-Information and Communication Technology	401,800	249,213
Depreciation-Furniture and Fixtures	118,487	77,148
	4,401,846	**3,982,745**
Amortization		
Amortization-Intangible Assets (Note 11)	**28,706**	**9,568**
Impairment Loss		
Impairment Loss-Receivables (Note 5)	1,948,150	1,823,188
Impairment Loss-investment in Bonds-Local (Note 8)	76,870	0
	2,025,020	**1,823,188**
Total	**6,455,572**	**5,815,501**

24. NON-OPERATING INCOME, GAINS OR LOSSES

24.1 Non-Operating Income

	2019	2018
Other Non-Operating Income		
Rental income	810,000	810,000
Miscellaneous Income	534,643	623,869
Total	**1,344,643**	**1,433,869**

24.2 **Non-Operating Loss**

	2019	2018
Other Non-Operating Loss		
Loss on sale of property and equipment	70,128	0
Total	**70,128**	**0**

25. INCOME TAX EXPENSE

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

	2019	2018
Income tax expense	36,018,734	24,949,007
Income tax benefit	(607,506)	(546,957)
	35,411,228	**24,402,050**

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

	2019	2018
Income before income tax	157,820,653	117,978,230
Non-deductible expenses		
Impairment loss-loans and receivables	1,948,150	1,823,188
Expected Credit Loss	76,871	0
Non-taxable income and income subjected to final tax:		
Interest income	(39,783,227)	(36,638,060)
	(37,758,206)	(34,814,872)
Net taxable income	120,062,447	83,163,358
Income tax rate	30%	30%
Income Tax Expense	**36,018,734**	**24,949,007**

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

	2019	2018
Balance, beginning of year	4,016,383	3,870,147
Reversal of CY 2018 provision on accrued service Receivable due to collection	(1,823,188)	0
Reversal of CY2017, 2016 and 2005 provisions on accrued service fees receivable from due to collection (Note 5)	(80,316)	(1,335,736)
Total reversals	(1,903,504)	(1,335,736)
Provision for probable losses recorded at year end:		
Accrued service fees receivable recorded October 2019 to December August 31, 2019 (Note 5)	1,948,150	0
Accrued service fees receivable from private insurance recorded October 2017 to August 31, 2018 (Note 5)	0	1,823,188
Expected Credit Loss in Investment in Bonds-Local	76,871	0
	121,517	487,452
Prevailing income tax rate	30%	30%

	2019	2018
Deferred tax asset/income tax benefit reversed at year end	36,455	146,236
Balance, end of year	**4,052,838**	**4,016,383**

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 REGULATIONS (RR) NO. 15-2010

In compliance with the requirements set forth in RR 15-2010 issued by the Bureau of Internal Revenue (BIR), 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 P21,133,470 based on actual collections during the year of service fees and rental income amounting to P176,112,246. Actual VAT paid for the year amounted to P19,391,698 after applying Input Tax of P1,691,796 and creditable withholding tax of P49,976. The VAT payable of 1,283,322 (Note 13) was remitted in the following month/year. Government VAT of P415,496 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		1,721,212
Current year's purchases:		
Capital goods	131,571	
Goods other than for resale or manufacture	222,040	
Services lodged under other accounts	934,618	
Input taxes claimed for the year	(1,691,796)	(403,567)
Balance, end of year		**1,317,645**

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

Local	
Mayor's permit	1,146,134
Real property tax	188,206
Real estate tax	100,037
Community tax certificate	10,500
Barangay clearance	2,570
Fire Safety Inspection Fee	1,020
Fire Code Realty Tax	696
	1,449,163

National	
Soliciting fee license issued to an insurance broker	30,300
Registration of motor vehicle at LTO	6,987
BIR annual registration	500
IC Certification in compliance of networth required for insurance broker	500
Tax clearance for year 2018	100
	38,387
	1,487,550

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

Corporate tax	
Income Tax	3,379,541
Creditable withholding tax at source (paid in advance by LIBI and used as tax credits)	32,639,194
	36,018,735
Tax on compensation and benefits	2,603,784
Expanded withholding tax from suppliers	2,861,767
	41,484,286

The income tax payable as of December 31, 2019 amounted to P6,922,064 (Note 13).

27. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVISED SECURITIES REGULATION CODE (SRC) RULE 68

The financial soundness indicators of LIBI are as follows:

	2019	2018
Current Ratio	1.30	0.98
Quick Ratio	1.00	0.55
Solvency Ratio	0.41	0.39
Debt to Equity Ratio	0.28	0.24
Asset to Equity Ratio	1.28	1.24
Gross Profit Margin	0.99	0.99
Return on Assets	0.09	0.07
Return on Equity	0.11	0.09

Return on Equity (ROE) for CY 2019 is 11.31 per cent, while Return on Asset (ROA) is 9 per cent, higher by 23.34 per cent and 23.12 per cent compared to last year's ROE of 9.17 per cent and ROA of 7.31 per cent, respectively. Likewise, per capita income is P2.27 million, higher by 24.04 per cent or P0.44 million compared to the per capita income of P1.83 million last year.

28. 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 17,192,216 (Note 19).

b. Compensation of key management personnel for 2019 and 2018 are as follows:

	2019	2018
For the President and General Manager		
Total salaries and wages	2,541,380	2,447,634
Total short-term employee benefits		
(RA, PEI, per diem, bonuses, medical benefits)	2,003,253	1,263,676
	4,544,633	3,711,310
For Corporate officers who are employees of the parent company, LBP:		
Total short-term employee benefits		
(per diems and reimbursable expenses)	160,000	164,000
	4,704,633	**3,875,310**

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.

29. 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 or 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 P834,957,333 representing an increase of 16.81 per cent or P120,135,274 compared to last year's P714,822,059 net premium volume. This was due to the increase in LBP Livelihood Loan Branches Borrowers and increase in volume in loan releases LBP Agricultural Development Lending Sector (ADLS) Lending Centers.

Net service fees from insurance brokering for the year of P177,809,720 is P41,828,143 or 30.76 per cent higher compared to last year's P135,981,577 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 P39,783,227 was higher by 8.58 per cent or equivalent to P3,145,167 compared to last year's interest income of P36,638,060 (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, 2019 is P1,025,666,922 which is 72.23 per cent of the LIBI's total assets of P1,420,077,038. Liquid assets of P243,715,871 are 1.005 times the current liabilities of P242,591,422.

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	243,715,871	0	0	0	243,715,871
Receivables, net	35,082,240	25,573,935	4,276,476	43,323,064	108,255,715
Inventories	9,922	33,188	49,234	0	92,344
Financial Assets, net	0	0	0	1,025,666,922	1,025,666,922
Investment Property	0	0	0	998,316	998,316
Property and Equipment, net	0	0	0	23,361,433	23,361,433
Intangible Assets, net	0	0	0	4,868,617	4,868,617
Deferred Tax Assets	0	0	0	4,052,838	4,052,838
Other Assets	6,328,879	1,142,412	231,550	1,362,141	9,064,982
Total Assets	285,136,912	26,749,535	4,557,260	1,103,633,331	1,420,077,038

	Up to 3 mos.	3 to 6 mos.	6 mos. to 1 year	More than 1 year	TOTAL
LIABILITIES					
Financial Liabilities	90,554,621	26,614,221	12,673,058	49,372,330	179,214,230
Inter-agency payables	8,647,698	0	0	0	8,647,698
Trust liabilities	81,541,392	12,950,425	2,292,310	9,462,612	106,246,739
Provisions	5,321,315	821,593	693,168	5,236,186	12,072,262
Other payables	481,621	0	0	0	481,621
Total Liabilities	186,546,647	40,386,239	15,658,536	64,071,128	306,662,550
Asset-Liability Gap	**98,590,265**	**(13,636,704)**	**(11,101,276)**	**1,039,562,203**	**1,113,414,488**

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 95 per cent for the current year is three per cent higher than the 92 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.

30. 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.