Growing opportunities. Making possibilities.

2015 ANNUAL REPORT

LANDBANK
WE HELP YOU GROW.

Vision

By 2018, LANDBANK will be the top universal bank that promotes inclusive growth and improves the quality of life especially in the countryside through the delivery of innovative financial and other services in all provinces, cities and municipalities.

Mission

To Our Clients and Publics:

We will use the best technology solutions to deliver responsive financial and support services to our clients, while promoting sustainable development, and environmental protection.

To Our Employees:

We will develop and nurture talents that will exemplify the highest standards of ethics and excellence consistent with the best in the world.

About the Cover

As LANDBANK commits to institutional viability through business excellence, we are relentless in our efforts to pursue our social mandate – our reason for being. We believe that promoting sustainability and development is largely hinged on improvements in our operations, especially in areas of customer servicing, product and process development. The Bank has to be equipped and able to respond to the varied needs of our clients and mindful of the impact we make on the nation at large.

We commit to our relationship with clients, who are our partners in making things happen. As we assist their ventures, they are able help increase livelihood and economic opportunities, and make lives better in their respective communities. LANDBANK believes in these key sectors that help advance progress. With them, we endeavor to continue growing opportunities and making possibilities, now and in the years to come.

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Financial Highlights

GROUP (Audited)					
(In P Billions)	**2015**	2014	2013	2012	2011
Total Resources	**1205.8**	1058.6	849.3	691.5	645.8
LOANS	**551.9**	475.8	335.6	330.5	334.0
Regular Loans	**431.0**	382.4	300.0	270.0	249.6
Treasury Loans	**101.5**	73.6	13.2	36.2	56.1
Other Loans and Receivables	**19.5**	19.8	22.4	24.3	28.3
INVESTMENTS (Net)	**285.2**	302.0	223.1	236.1	196.0
DEPOSIT LIABILITIES	**1,045.9**	912.6	703.7	543.7	507.2
Demand	**474.5**	392.0	348.1	244.4	211.2
Savings	**533.2**	469.3	324.0	267.3	270.1
Time	**27.2**	46.3	26.6	31.4	25.4
LTNCD	**11.0**	5.0	5.0	0.6	0.5
CAPITAL	**88.7**	85.0	82.1	84.0	77.7
Gross Revenues	**44.3**	39.2	42.6	38.1	34.5
Interest Income on Loans	**23.8**	19.9	17.4	16.9	17.1
Income on Investments	**13.4**	12.3	17.7	12.3	12.3
NET INCOME (in P Millions)	**13,968.6**	12,643.9	11,789.9	10,962.8	9,056.2

2015 LBP GROSS LOAN PORTFOLIO (In P Billions)		
Sectors	Amount (P Billions)	%
PRIORITY SECTORS		
I. Mandated Sector		
• Small farmers including agrarian reform beneficiaries and their associations	38.6	8.9
• Small fisherfolk and their associations	0.1	0.03
Subtotal	**38.7**	**8.9**
II. SUPPORT FOR AGRICULTURE AND FISHERIES		
• Agri-business	45.4	10.4
• Aqua-business	0.7	0.2
• Agri-aqua related projects of Local Government Units and Government-Owned and-Controlled Corporations	52.8	12.1
Subtotal	**98.9**	**22.7**
III. Support for National Government Priority Programs (including PPP projects)		
• Micro, small and medium enterprises	57.3	13.2
• Communications	21.2	4.9
• Transportation	27.8	6.4
• Housing (Socialized, low-cost and medium-cost)	39.5	9.1
• Education	4.0	0.9
• Health Care	8.2	1.9
• Environment-related projects	7.2	1.7
• Tourism	3.2	0.7
• Utilities	62.2	14.3
• Others	15.8	3.6
Subtotal	**246.4**	**56.7**
TOTAL PRIORITY SECTOR LOANS	**384.0**	**88.3**
• Local Government Units - Others	11.2	2.6
• Government-Owned and -Controlled Corporations - Others	15.0	3.4
• Others	24.6	5.7
TOTAL PRIORITY SECTOR LOANS	**50.8**	**11.7**
SUM OF LOANS TO ALL SECTORS *	**434.8**	**100.0**

* Excludes Interbank Term Loans Receivable (Foreign Regular/FCDU/EFCDU), Loans Receivables Arising from Repurchase Agreements/Certificates of Assignment/Participation with Recourse/Securities Lending and Borrowing Transaction, and Domestic Bills Purchased Lines; Includes Unsecured Subordinated Debt Facility on Rural Banks.

My warmest greetings to the Land Bank of the Philippines as you release your 2015 Annual Report.

Our impressive economic growth these past six years has allowed our industries to gain world-class investor and customer confidence. Due to our efforts to pursue institutional reform and restore integrity across all our sectors, and with the help of our global allies, we are well on our way to reclaiming our country's rightful place in the international community as a serious contender in the social and financial landscape.

We in government thank the Land Bank of the Philippines for being among our active stakeholders in this endeavor. May your organization continue to stand with the rest of our nation as we lengthen our strides on the path of integrity, efficiency, and genuine service; may you further promote fair trade and encourage policies and programs on good governance, as we work towards the prosperous future we aspire to.

I congratulate you on the publication of your 2015 Annual Report. May it serve as an inspiration to the management and staff to surpass your achievements in the past year, and an effective medium to foster more dynamic relations with our partners and clients.

Together, let us broaden the scope of our participation in nation-building.

BENIGNO S. AQUINO III

MANILA
June 2016

> We, at LANDBANK, found ourselves at the crossroad of even sharper competition and multiple convergences. As a response, we recommitted to the Bank's vision, and reinforced the pillars of our growth that make LANDBANK distinct, relevant and a class of its own.

Sec. Cesar V. Purisima
Chairman

Gilda E. Pico
President and CEO

FROM OUR Perspective

The Land Bank of the Philippines (LANDBANK) forged ahead toward another year of growth for its customers and the institution, with the country's solid economic performance as a backdrop in 2015.

The Philippines kept a balanced economy, with a 5.8% growth for the whole year, amid a slower global expansion. Despite the weakening of the country's exports and the reeling effects of El Niño, growth was achieved, buoyed by private expenditure among Filipinos. Households spent with confidence year-round, stemmed from increased employment, higher remittances from overseas, and modest inflation. Economic expansion was likewise driven by the increase in government spending and fixed investments. With all these coming together, we, in the financial and banking sectors, were challenged to respond to the demands for our services and products that would support our flourishing economy.

The banking sector, as a whole, performed well in 2015, with the Bangko Sentral ng Pilipinas noting improved asset quality, strong capitalization and streamlined operations. By building more branches and using financial technology to enhance efficiencies, the banks mostly were able to expand its market reach.

TOWARDS GREATER SOCIAL IMPACT

We, at LANDBANK, found ourselves at the crossroad of even sharper competition and multiple convergences. As a response, we recommitted to the Bank's vision, and reinforced the pillars of our growth that make LANDBANK distinct, relevant and a class of its own.

We endeavoured to pursue business excellence, recognizing it as a key to enable us to help more people and fulfill our mandate. We reviewed our processes and systems, and applied for the Philippine Quality Awards program as part of our efforts to gauge ourselves against a tried and tested business excellence framework. We expect that this exercise will also help us take significant and necessary strides toward continual improvement.

We did this while putting emphasis on a business perspective not generally prioritized by enterprises. While most profit-oriented organizations look into finances, stakeholders, internal processes, and learning and growth, we also put premium on social impact. We acknowledge that our contribution to the society continues to define us and our successes in this front serve as measures of the Bank's performance.

Supporting and financing the sectors that serve as drivers of the country's growth and development remained LANDBANK's priority. In 2015, total loans to all sectors reached P434.8 billion of which 88.3% or P384 billion were directed to the Bank's priority sectors comprised of: 1) Mandated Sector, 2) Support for Agriculture and Fisheries, and 3) Support for National Government Priority Programs.

For the Mandated Sector, made up of small farmers, including agrarian reform beneficiaries (ARBs) and their associations, and small fishers and their associations, LANDBANK loans totalled P38.7 billion as of end-2015. Meanwhile, LANDBANK's Support to Agriculture and Fisheries through agri- and aqua-businesses and agri-aqua-related projects of local government units (LGUs) and GOCCs amounted to P98.9 billion as of the same period.

Also as of end-2015, the Bank's loans to National Government Priority Programs, including Public-Private Partnership or PPP Projects reached P246.4 billion. National government priority programs on tourism (P3.2 billion, up 56.6%), health care (P8.2 billion, up 55%) and environment-related projects (P7.2 billion, up 36.2%) clinched significant releases. The Bank also extended loans to the utilities sub-sector which reached P62.2 billion, socialized, low-cost and medium-cost housing sub-sector at P39.5 billion, transportation sub-sector at P27.8 billion, communications sub-sector at P21.2 billion, and education sub-sector at P4.0 billion.

The Bank also sustained our efforts to expand financial inclusion. Steadfast in supporting the sector that provides food and vital raw materials for the rest of the economy, we extended loans directly to farmers and their projects through the Credit Assistance Program for Program Beneficiaries Development (CAP-PBD), a partnership with the

> At LANDBANK, we believe that our improvement will redound to an even bigger opportunity to help uplift the lives of more Filipinos.

Department of Agrarian Reform (DAR). In 2015, our loans under this program increased by 39% to P55.3 million from P39.8 million in 2014. Moreover, LANDBANK's loans under our project with the Department of Agriculture (DA), the Sikat Saka Program (SSP), increased by 4% to P917.0 million. Loans under the Agrarian Production Credit Program (APCP), a project with DA and DAR, also increased to P987.3 million from P683.8 million in 2014.

These also translated to increased number of beneficiaries for each project. The CAP-PBD increased its beneficiaries to 6,307 from 4,317; SSP has 9,302 cumulative number of beneficiaries, up from 7,283; and APCP almost doubled its beneficiaries to 29,151 from 15,367 in 2014.

We released P18.4 billion outstanding loans to the 20 poorest provinces identified under the DA's Registry System on Basic Sectors in Agriculture (RSBSA). We exceeded our target amount of P13 billion by 41.5% or P5.4 billion.

Meanwhile, as an implementing agency of the Comprehensive Agrarian Reform Program (CARP), land transfer claims that LANDBANK approved for payment reached P3.3 billion, covering 20,963 hectares. This was higher than our output in 2014 of 19,778 hectares. The Bank also disbursed P6.5 billion for CARP landowners' compensation, 10% higher than the previous year.

EXPANDING OUR REACH AND ENHANCING CUSTOMER SERVICE

Our customer service initiatives are also geared towards penetrating and bringing financial services to more people, including in areas with limited or no access to banking services. LANDBANK expanded its physical network to 361 branches, extension offices, and servicing units in 2015. Our innovations and alternative payment facilities expanded as well. We now have 24 LANDBANK Easy Access Facilities (LEAFs), our other banking offices, spread across unbanked and underserved areas in the country. The LANDBANK Express Access Machine (LEAM), which accepts payments to the Bureau of Internal Revenue, is now available in 50 of our branches; while the Cash Deposit Machine (CDM) has been facilitating deposits for our customers in 6 branches and 24 LEAFs.

The Bank also developed the Electronic Payment Portral (ePP) System. The LANDBANK ePP is an internet-based payment platform for accepting payment of fees, dues and charges from clients of LANDBANK-enrolled merchants. In 2015, the Bank established seven investment hubs in Iloilo, Davao, General Santos, Pampanga, Isabela and Cagayan de Oro. These investment hubs bring the Bank's other financial services to the regions.

Our lending services were also able to benefit more people, with the LANDBANK Mobile LoanSaver (LMLS) catering to 795 participating agencies. Our personal loans under LMLS grew 634% to P4.4 billion in 2015, from P598 million in 2014. With the encouraging reception of this program by the government sector, we are expanding its scope to also cover the private sector in 2016.

LANDBANK also developed five new lending programs to cater to sectors in need of financing. These are: 1) Coffee 100 Program for the coffee industry; 2) Coconut Production and Processing Financing Program for the coconut industry stakeholders particularly coconut farmers; 3) Poultry Lending Program for poultry production using climate controlled and conventional technologies; 4) Renewable Energy Lending Program in support of the national government's policy on promoting renewable energy development, utilization and commercialization; and 5) Climate SAFE (Special Adaptation Facility for the Ecosystem) Program for climate change adaptation projects.

Apart from coming up with new channels, new products and services, LANDBANK remained committed to the national government's efforts to promote a bureaucracy that is more responsive to the needs of the transacting public. The Bank participated in the 2015 Anti-Red Tape Act (ARTA) Report Card Survey (RCS) of the Civil Service Commission (CSC). Fifty-one (51) of our branches were assessed based on their compliance with the ARTA provisions and overall client satisfaction. We are pleased to have obtained a 100% passing rate and an overall national score of 88.14% out of the possible 100, with 15 of our branches receiving at least 90% or "Excellent" ratings.

But beyond our compliance with the provisions of the ARTA-RCS, we hoped to find areas on which LANDBANK can further improve. We commissioned a research firm for a third party Bank-wide customer satisfaction survey, which covered close to 7,000 respondents nationwide. The survey results showed that LANDBANK had a customer satisfaction level of 98%.

MAINTAINING A VIABLE INSTITUTION

As we further expand our reach and improve on servicing our markets, LANDBANK maintained its position as among the country's top universal banks. We finished the year strong with a P13.3 billion net income, a good 10% increase from P12.1 billion in 2014, and exceeded our target net profit by 11%.

The Bank's total assets steadily expanded, registering significant growth to P1.2 trillion from P1.05 trillion in 2014. We reached yet another milestone, as our deposits registered 14% growth, breaching the trillion-peso mark for the first time at P1.05 trillion as of end-2015.

The gross loan portfolio of the Bank surged to P537.0 billion from P460.3 billion, a 17% uptick. Our capital is also 6% higher than the year-ago at P80.0 billion from P75.2 billion.

This allowed us to give back to the national coffers. The Bank remitted P6.6 billion in cash dividends. As the leading government financial institution, LANDBANK remained one of the highest remitters among GOCCs and GFIs.

In 2015, we also raised P6.0 billion worth of Long Term Negotiable Certificates of Deposit (LTNCD). LANDBANK now joins the Philippine Dealing and Exchange Corporation (PDEx) community of listed corporations with the issuance of the LTNCD in the PDEx platform. This marks the first listing of a government-owned universal bank.

ON THE RIGHT TRACK

The numerous awards we received in 2015 are a validation of the Bank's outstanding performance in various fronts. But while we're being recognized locally and abroad for some of our efforts, we resolve to continue treading the path towards business excellence, working at improving our performance, with the goal of being at par with the best in the world.

At LANDBANK, we believe that our improvement will redound to an even bigger opportunity to help uplift the lives of more Filipinos. On the one hand, we have so far proven that we could rise to the challenges and deliver on our commitments year after year. On the other hand, we see our goals continuing to expand and evolve.

Throughout this journey, LANDBANK shall remain guided by our vision. We shall continue living up to our promise as an institution dedicated to improving the lives of Filipinos, and making the country and our economy flourish.

SEC. CESAR V. PURISIMA
Chairman

Gilda E. Pico

MS. GILDA E. PICO
President and CEO

Helping others GROW

-Engr./Chairman Nolito Vergara & Engr./General Manager Cipriano Vivencio

> Kung wala ang LANDBANK, wala itong kooperatiba dahil walang asosasyon na may antemanong pera. Dahil may credit line kami sa LANDBANK, anytime na kailangan namin ng puhunan, nariyan ang LANDBANK na nakaantabay sa amin. *(Without LANDBANK, our cooperative would not have existed. Like any other associations, we did not have sufficient funds at the onset. As we have a credit line with LANDBANK, anytime that we need capital, LANDBANK is always ready to provide.)*
>
> **- Engr./Chairman Nolito Vergara**

BAGUMBAYAN PRIMARY MULTI-PURPOSE COOPERATIVE

Ginintuang Gawad PITAK Agri-based Category Winner

Situated within the vast plains of Llanera, Nueve Ecija in Central Luzon, the Bagumbayan Primary Multi-Purpose Cooperative helps farmers grow. For almost 27 years, the cooperative supported farmers in achieving better palay crop production through lending services, use of pre- and post-harvest facilities, and rice trading.

Farmers enjoy various benefits from their membership such as educational loans, PhilHealth membership and contributions, livelihood loans, home improvement loans, free technical trainings, and other government programs channeled through the co-op.

Engr. Cipriano Vivencio, General Manager, and Engr. Nolito Vergara, Chairman, highlighted the key role of cooperatives in securing the end-to-end process of farming-related activities. Cooperatives, they explained, are much more farmer-friendly, non-profit oriented, and have trust-based partnerships among members. As micro-financers, cooperatives provide a reliable source of funds to farmers with lower interest on loans and higher yields on savings and investments.

The cooperative is grateful to LANDBANK for its steadfast financial support throughout the years. It kept them motivated to pursue their objectives and reach goals ahead. Proof of its excellence in community service and bold financial performance, the cooperative was the winner of the Ginintuang Gawad PITAK Agri-based Category in 2015.

PURSUIT of Mandate

PROGRAMS FOR THE PRIORITY SECTORS

LANDBANK remained at the forefront of promoting economic growth in the rural areas by providing financial assistance and support interventions to its mandated and priority sectors. The interventions and financial support were all aimed to increase agricultural production, further develop the market and establish complementary support structures including utilities that are all vital in pursuing agricultural development.

As the Bank aimed for a more inclusive growth, it further expanded its reach to the underserved and unserved sectors of society. Countryside financial institutions (rural banks, thrift banks and cooperative banks) and accredited cooperatives were tapped by the Bank to serve as conduits in financing the credit needs of its mandated clients including the small farmers and fishers. LANDBANK likewise aligned its financing programs to the priority programs of the National Government (NG) as these programs are vital in promoting overall countryside development. These programs include microenterprises and small and medium enterprises (SMEs), communications, transportation, housing, education, health care, environment-related projects, tourism, utilities and livelihood/salary loans.

In 2015, LANDBANK's total loans to the priority sectors reached P384.0 billion, representing a record-high share of 88.3% of the Bank's loans to all sectors at P434.8 billion.

LOANS TO MANDATED SECTOR

- *Loans to Small Farmers including Agrarian Reform Beneficiaries and their Associations and Small Fishers and their Associations*

In 2015, LANDBANK proved once again its commitment to the mandated sectors by providing financial and technical support to small farmers and fishers (SFFs), agrarian reform beneficiaries (ARBs) and their associations through qualified conduits such as cooperatives, countryside financial institutions and irrigators' associations.

In 2015, LANDBANK released a total of P55.6 billion to small farmers and fishers channeled through 903 accredited farmers and fishers cooperatives, 164 countryside financial institutions (rural banks, cooperative banks, thrift banks and financial institutions) and 151 irrigators' associations. The credit assistance extended by LANDBANK benefitted 722,408 small farmers and fishers and financed various farm activities such as crop production, poultry and livestock, and fishery. During the year, LANDBANK likewise financed production and postharvest mechanization activities such as irrigation, cold storage and marketing. As of end-2015, outstanding loans to small farmers and fishers stood at P38.7 billion.

This is inclusive of the P18.4 billion loans outstanding to the 20 poorest provinces identified under the Registry System for Basic Sector in Agriculture (RSBSA) of the Department of Agriculture.

LOANS IN SUPPORT OF AGRICULTURE AND FISHERIES

- *Loans for Agri-business and Aqua-business*

To promote countryside development and generate jobs in the agricultural and fishery sector, LANDBANK supported the financing requirements of private enterprises that are engaged in agri- and aqua-businesses. Agri-business projects include agri-processing, manufacturing, packaging, storage and other agri-related services as well as fishing, fish and

P384.0 B

Total loans
to priority sectors

other marine processing, and exporting of frozen marine products. These activities serve as the market, and provide value addition to the produce of farmers and fishers, and help create labor in the countryside.

In 2015, outstanding loans to agri- and aqua-businesses amounted to P46.1 billion.

- *Loans for Agri-Aqua Related Projects of Local Government Units*

Since agri-infrastructure is a key component in the entire food supply chain, LANDBANK financed various agricultural and aqua-infrastructure including related projects of local government units (LGUs). Projects financed include construction or repair of farm-to-market roads and bridges, seaports, public markets and transport terminals. The support extended for the establishment of these infrastructure help promote the flow of agriculture and fishing commodities from farm to market and to the consuming public.

In 2015, the total outstanding loans on agri-aqua-related projects of LGUs reached P15.5 billion.

- *Loans for Other Priority Projects of LGUs*

LANDBANK also supported other priority projects of the LGUs that promote sustainable development, environmental protection and address the basic societal needs. These projects include housing (socialized, low cost and medium-cost), education, health care, water system and sanitation and drainage, among others.

As of end-2015, the total outstanding loans of LGUs for other priority projects amounted to P16.9 billion.

- *Loans for Agri-related Projects of Government-Owned and -Controlled Corporations*

LANDBANK also extended credit support to government-owned and -controlled corporations (GOCCs) with the mandate to engage in the marketing of agricultural commodities. The engagement and participation of GOCCs in the value chain were meant to address availability of supply and stability of prices of certain agricultural commodities. As of end-2015, outstanding loans to GOCCs amounted to P37.4 billion.

> "To promote countryside development and generate jobs in the agricultural and fishery sector, LANDBANK supported the financing requirements of private enterprises that are engaged in agri- and aqua-businesses."

LOANS SUPPORTING OTHER NATIONAL GOVERNMENT PRIORITY PROGRAMS

As a policy bank, LANDBANK supports the priority programs of the National Government (NG) as embodied in the Philippine Development Plan 2011-2016. LANDBANK extends financial assistance to help the NG achieve various development goals such as employment generation, infrastructure development, social development, access to improved goods and services and environment and natural resources conservation, protection and rehabilitation. Given the aspirations of the NG, the LANDBANK allocated resources towards the strengthening of micro, small and medium enterprise sector, provision and maintenance of logistics (transportation and communications facilities), utilities (water and power), tourism and other societal needs such as housing, education, and health care.

P15.8 B

Outstanding livelihood loans

- *Loans for Microenterprises and Small and Medium Enterprises*

LANDBANK provided strong financial support to micro, small and medium enterprises (MSMEs) nationwide as this sector represents the backbone of the Philippine economy. With 99% of business establishments in the country considered as MSMEs, the sector generates the biggest employment and contributes significantly in the country's total output. LANDBANK channels its microfinance loans to different microfinance institutions and extends SME loans directly to the borrowers.

In 2015, outstanding loans to MSMEs amounted to P57.3 billion. Of this amount, P52.3 billion were lent to SMEs and P5.0 billion to microenterprises.

LANDBANK also extended financial assistance for livelihood projects and business endeavors of qualified fixed income earners in the government and private sector.

As of end-2015, LANDBANK's outstanding livelihood loans reached P15.8 billion.

OFW Reintegration Program

The OFW Reintegration Program is introduced to give livelihood opportunities to returning Overseas Filipino Workers (OFWs) and their families. The program is implemented in partnership with the Department of Labor and Employment, and is meant to provide business opportunities to OFWs by providing credit and other services as an alternative to overseas employment.

Under the program, LANDBANK provides financial assistance to OFWs, who are certified by the Overseas Workers Welfare Administration, for their business or livelihood activities. Loans of P300,000 to a maximum of P2.0 million may be availed to finance projects that are deemed viable.

In 2015, loan releases under the partnership reached P375.1 million. For the same period, loans outstanding amounted to P663.6 million which benefited 1,133 borrowers and generated 6,128 jobs.

Projects financed by LANDBANK under the program are varied in nature and are classified into agri and non-agri loans. Agri-loans include grains trading, piggery, poultry, agri-supply, post-harvest facilities, processing, fruits and vegetable trading, and fishery. Non-agri loans, on the other hand, include off-farm activities but nonetheless provided the OFW and their families' additional cash streams. These projects include retail trading, leasing/rentals and services (e.g., trucking, internet café, water refilling).

- *Loans for Utilities*

LANDBANK lends to the utilities sector to finance projects that are vital in the operation and expansion of various industries in the country. Loans to the utilities sector include projects on water generation and distribution, gas exploration and production, and power generation, distribution and transmission.

In 2015, outstanding loans for utilities reached P62.2 billion accounting for 14.3% of the Bank's loans to all sectors.

- *Loans for Socialized, Low-cost and Medium-cost Housing*

LANDBANK supports the housing program of the national government in providing decent housing at affordable cost. More specifically, LANDBANK extends financial assistance for housing projects classified as socialized, low-cost and medium-cost.

Socialized housing ranges from P400,000 and below per unit; low-cost housing from more than P400,000 to P3 million; and medium-cost housing from more than P3 million to P4 million.

In 2015, outstanding loans to housing reached P39.5 billion or 9.1% of the Bank's loans to all sectors.

- *Loans for Logistics – Transportation and Communication*

Transportation plays a vital role in bringing economic progress because it affects people and business in a day-to-day basis. Modernization of transport facilitates and logistics results to efficient delivery of goods and services. LANDBANK financed projects to improve both the land- and sea-based transport systems.

In 2015, outstanding loans to the transport sector amounted to P27.8 billion.

Efficient communication systems, on the other hand, facilitate the ability to connect and do efficient business. LANDBANK financed projects that upgraded and modernized telecommunication systems.

In 2015, outstanding loans to the communication sector reached P21.2 billion or 4.9% of the Bank's loans to all sectors.

- *Loans for Education*

Investment in education is a strategic tool to achieve inclusive growth. LANDBANK extended loans for the construction and maintenance of educational institutions.

In 2015, the Bank helped in the construction of 1,372 additional classrooms. The outstanding loans for education stood at P4.0 billion as of December 2015.

- *Loans for Health Care*

LANDBANK financed the construction of hospitals, clinics and other health-related facilities to improve the delivery of health care services. For 2015, additional hospital beds provided through the Bank's loans reached 5,878.

In 2015, the outstanding loans to health care amounted to P8.2 billion or 1.9% of the Bank's loans to all sectors.

- *Loans for Environment-related projects*

LANDBANK supports the government's thrust to adapt to and mitigate the effects of global warming by extending loans that enhance the environment, harness the potential of renewable and alternative energy resources and promote climate change adaptation. Among the projects the Bank financed were for the construction of flood control systems, waste management and recovery facilities, sewerage treatment plants, and hydro-electric power plants and production of biofuel.

In 2015, outstanding loans for environment-related projects reached P7.2 billion or 1.7% of the Bank's loans to all sectors.

- *Loans for Tourism*

In support of the development of tourism to attract 4.4 million tourists in the country, LANDBANK provided loans for the construction of hotels, resorts and amusement and theme parks, among others.

In 2015, outstanding loans for tourism amounted to P3.2 billion or 0.7% of the Bank's loans to all sectors.

SUPPORT PROGRAMS FOR AGRICULTURAL CREDIT

AGRICULTURAL GUARANTEE FUND POOL

The Agricultural Guarantee Fund Pool (AGFP) is a program jointly administered by the Agricultural Credit Policy Council (ACPC) of the Department of Agriculture (DA) and LANDBANK, with LANDBANK serving as the institutional manager. The AGFP consists of a pool of contributions from various participating government agencies and private institutions which funds are used to guarantee the loan exposure of financial institutions in support of the agricultural productivity program of the government.

In 2015, the AGFP guaranteed a total portfolio of P5.2 billion. Of the amount, P817.7 million was used for the DA-LANDBANK Sikat Saka Program benefitting 7,699 small farmers with 19,356 hectares covered.

> With LANDBANK's social mandate of promoting inclusive growth and countryside development, the Bank anchors its various financing programs and initiatives on the government's developmental thrusts and priority programs in partnership with various government agencies.

CROP INSURANCE

LANDBANK forged a tie-up with Philippine Crop Insurance Corporation (PCIC) to provide insurance coverage to small farmers engaged in agricultural production. PCIC provides insurance protection to farmers against losses arising from natural calamities, plant diseases and pest infestations of their palay and corn crops and other crops. It also provides insurance protection against damage to/loss of non-crop agricultural assets including but not limited to machineries, equipment, transport facilities and other related infrastructures.

For the year 2015, LANDBANK was able to secure 47,709 farmers with PCIC involving P3.3 billion.

AGRICULTURAL CREDIT SUPPORT PROJECT

The Agricultural Credit Support Project (ACSP) is an Official Development Assistance project of LANDBANK funded by the Japan International Cooperation Agency (JICA) with a total program fund allocation of JPY 14.6 billion (P7.7 billion). The program aims to support the credit and non-credit needs of SFF groups, SMEs, large agribusiness enterprises and participating financial institutions engaged in agriculture and agri-related projects for additional working capital for production or expansion of operations.

As of December 31, 2015, total loan releases reached P3.70 billion which benefitted 350 borrowers.

CREDIT ASSISTANCE PROGRAM FOR PROGRAM BENEFICIARIES DEVELOPMENT

The Credit Assistance Program for Program Beneficiaries Development (CAP-PBD) is a program partnership with the Department of Agrarian Reform (DAR) which provides credit assistance to Agrarian Reform Beneficiaries (ARBs) in both Agrarian and non-Agrarian Reform Communities (ARCs and non-ARCs). Specifically, the CAP-PBD serves as an incubation stage where borrowers and projects that cannot be accommodated under the LANDBANK regular window are extended credit facilities, with the objective of eventually moving the said borrowers to the LANDBANK regular facilities.

As of December 31, 2015, the CAP-PBD released P291.2 million to 87 ARB organizations and assisted 6,307 beneficiaries.

LANDBANK CaReS PROGRAM

LANDBANK launched the LANDBANK Calamity and Rehabilitation Support (CaReS) Program in 2013 as part of the Bank's rehabilitation assistance program to clients that have been severely affected by natural calamities. The CaReS Program help the borrowers recover and get back to business after suffering from the destruction brought about by calamities. The Bank has allotted P30 billion for the Program where eligible borrowers like the LGUs, cooperatives, SMEs, NGOs, and CFIs can avail of funds for the repair of existing facilities or equipment and for the reconstruction of buildings and other properties.

As of December 31, 2015, the program benefitted a total of 183 borrowers with a total amount approved under the program reaching P3.250 billion. Of this amount, P2.851 billion was released mostly to SMEs.

LANDBANK's social mandate is to promote inclusive growth and countryside development, through various financing programs and initiatives.

AGRICULTURAL CREDIT EXPANSION PROGRAMS

With LANDBANK's social mandate of promoting inclusive growth and countryside development, the Bank anchors its various financing programs and initiatives on the government's developmental thrusts and priority programs in partnership with various government agencies.

FOOD SUPPLY CHAIN PROGRAM

The Food Supply Chain Program (FSCP) is a synergy program wherein LANDBANK provides financial and technical assistance to agricultural producers, market processors, consolidators and other market players to promote sustainable market linkages to all key players in the agricultural value chain. In 2015, the Program released P10.6 billion in loans which benefitted 25,587 SFFs. Since the Program implementation in October 2010, LANDBANK released a total of P48.5 billion in loans for 71 projects involving 71 tie-ups with anchor firms that benefited 174,941 SFFs.

SIKAT SAKA PROGRAM

The Sikat Saka Program (SSP) is a partnership program with the DA in support to the national government's Food Staples Sufficiency Program. LANDBANK, as a program partner of the DA, provides credit assistance for the palay production of small farmers who are not members of LANDBANK accredited cooperatives and

P10.6 B

Cumulative FSCP releases since October 2010

having difficulty securing loans from other financial institutions.

The program is currently being implemented in 45 provinces:

Northern and Central Luzon (14) – Bataan, Isabela, Pampanga, Bulacan, Kalinga, Pangasinan, Cagayan, La Union, Tarlac, Ilocos Norte, Nueva Vizcaya, Zambales, Ilocos Sur and Nueva Ecija;

Southern Luzon (9) – Albay, Oriental Mindoro, Camarines Sur, Palawan, Laguna, Quezon, Masbate, Sorsogon, and Occidental Mindoro;

Visayas (9) – Aklan, Leyte, Antique, Negros Occidental, Bohol, Northern Samar, Capiz, Western Samar and Iloilo; and

Mindanao (13) – Agusan del Sur, Lanao del Sur, Zamboanga del Norte, Bukidnon, Maguindanao, Zamboanga del Sur, Davao del Sur, North Cotabato, Zamboanga Sibugay, Davao del Norte, South Cotabato, Lanao del Norte and Sultan Kudarat.

As of December 31, 2015, total cumulative loans released under the SSP reached P2.16 billion with an outstanding balance of P687.4 million benefiting 9,302 farmers.

AGRARIAN PRODUCTION CREDIT PROGRAM

The Agrarian Production Credit Program (APCP) was developed pursuant to the CARPER law and is a joint undertaking of the DA, DAR and LANDBANK.

The APCP is a five-year credit and capacity development program that aims to extend credit assistance to ARBs, especially those not yet eligible under the Bank's existing regular lending programs, for the acquisition of their farm inputs, other equipment and machineries, and working capital.

In 2015, the Bank released a total of P987.3 million under the APCP. Total cumulative loan releases from program inception in 2013 reached P1.9 billion channeled to 513 ARBOs with 29,151 ARBs.

MASUSTANSYANG INUMIN PARA SA LAKAS NA KALUSUGAN

The Masustansyang Inumin para sa Lakas na Kalusugan (MILK) program was launched by LANDBANK and the National Dairy Authority to provide financing to qualified dairy small farmers, cooperatives, and federations to support their dairy production, processing, marketing, and other dairy-based economic activities. The program also aims to increase domestic milk production, improve farm productivity, generate employment, and increase household income.

As of December 31, 2015, dairy-related loan releases stood at P53.9 million through seven borrowers and benefited 161 farmer beneficiaries (FBs).

KALIKASANG KABUHAYAN SA WASTONG PAMAYANAN

The Kalikasang Kabuhayan sa Wastong Pamayanan (KAWAYAN) Program was launched by LANDBANK to provide credit assistance to qualified borrowers like small farmers, cooperatives, federations, SMEs, Agri-Business Enterprises (ABEs), CFIs and LGUs engaged in bamboo production, processing and marketing. The program aims to improve the productivity and competitiveness of the local bamboo industry and help minimize the effects of climate change by greening watershed areas, thereby minimizing damage to agriculture caused by typhoons and other calamities. As of December 31, 2015, total releases reached P1.0 million and benefited 86 farmer beneficiaries.

INTEGRATED SUPPORT FOR DEVELOPMENT OF AQUACULTURE

The Integrated Support for the Development of Aquaculture (ISDA) Program is being implemented with the Bureau of Fisheries and Aquatic Resources (BFAR) where institutional buyers or processors are linked with small fishers, individuals, and small and medium enterprise growers. The ISDA Program promotes market-focus and value-adding activities, adopts demand-driven financing, and increases growers' competitiveness.

As of December 31, 2015, total loan releases amounted to P984.0 million and assisted 50 borrowers with 2,226 beneficiaries. Outstanding balance amounted to P491.7 million as of end-December 2015.

BRINGING INCLUSIVE GROWTH IN EVERY HOUSEHOLD THROUGH NATIONAL ELECTRIFICATION SUPPORT SERVICES

In partnership with the National Electrification Administration (NEA), LANDBANK continued to implement the Bringing Inclusive Growth in Every Household through National Electrification Support Services (BRIGHTNESS) Program. The program aims to energize barangays as a means to generate employment and promote socio-economic growth especially in the countryside by providing the loan requirements

> The use of renewable energy are encouraged and support for developmental projects of rural cooperatives are further intensified specifically to boost the power sector and help reduce the cost of electricity in the rural areas.

of electric cooperatives (ECs) through their own individually approved terms and conditions. The use of renewable energy are encouraged and support for developmental projects of rural cooperatives are further intensified specifically to boost the power sector and help reduce the cost of electricity in the rural areas. The program assisted qualified electric cooperatives (ECs), joint venture/consortium of ECs and wholesale power aggregators in the form of loan financing for working/permanent capital, capital expenditures, fulfillment of prudential requirements (i.e. guarantee, security) under the terms of power sales contracts, and project preparation requirements.

As of December 31, 2015, LANDBANK was able to finance the needs of 28 ECs and four private utility entities with a total approved loans of P9.4 million and cumulative loan releases of P4.1 million. As of December 31, 2015, a total of 3,388,873 households had electrical connections through the Bank's financing.

H2OPE (WATER PROGRAM FOR EVERYONE)

LANDBANK accelerated its implementation of the H2OPE (Water for Everyone) Program to assist at least 85% of more than 100 million (est.) Filipinos access for piped, clean and safe water 24/7. The Program aims to position the Bank as one of the "champions" in the water and sanitation sector specifically through the financing of water development/expansion, distribution, and management. Eligible borrowers include creditworthy Water Districts, LGU-operated and managed water utilities, privately-owned water utilities, and users or communities-operated water utilities run by cooperatives, rural waterworks and sanitation associations, and barangay waterworks and sanitation associations.

As of December 31, 2015, the H2OPE Program has P4.8 billion in approved loans with cumulative loan releases of P2.4 billion from which P2.1 billion is the outstanding loan balance. New potable water connections in 2015 resulting from the loans extended by the Bank benefitted 170,291 households.

BRINGING URBANIZATION AND INNOVATION THROUGH LANDBANK'S DIVERSE ENGINEERING RESOURCE SUPPORT PROGRAM

LANDBANK launched the Bringing Urbanization and Innovations through LANDBANK's Diverse Engineering Resource Support (BUILDERS) Program to extend financial assistance to duly licensed contractors (by the DTI-Philippine Contractors Accreditation Board) who support the government's Public-Private Partnership Program.

3,388,873

households had electrical connections through the Bank's financing as of December 2015

Eligible projects under the BUILDERS Program include housing, education, real estate development, mass housing for calamity-stricken regions, transport infrastructure, construction/renovation/expansion of business offices and buildings, and purchase of construction equipment/machineries, among others.

As of December 31, 2015, approved loans reached P13.3 billion with total releases amounting to P12.6 billion. Outstanding loans amounted to P7.3 billion as of end-December 2015.

CREDIT ASSISTANCE FOR CACAO AGRI-BUSINESS ENTITIES AND OTHER ORGANIZATIONS 100 FINANCING PROGRAM

The Credit Assistance for Cacao Agribusiness Entities and other Organizations (CACAO) 100 Financing Program was launched to support the cacao industry in the Philippines towards attaining its target of 100,000 metric tons of cocoa produced and engaging about 130,000 cacao farmers by 2020.

In most cases, cacao trees were planted as intercrop in coconut areas with the aim to improve the lives of the coconut farmers who are among the poorest sector in the country.

As of December 31, 2015, total loans releases reached P411.3 million and assisted 36 borrowers benefiting 3,745 farmer beneficiaries. Outstanding balance as of end-December 2015 amounted to P208.2 million.

LANDBANK-SMC CORN AND CASSAVA ASSEMBLERS/CONSOLIDATORS FINANCING PROGRAM

The LANDBANK-SMC Corn and Cassava Assemblers/Consolidators Financing Program aims to enhance the production of raw materials for the production of animal feeds. The San Miguel Corporation, through San Miguel Foods, Inc. (SMFI), signed a Memorandum of Agreement to allow engagement of small farmers in the production of cassava and corn through the assemblers. The SMFI entered into a supply and purchase agreement with assemblers stipulating, among others, automatic loan payments to LANDBANK.

As of December 31, 2015, the total loans releases reached P54.6 million and assisted nine borrowers and benefitted 1,159 farmer beneficiaries. Outstanding loans amounted to P33.0 million as of end-December 2015.

AGRICULTURAL AND FISHERIES FINANCING PROGRAM

The Agricultural and Fisheries Financing Program (AFFP) is a tie-up between LANDBANK and the Department of Agriculture-Agricultural Credit Policy Council to provide direct credit to small farmers and who are registered under the RSBSA through Government Financial Institutions (GFIs) and cooperative banks. A total of P500 million was provided to LANDBANK for the implementation of the AFFP.

The AFFP covers other types of agricultural sectors such as farmworkers, as well as other projects such as agricultural trading, processing and services. Sixteen RSBSA-registered provinces are being covered by LANDBANK.

As of December 31, 2015, the total loans released reached P119.4 million to 1,231 borrowers and benefitted 1,231 beneficiaries. Outstanding loans amounted to P95.1 million as of end-December 2015.

NEW LENDING PROGRAMS IMPLEMENTED IN 2015

- *Renewable Energy Lending Program*

LANDBANK's Renewable Energy Lending Program supports the government's call to promote the development, utilization and commercialization of renewable energy. The Program provides credit support for renewable energy (RE) projects such as biomass, geothermal, hydro power, ocean, solar, wind, biofuel and other renewable energy projects.

LANDBANK total approved loans amounted to P12.8 billion and total loan releases reached P4.2 billion and benefited 29 borrowers. Outstanding loans amounted to P4.1 billion as of end-December 2015.

• Coffee 100 Financing Program

On March 13, 2015, the Coffee 100 Financing Program was launched to provide credit assistance to coffee industry stakeholders especially coffee growers and community-based coffee processors/enterprises (CBCEs) to increase its production in order to take full advantage of the demand in the market. The present local demand was estimated at the range of 60,000 MT – 100,000 MT green beans (Coffee Industry Master Plan/Roadmap, 013-2016 and Philippine Coffee Board, Inc.) and is expected to increase at approximately 3% per year (www.damrdp.net). However, the present local production is only about 25,000 – 30,000 MT. To meet the present demand of 60,000 MT, about 65,000 hectares are needed to be planted with coffee. This would require about P6.5 billion of financing at P100,000 cost per hectare.

As of December 31, 2015, approved loans reached P6.0 million and total loan releases amounted to P6.0 million. Outstanding loans amounted to P5.0 million as of end-December 2015.

• Coconut Production and Processing Financing Program

The Coconut Production and Processing Financing Program (Coco-Financing Program), which was launched on May 13, 2015, aims to provide credit assistance to coconut industry stakeholders particularly coconut farmers for their planting/replanting, rehabilitation and fertilization needs. With LANDBANK's support to the coconut industry, the program can generate additional employment in the rural communities by optimizing the business opportunities among coconut farmers.

As of December 31, 2015, approved loans amounted to P1.5 billion and total loan releases reached P1.5 billion. Outstanding loans amounted to P1.3 billion and assisted 49 borrowers as of end-December 2015.

• Poultry Lending Program

On April 24, 2015, LANDBANK's Poultry Lending Program was launched to provide credit to strengthen egg/meat production by the proponents who are willing to undertake poultry as a subsidiary or main occupation. Touted as one of the foremost drivers of growth in the agriculture sector, the poultry industry relies on the growth of the income levels brought about by continuous improvement of the local economy. The government sees bright prospects for the poultry industry inasmuch as increased demand for poultry products is expected with the general upturn of income levels due to a stable economic environment.

As of December 31, 2015, approved loans reached P7.5 billion and loan releases amounted to P5.2 billion and assisted 217 borrowers. Outstanding loans amounted to P4.5 billion as of end-December 2015.

• Climate Special Adaptation Facility for the Ecosystem Program

The Climate Special Adaptation Facility for the Ecosystem (SAFE) Program was launched in October 2015 to provide financing to climate change adaptation projects. Projects included under this program are those approved in LGU development or investment plan or Local Climate Change Action Plan, as well as projects/activities in the Business Continuity Plan of private sector entities. The Philippines is one of the world's most disaster-prone countries due to the high incidence of natural hazards brought about by various climate risks which include super typhoons, sea level rise, flooding, landslides, storm surges, heavy rains, rising temperatures and drought; and high vulnerability linked to poverty and environmental degradation.

As of December 31, 2015, approved loans amounted to P40.0 million and loan releases reached P30.0 million. Outstanding loans amounted to P30.0 million as of end-December 2015.

CLIENT AWARDS AND RECOGNITION

Outstanding development partners of the Bank are annually conferred with awards to recognize their excellence in terms of operational and significant contributions to uplift the lives of its members and local community especially in the countryside. These awards are as follows: (1) the Gawad PITAK for model agri- and non-agri cooperatives; (2) the Gawad Entrepreneur for successful small and medium enterprises whose projects improved the socio-economic conditions of the locality; (3) the Gawad CFI for outstanding countryside financial institutions which served as partners in delivering financial services to the rural areas; and (4) the Gawad KAAGAPAY for corporate clients who contributed to the Bank's development thrusts.

2015 Gawad sa Pinakatanging Kooperatiba (Gawad PITAK) Winners

MAJOR AWARDS

1. Ginintuang Gawad PITAK – Agri-based Category
   Bagumbayan Primary Multi-Purpose Cooperative *Llanera, Nueva Ecija*
2. Ginintuang Gawad PITAK – Non-agri-based Category
   Barbaza Multi-Purpose Cooperative *Barbaza, Antique*
3. Hall of Fame – Non-agri-based Cooperative Category
   Iwahori Multi-Purpose Cooperative *Mariveles, Bataan*

OUTSTANDING AGRI-BASED COOPERATIVES

First Place
Nagkakaisang Magsasaka Agricultural Primary Multi-Purpose Cooperative *Talavera, Nueva Ecija*

Second Place
Buenavista Development Cooperative *Buenavista, Guimaras*

Third Place
Talabutab Norte Primary Multi-Purpose Cooperative *General Natividad, Nueva Ecija*

Fourth Place
Luntian Multi- Purpose Cooperative *Tiaong, Quezon*

Fifth Place
Bontoc Multi-Purpose Cooperative *Bontoc, Southern Leyte*

OUTSTANDING NON-AGRI-BASED COOPERATIVES

First Place
Sacred Heart Savings Cooperative *Galimuyod, Ilocos Sur*

Second Place
Watchlife Workers MPC *Mariveles, Bataan*

Third Place
Socorro Empowered People's Cooperative
Socorro, Surigao del Norte

Fourth Place
NIA Region IV Employees Multi-Purpose Cooperative
Pila, Laguna

Fifth Place
Makilala Multi-Purpose Cooperative *Makilala, North Cotabato*

SPECIAL AWARDS

1. Outstanding ARB (Agrarian Reform Beneficiary) Cooperative
   Conwap Valley Multi-Purpose Cooperative *Dupax del Norte, Nueva Vizcaya*
2. Outstanding Fishers Cooperative
   Our Lady of Salambao Multi-Purpose Cooperative *Obando, Bulacan*
3. Outstanding Cooperative in Microfinance
   Barangka Credit Cooperative *Barangka, Marikina*
4. Best Cooperative in Agri-Tourism
   ICTUS Premier Cooperative – Mountain Lake Eco Resort *Surallah, South Cotabato*
5. Outstanding Cooperative in Environmental Preservation, Conservation and Management
   Bontoc Multi-Purpose Cooperative *Bontoc, Southern Leyte*

ULIRANG MAGSASAKA

Ulirang Magsasaka – Ruben M. Ragas
Baug CARP Beneficiaries MPC *Magallanes, Agusan del Norte*

1st Runner-up – Ricardo P. Buenaventura
Nagkakaisang Magsasaka PMPC *Talavera, Nueva Ecija*

2nd Runner-up – Annie M. Bajade
ICTUS Premier Cooperative *Surallah, South Cotabato*

ULIRANG MANGINGISDA

Ulirang Mangingisda – Paulino S. Carreon
San Sebastian MPC *Hagonoy, Bulacan*

1st Runner-up – Romedel A. Duco
ICTUS Premier Cooperative *Surallah, South Cotabato*

Gawad Entrepreneur - Roll of Winners 2015

1. Entrepreneur of the Year Award
   J.K. Salazar Corporation *Poblacion Bansalan, Davao del Sur*

2. Agri-based Entrepreneur Award
   Chezka Rice Mill *Tanay, Rizal*

3. Non-agri-based Entrepreneur Award
   San Mariano Trading *Roxas, Oriental Mindoro*

Gawad Korporasyon na KAagapay sa Ating GAnap na tagumPAY (Gawad KAAGAPAY) - Roll of Winners 2015

1. Large Agri-based Winner
   A.D. Gothong Manufacturing Corporation *Subangdaku, Mandaue City*

2. Large Non-Agri-based Winner
   Globe Telecom, Inc. *Bonifacio Global City, Taguig*

3. Medium-sized Agri-based Winner
   Global Food Solutions, Inc. *Caloocan City*

4. Medium-sized Non-Agri-based Winner
   Clinica Antipolo Hospital and Wellness Center, Inc. *Antipolo City*

Gawad Countryside Financial Institutions - Roll of Winners 2015

1. Hall of Fame
   Rural Bank of Goa, Inc. *Goa, Camarines Sur*

2. Cooperative Bank Winner
   Cooperative Bank of Cotabato *Kidapawan City, North Cotabato*

3. First Place: Rural Bank
   CARD Bank, Inc. *San Pablo City, Laguna*

4. Second Place: Rural Bank
   Mallig Plains Rural Bank, Inc. *Mallig, Isabela*

5. Third Place: Rural Bank
   Cantilan Bank, Inc. *Cantilan, Surigao del Sur*

6. Special Award: Best CFI Availer – Agri-agra Loans
   CARD Bank, Inc. *San Pablo City, Laguna*

7. Special Award: Best CFI Intermediary Lowest Pass-On Rate
   Gateway Rural Bank, Inc. *Balagtas, Bulacan*

HARVEST OF HEROES

In celebration of enduring partnerships, sustainable growth, and inspirational success, LANDBANK produced the first in a series of books, "Harvest of Heroes" – a collection of stories featuring a diverse group/selection of LANDBANK clients and partners across the country.

Authored by multi-awarded writer and Palanca Hall of Famer Dr. Jose Dalisay Jr., the publication offers a look at the journey of our unsung Filipino heroes — clients and partners who have worked with LANDBANK through the years toward the realization of ambitions and dreams, of making a difference in the lives of others, from the people they love and communities around them, to industries both struggling and thriving in a nation full of social and economic potential.

Harvest of Heroes stands beyond as a mere tribute to farmers, cooperatives, small and medium entrepreneurs, countryside financial institutions and corporations, all of whom form part of LANDBANK's mandated and priority sectors. It also seeks to serve as a reminder to young and upcoming farmers, entrepreneurs, and development players to excel and innovate in their operations, so that they may carry on with the journey to success, and contribute to creating jobs and revitalizing the local economy along the way.

The Harvest of Heroes Book launch was interspersed in a series of LANDBANK appreciation events across the country. Starting in Manila in September, it was next introduced in Cebu, Davao, and Iloilo in October, then in Cagayan de Oro and Baguio in November.

The LANDBANK's Harvest of Heroes Book launch held last September 22, 2015, 3 pm at the Reception Hall of the Philippine International Convention Center, Pasay City.

CORPORATE SOCIAL RESPONSIBILITY PROGRAMS

Simultaneous with the financial objectives of LANDBANK is its active stance on corporate social responsibility (CSR) across the nation. For 2015, programs focused on LEED – **l**ivelihood prospects, **e**ducational attainment, **e**nvironmental advocacy, as well as responsive action toward **d**isaster management – all of which play significant roles in strengthening the social impact of LANDBANK on its mandated sectors and those in need.

- *Gawad Kabuhayan Program*

Functioning as a "recovery through livelihood" program, the Gawad Kabuhayan Program aims to promote self-reliance among typhoon survivors situated in relocation sites of Habitat for Humanity Philippines. The project offered livelihood skills training to its first batch of beneficiaries - 500 families who are among the survivors of Typhoon Sendong in Cagayan de Oro.

- *Gawad Patnubay Scholarship Program*

What began as a program in 2003 intended for primary and secondary educations students who are dependents of LANDBANK's priority sectors, the Gawad Patnubay Scholarship Program now focuses on college scholars seeking to enroll in BS Agriculture and related disciplines, either through formal or informal setting. Additional to the full tuition for scholars, students also receive monthly

Scholars of the LANDBANK Gawad Patnubay Scholarship Program gathered to interact, learn, have fun, and share experiences in a youth conference organized by LANDBANK with program partners, International Rice Research Institute (IRRI) and the Philippine Federation of Family Farm Schools (PHILFEFFARS).

stipends, books allowances, and uniform costs. From January 25 to 27, the Program scholars under the formal education level, convened at the LANDBANK Plaza in Malate, other parts of Manila and Laguna to partake in its annual workshops and group activities that were facilitated by LANDBANK together with program partner, International Rice Research Institute (IRRI).

On April 12, 2015, the first batch of graduates of the Gawad Patnubay (Formal) Scholarship Programs finished with Bachelor's degrees in Agriculture and Agri-Chemistry. Of the 12 graduates, seven were conferred with honors.

In June, 10 from the first batch who took the Agriculturist Licensure Examination passed and received their licenses. The licensure and other exam-related fees were sponsored by LANDBANK.

The Gawad PATNUBAY Scholarship Program (Informal) also assists and finances students taking up a two-year ladderized course in Farm Business Management from farm schools that are members of the Pilipinas Association of Rural Families for Education and Development (PARFED, formerly Philippine Federation of Family Farm Schools).

Nine scholars from the first batch of students from MFI Farm Business School in Jala-jala, Rizal completed the course and graduated in October 2015. Currently, the Bank has 15 scholars at the MFI Farm Business School and three at the Paraclete Farm Business School in Paraclete, Tacloban, Leyte representing the second batch of scholars for SY 2015-2017.

- *Education to Employment Internship Program*

The Education to Employment (E2E) Internship Program under the Gawad Patnubay Scholarship Program aims to provide holistic educational support to the graduates of the scholarship. Launched this year, the participating graduates are provided with full subsidy for their Agriculturist Licensure Exam review and examination, 10-week internship, and assistance in securing employment in LANDBANK units or partner institutions.

The first batch of graduates under the formal scholarship, 12 in total, underwent a 10-week internship wherein three weeks were spent at the LANDBANK Head Office, and seven weeks with partner institutions. The interns were deployed for internship at the Philippine Rice Research Institute (PhilRice), Harbest Agribusiness Corporation, Philippine Carabao Center, and Bukidnon Lending Center.

Name	Degree	Awards/honors received	University
Vergel Jungco	BS Agriculture	magna cum laude	USM
Royette Santos	BS Agriculture	cum laude	CLSU
Jay Carl Cacerez	BS Agri-Chem	cum laude	VSU
Roda Capacao	BS Agriculture	cum laude	VSU
Francisco Lutao Jr.	BS AgriBusiness	cum laude	VSU
Cesar Pabia Jr.	BS AgriBusiness	cum laude	VSU
Jess Bryan Alvariño	BS Agriculture	cum laude	USM
Christian Lacanilao	BS Agriculture	none	CLSU
Kristine Joy Reyes	BS Agriculture	none	CLSU
Samantha Alcantara	BS Agriculture	none	CLSU
Excel Ariola	BS AgriBusiness	none	CMU
Jovel Grand Marquez	BS AgriBusiness	none	CMU

Name	School	Course
Samantha Alcantara	CLSU	BS Agri, Major in Animal Science
Jess Bryan Alvariño	USM	BS Agri, Major in Plant Breeding and Genetics
Excel Ariola	CMU	BS Agribusiness Management
Jay Carl Cacerez	VSU	BS Agricultural Chemistry
Roda Capacao	VSU	BS Agri, Major in Plant Protection
Vergel Jungco	USM	BS Agribusiness
Christian Lacanilao	CLSU	BS Agri, Major in Animal Science
Francisco Lutao, Jr.	VSU	BS Agribusiness
Jovel Grand Marquez	CMU	BS Agribusiness Management
Cesar Pabia, Jr.	VSU	BS Agribusiness
Kristine Joy Reyes	CLSU	BS Agri, Major in Animal Science
Royette Santos	CLSU	BS Agri, Major in Crop Science – Horticulture

LANDBANK President and CEO Gilda Pico and Education Secretary Bro. Armin Luistro received their official copies of the AgriCOOLture educational video series from Knowledge Channel President and Executive Director Rina Lopez-Bautista. Joining them, from left, are: LANDBANK Directors Victor Gerardo Bulatao and Crispino Aguelo, Corporate Services Sector Head/EVP Julio Climaco Jr., and Corporate Affairs Department Head/FVP Catherine Rowena Villanueva.

LANDBANK, in partnership with Knowledge Channel, launched AgriCOOLture educational video series hosted by Aaron Villaflor.

• *Gawad e-Dukasyon Program*

Complementing Patnubay is the Gawad e-Dukasyon Program, which supports agriculture education in the Philippines. The initiative places high regard for agriculture as a potential source of sound careers, business opportunities, and reliable income.

Through its primary objective of producing videos on the following topics: Crop Production and Harvest, Poultry Raising, and Aquaculture and Fisheries, LANDBANK is able to promote agriculture and related studies among the youth, in particular encourage students preparing to pursue college degrees. Done in partnership with the Knowledge Channel Foundation, Inc. (KCFI), and in cooperation with the Department of Education (DepEd), the program introduces new media component in education by making use of modern and innovative forms of media such as videos and internet modules.

The produced videos, entitled "AgriCOOLture," are aired over Knowledge Channel, with the e-modules made available online. The videos are also shown over all Knowledge Channel-connected public schools nationwide as supplement for the students' prescribed curriculum.

EVP Julio Climaco Jr. welcomed the participants of the E2E Internship Program, which aims to provide holistic educational support to the graduates of the scholarship.

- *Gawad Sibol Program*

The Gawad Sibol Program is the third phase of the Adopt-A-Watershed Program partnership, through the signing of this Memorandum of Agreement with the DENR in July 2015. In April 2015, LANDBANK formally closed Phase II of the Adopt-a-Watershed Program after accomplishing its target of planting 50,000 tree seedlings with the volunteerism of over 300 LANDBANK employees.

The new program is pursuing the environmental rehabilitation of 60 hectares of open and degraded watershed areas through the planting of trees and shall be implemented within the following proposed locations beginning 2016 until 2018.

Region	Location*	Area
I	La Union	5
II	Isabela	5
III	Nueva Ecija	5
IV-A	Batangas City	5
IV-A	Rizal	5
V	Albay	5
VI	Iloilo	5
VII	Cebu	5
VIII	Tacloban	5
IX	Zamboanga Sibugay	5
X	Lanao del Norte	4
XI	Davao del Norte	3
XII	South Cotabato	3
TOTAL		60

Environment Secretary Ramon Paje and LANDBANK President and CEO Gilda Pico (center) show the signed Memoranda of Agreement on the Gawad Sibol Program and the Education-to-Employment (E2E) Internship Program of the Gawad Patnubay Scholarship Program.

(Top) Students of Nicomedes C. Tolentino Elementary School in Glan, Sarangani show the books they received from CANVAS' "1 Million Books for 1 Million Filipino Children" initiative.

(Bottom) Landbankers supported the cause through cash and in-kind donations during the Bank's Christmas Bazaar.

- *One Million Books for One Million Filipino Children Initiative*

LANDBANK partnered with the Center for Art, New Ventures and Sustainable Development (CANVAS) for its "One Million Books for One Million Filipino Children" campaign to help cap the year with more significance with the active participation of Bank employees. Through CANVAS, a non-government organization that specializes in promoting literacy among the Filipino children, the employee and visitor donations made during the campaign run at the LANDBANK Plaza during the Great Christmas Bazaar 2015 added to the funding of 800 books.

The produced materials were personally distributed by LANDBANK employees represented by the Corporate Affairs Department (CAD)–Corporate Social Responsibility Relations Unit (CSSRU) and the General Santos Pioneer Branch to the pupils of Small Margus Elementary School in Glan, Saranggani. The chosen recipients are students who endure hours of walking on a daily basis in order to attend school.

As token of appreciation, an artist from CANVAS offered to render caricatures of the book campaign donors during the bazaar.

- *Manila Bay SUNSET Partnership Program, Inc.*

The Manila Bay SUNSET Partnership program, the flagship CSR program of LANDBANK, for the environment continued to influence more institutions into joining the partnership and strengthen its efforts to help maintain the Bay.

In 2015, LANDBANK also enjoined its four subsidiaries and one foundation to become program members. These are the Masagang Sakahan Inc., LANDBANK Resources Development Corporation, LANDBANK Leasing Corp., and the LANDBANK Countryside Development Foundation. In the same year, the SUNSET partners also produced and distributed an IEC video material which deals with solid waste management as part of its environmental awareness campaign.

As of end-2015, the SUNSET Partnership is comprised of 21 institutional members from the government and private sector. Its regular clean-up operation since 2006 already generated a total of 112 trucks of trash hauled from Manila Bay.

Volunteers from the Manila Bay SUNSET Partnership Program, Inc. (MBSPPI) conducted its annual cleanup activity at the Manila Bay, Roxas Boulevard in August 2015.

- *Gawad Katubigan*

With the series of typhoons that devastated parts of the country this year, LANDBANK initiated the Gawad Katubigan project.

The program seeks to provide residents and communities affected by the natural disasters sustainable access to clean drinking water, and consequently ease the people's goal for basic socio-economic recovery in the aftermath.

In October 2015, LANDBANK partnered with Philippine-based International Non-Government Organization Waves for Water (W4W) and Philippine Disaster Resilience Foundation (PDRF) for the cause. Residents in Nueva Ecija who were largely affected by Typhoon Lando (International name: Koppu) became the initial recipients of the water systems.

Together, 60 water filtration systems were distributed in the municipalities of Gabaldon, Laur and Pantabangan. Each device, which lasts from five to 10 years, can filter one million gallons of water.

After Typhoon Nona (international name: Melor) hit the Philippines last December, 60 more filtration systems were provided to the three identified sites by the PDRF which were severely damaged by the typhoon, namely in Sorsogon, Samar, and Mindoro.

Distribution of water filtration systems took place in Cabra Island, Mindoro and Allen in Samar during the last week of December 2015. The event was facilitated by PDRF and W4W, alongside the hands-on learning of the typhoon victims for the proper use of the system from the branches in the nearby areas.

LANDBANK representatives, together with partners from W4W and PDRF, distribute the water filtration systems to the beneficiaries.

LANDBANK, Philippine Disaster Resilience Foundation (PDRF) and Waves for Water (W4W) partner for the Gawad Katubigan project.

SUPPORT TO THE COMPREHENSIVE AGRARIAN REFORM PROGRAM

Republic Act No. 6657 instituted the Comprehensive Agrarian Reform Program (CARP) to promote social justice and industrialization through land tenure improvement and the provision of appropriate program interventions in support of the development and productivity of lands awarded to agrarian reform beneficiaries (ARBs). As the financial intermediary of CARP, LANDBANK continues to extend key services such as land valuation of CARPable lands, processing of payments as landowners' compensation, collection of amortization payments from agrarian reform beneficiaries, and extension of financial credit and technical support to agrarian reform beneficiaries through conduits.

CARP LAND TRANSFER OPERATIONS

As one of the implementing agencies of CARP, land transfer claims approved for payment by LANDBANK reached 20,963 hectares in 2015. The 20,963 hectares was valued at P3.3 billion.

LANDOWNERS COMPENSATION AND ASSISTANCE

As a financial intermediary of CARP, LANDBANK paid a total of P6.5 billion in 2015 for landowners' compensation of CARP-covered private agricultural lands. Of the P6.5 billion, P1.1 billion were paid in cash while the remaining P5.4 billion were in the form of CARP bonds (P4.3 billion for principal and P1.1 billion for payment of interest).

The Bank also assisted CARP-covered landowners and bondholders in the marketing/trading or encashment of their CARP bonds. In 2015, total CARP bonds sold amounted to P571.0 million involving 982 landowners and bondholders which generated an income of P11.0 million.

LAND AMORTIZATION AND LOAN COLLECTIONS FROM CARP FARMER-BENEFICIARIES

In 2015, the total land amortization collections from Agrarian Reform farmer-beneficiaries amounted to P583.2 million. On the other hand, the total loan collections from Agrarian Reform farmer-beneficiaries for loans funded by Agrarian Reform Fund (ARF) amounted to P0.6 million.

LANDBANK-ADMINISTERED AGRARIAN REFORM FUND FOR CARP

The fund balance of the LANDBANK-administered ARF amounted to P5.2 billion in 2015.

In 2015, LANDBANK received P5.9 billion from the Bureau of the Treasury for bond servicing requirements of the 10-year CARP bonds under the automatic appropriation of the National Government.

> Kung hindi kami tinulungan ng AYP at ng LANDBANK, wala talaga kaming hanap-buhay. Sila ang aming pag-asa na may tutulong sa amin. *(Without the help of AYP and LANDBANK, we would not have a source of income. They are our only hope that someone is here to help us.)*

- Lina Vidal, T'boli coffee farmer

Financing GREEN INITIATIVES

KORONADAL PRESTIGE FARM, INC.

The Koronadal Prestige Farm, Inc. in South Cotabato is now a budding producer of coffee beans that, in turn, provides livelihood to the T'boli community indigenous to the area.

Cognizant of its environmental impacts, AYP Holdings, the mother company of Koronadal Prestige Farm Inc., established a coffee farm in 2008 to reduce its carbon footprint.

In 2015, the company opened a five-hectare robusta coffee plantation in the mountains near Sitio Colonsilal, Tinongcop, Koronadal, South Cotabato. This was made possible through LANDBANK's Coffee 100 Program - a new credit assistance to coffee farmers and community-based coffee processors/enterprises (CBCEs). AYP Holdings employed 15 T'boli farmers to directly manage and cultivate the farm, an initiative that provided the tribe members a stable source of income.

With its first partnership with LANDBANK, AYP Holdings looks forward to undertaking more projects with the help of the Bank's loan programs. A fully diversified company with 11 units in Mindanao including aviation, construction, capital realty service, finance, insurance, shipping supplies, and business services, the company is a valued partner that shares in the Bank's mission of promoting sustainable development and environmental protection.

CUSTOMER Service

BANK'S DELIVERY CHANNELS

BRANCHES

LANDBANK opened 10 new branches in 2015, bringing the total number of branches to 361 by year-end. The newly established branches are located in Bonifacio Global City; Pulilan, Bulacan; San Juan, Batangas; Paseo de Sta. Rosa, Laguna; Guiuan, Eastern Samar; Dalaguete, Cebu; Tagum City; Calumpang, General Santos City; Liloy, Zamboanga del Norte and Janiuay, Iloilo.

With the additional branches, LANDBANK maintains its position as the bank with the most extensive network in the Philippines with presence in all of the country's 81 provinces. Of the total branches, 231 are in Luzon (86 are in the National Capital Region), 57 branches in the Visayas and 73 branches in Mindanao. Apart from its branch network, the Bank also operates six tellering booths and six foreign exchange booths to provide additional banking services.

10

new branches in 2015 bringing the total to 361

The Alabang Business Center Branch and Araneta EO were among the 10 new branches that LANDBANK opened in 2015.

AUTOMATED TELLERING MACHINES (ATMS)

LANDBANK has been more aggressive in ATM deployment in 2015. During the year, the Bank installed 165 new ATMs, maintaining its rank as the fourth largest bank in terms of ATM network in the Philippines. The Bank's 1,503 ATMs are strategically located across the country with 343 (23%) in the National Capital Region, 328 (22%) in Northern and Central Luzon, 270 (18%) in Southern Luzon, 233 (16%) in the Visayas and 329 (22%) in Mindanao.

As part of the Bank's commitment to provide banking convenience to its 11.2 million cardholders, LANDBANK put up additional off-site ATMs in commercial centers such as Lee Super Plaza-Dumaguete, Prince Hypermart-Gingoog, SM Lucena and SM Hypermarket in Rosario, Batangas, Baliuag, Laoag, Muntinlupa and North EDSA.

MOBILE ATMs

True to its commitment to promote inclusive growth through the delivery of innovative financial services in all provinces, LANDBANK acquired in 2015 two additional mobile ATMs, bringing the total mobile ATMs to 10. The two new mobile ATMs were deployed in Mindanao to support the cash grant distribution to the beneficiaries of the government's Conditional Cash Transfer (CCT) Program, and as an alternative channel for withdrawal transactions of other depositors from local government units, government agencies and private corporations.

For the year 2015, the mobile ATMs were able to process 198,157 transactions amounting to P658 million.

LANDBANK EASY ACCESS FACILITY (LEAF)

LANDBANK established LEAFs to cater to the unbanked population.

A LEAF is an Other Banking Office (OBO) equipped with an ATM and Cash Deposit Machine which offers non-transactional banking-related services such as deposit, withdrawal and bills payment of clients, all done through the machine. The LEAFs are established in areas where there are no LANDBANK Branch/EO, nor conduits that offer banking services.

As of year-end 2015, a total of 24 LEAFs were established across the country: 12 in Luzon and six each in the Visayas and Mindanao.

LENDING UNITS

The Bank also has 38 provincial Lending Centers and eight Head Office-based lending units which service the financial requirements of various clienteles such as small farmers and fishers, financial institutions, small and medium enterprises, LGUs, government agencies and private corporations.

Of the total number of provincial Lending Centers, 21 are in Luzon, seven in the Visayas and 10 in Mindanao.

NUMBER OF CONDUIT BANKS

In order to facilitate the delivery of financial assistance and basic banking services to the marginalized sector in the countryside, the Bank partnered with 214 countryside financial institutions to expand its market reach. The partner banks are composed of rural banks, cooperative banks, and thrift/development banks.

NUMBER OF COOPERATIVES

LANDBANK accredits cooperatives all over the country as conduits and partners to expand its reach to the marginalized sector, particularly the small farmers and fishers. In 2015, the Bank partnered with 1,594 cooperatives. Of these, 756 are in Luzon, 320 in the Visayas and 518 in Mindanao.

BANKING SERVICES SYSTEMS AND FACILITIES

PHONEBANKING

The LANDBANK Phone Access is an alternative delivery channel that allows ATM and current account holders to do self-service banking transactions such as fund transfer, bills payment, bank statement request, checkbook reorder, check status and balance inquiry. It also allows the account holders to report lost/stolen card and talk to a LANDBANK Phonebanker for other inquiries and concerns.

As of year-end 2015, the LANDBANK Phone Access has registered a total of 3.3 million enrolled accounts representing 99.95% of the total number of eligible accounts. The phonebanking transactions processed during the year reached 1.4 million or an average of 3,956 per day. These include fund transfer and bills payment transactions amounting to P231.6 million and P11.2 million, respectively.

169,103

Number of active users of LANDBANK Mobile Banking App for 2015

MOBILE BANKING

The LANDBANK Mobile Banking Application was offered in January 2015 as part of the Bank's effort to provide the best banking solutions to its accountholders. Using a smartphone, the depositor can view account balance, monitor account transactions, transfer funds, pay bills, locate LANDBANK branches and ATM sites, re-order checkbooks, and view foreign exchange and Unit Investment Trust Fund rates.

The LANDBANK Mobile Banking App may be downloaded for free from the Apple App Store and Google Play Store. Available 24/7, the App is protected with state-of-the-art security technology. It requires a PIN for fund transfer and all data saved on the device is encrypted so data stored are secured even if the mobile phone is lost or stolen.

For the year 2015, the number of active users reached a total of 169,103. Financial transactions which include fund transfer and bills payment transactions, totalled 67,796 for the year with transaction value of P271.5 million.

RETAIL INTERNET BANKING

The LANDBANK iAccess is another alternative delivery channel for individual depositors. By logging on to www.lbpiaccess.com, an enrolled depositor can conveniently perform financial and non-financial transactions anytime, anywhere. The financial transactions that can be done through iAccess include fund transfer, bills payment and checkbook requisition while non-financial transactions include account summary, account history, check status inquiry, returned check inquiry and report of lost/stolen card.

As of 2015, iAccess enrollment reached 1.82 million registering a growth rate of 30% from 1.4 million in 2014. The iAccess transactions, on the other hand, recorded 51% growth rate from 17.6 million in 2014 to 26.5 million in 2015 with total transactions amounting to P3.3 billion. The bulk of these transactions include fund transfers and bills payments. The iAccess has 101 accredited merchants as of year-end 2015.

INSTITUTIONAL INTERNET BANKING

The LANDBANK weAccess is the internet banking facility available for institutional clients, both private and government. Various corporate banking services can be accessed online by logging on to www.lbpweaccess.com, including balance inquiry, account statement, fund transfer, account sweeping, bills payment, auto debiting, auto crediting, payroll, check status inquiry and loan information.

The total weAccess enrollment increased by 49% from 13,753 in 2014 to 20,501 in 2015. The weAccess online transactions grew by 12% from 4.1 million in 2014 to 4.6 million in 2015 with transaction value amounting to P76.4 billion.

wePayAccess

LANDBANK wePayAccess

The wePayAccess is another internet banking facility designed to provide institutional depositors, such as micro-business enterprises and government institutions that have at least P20,000 average daily balance on deposits, access to perform banking transactions and avail of banking services through the web. It is a scaled-down version of weAccess, with features that include account information, current account services, fund transfer, bills payment and ATM payroll, among others.

The number of enrollees under wePayAccess reached 69 as of year-end 2015, with a total of 167 transactions amounting to P2.03 million.

ELECTRONIC PAYMENT PORTAL (ePP)

Fully implemented in July 2015, the ePP is an internet-based payment channel designed to accept payments of fees, dues and charges from clients of enrolled merchants. This was developed to provide convenience and efficiency in payment as well as safer and faster delivery of funds.

As of year-end 2015, the enrolled merchants totaled 28. Transactions processed reached 1,001 amounting to P2.1 million.

ELECTRONIC PAYMENT SYSTEM (ePS)

LANDBANK ePS is an internet-based system that accepts and processes e-payment. It covers the settlement of fees, charges and other obligations between a private or government entity and its clients through an auto-debit arrangement.

In 2015, the Bank's ePS serviced the collection transactions of the City Government of Muntinlupa, Philippine Overseas Employment Administration (POEA), Subic Bay Metropolitan Authority (SBMA) and the Polytechnic University of the Philippines (PUP). A total of 264,505 transactions was processed amounting to P371.6 million.

LANDBANK POINT OF SALE (POS) DEBIT/SALE

The LANDBANK POS Debit/Sale is a complete payment system that allows cardholders to pay using ATM/debit card. This offers the convenience of cashless purchase using the POS terminals of accredited establishments.

In 2015, the 244 installed POS debit/sale terminals processed 472,828 transactions amounting to P3.3 billion.

LANDBANK POS CASH OUT

In partnership with BancNet, LANDBANK was the first in the industry to launch the POS Cash Out. This newest innovation allows peso withdrawal transactions from certified POS terminals installed in partner-institutions.

Since its launch in May 2015, 47 POS Cash Out terminals have been installed. A total of 23,796 transactions were processed amounting to P88.028 million.

CUSTOMER-CENTRIC BANK PRODUCTS AND SERVICES

BANK PRODUCTS

- *Deposits*

In January 2015, LANDBANK introduced the Auto-Save Account. Intended to make savings hassle-free, the Auto-Save Account is an auto-debit savings linked account available to LANDBANK payroll account holders. A minimum of P100 is auto-debited from the payroll account and auto-credited to the Auto-Save Deposit Account every payday. Upon the cardholder's instruction, the amount auto-debited may be increased from P100 to any amount that he/she may want to save.

- *Loans*

The Bank continuously pursues its lending operations for the priority sectors, such as small farmers and fishers; small and medium enterprises; local government units; and countryside financial institutions, consistent with its mission and vision to deliver responsive and innovative banking services.

In 2015, the coffee, coconut and poultry lending programs were enhanced to promote competitive and sustainable local industries. The renewable energy lending program was also enhanced to support the government's policy on promoting renewable energy development, utilization and commercialization. Another program called Climate SAFE (Special Adaptation Facility for the Ecosystem) was implemented in 2015 to finance climate change adaptation projects of LGUs and private corporations.

• *LANDBANK Mobile LoanSaver (LMLS)*

LMLS is considered the first paperless and fully electronic salary loan facility in the country. In partnership with Smart e-Money, Inc., this facility provides accessible, fast and easy loan application process for employees with payroll accounts with LANDBANK. The LMLS also has an auto-save component where employees have the option to save a minimum amount every payday. Initially offered to government employees, the LMLS aims to wean employees from informal money lenders and instill savings consciousness.

As of year-end 2015, a total of 36,319 borrowers have availed of the LMLS with total loan releases amounting to P5.3 billion.

• *LANDBANK Visa Debit Card*

In 2015, the Bank issued a total of 589,172 LANDBANK Visa Debit Cards. Since its launch in 2014, the total number of cards issued has reached 983,185. Transaction volume also went up from 1.49 million in 2014 to 4.67 million in 2015 with an equivalent transaction value of P22.4 billion.

The LANDBANK Visa Debit Card enables cardholders to transact in around 2.3 million ATMs in more than 200 countries and enjoy cashless purchase in over 30 million merchants and retail stores worldwide.

• *LANDBANK Prepaid Card*

The LANDBANK Prepaid Card is an international preloaded card that functions like an ATM/debit card, but is not linked to any deposit account. It enables the cardholder to access his/her account via the network of Japan Credit Bureau, Union Pay International and BancNet through the ATMs, POS terminals, accredited merchants and accredited cash in/cash out agents of OMNIPAY.

Since its pilot implementation in June 2015, a total of 2,212 LANDBANK prepaid cards have been issued.

• *Trust*

In 2015, the Bank launched the following new trust products and services:

1. Securities Custody and Registry Services

LANDBANK was the first government bank that was granted the authority by the Bangko Sentral ng Pilipinas (BSP) to provide securities custody and registry services.

As securities custodian, LANDBANK shall safekeep all securities and evidences of deposits or investments of clients to prevent the risks of theft or loss. The Bank shall also manage the disposition of non-cash assets of clients.

2. Personal Equity and Retirement Account (PERA) Unit Investment Trust Fund (UITF)

Republic Act 9505, otherwise known as the Personal Equity and Retirement (PERA) Act of 2008, provides that a voluntary retirement account shall be established by and for the exclusive use and benefit of the contributor for the purpose of being invested solely in PERA investment products in the Philippines.

In support of said law, LANDBANK, through the Trust Banking Group, acts as PERA Product Provider by offering PERA Unit Investment Trust Funds (PERA-UITF).

The Bank was granted approval by BSP on November 26, 2015 to offer 3 PERA UITFs, namely, PERA Money Market Fund, PERA Bond Fund and PERA Global $ Fund.

3. PERA Cash Custodian Services

On November 9, 2015, LANDBANK was also granted the authority to perform cash custodian services. As cash custodian, the Bank shall receive funds, maintain custody and disposition of all funds in connection with PERA and report all financial transactions of PERA funds.

LANDBANK joined the Philippine Dealing and Exchange Corporation (PDEx) community of listed corporations with the issuance of the P6-billion worth of Long Term Negotiable Certificates of Deposit in the PDEx platform, marking the first listing of a government-owned universal bank.

• *Treasury and Investment Banking*

Despite the market volatility of the Philippine financial market in 2015, the domestic economy remained resilient against external shocks from neighboring Asian countries. The Bank also realized trading gains from fixed income, equity and foreign exchange spot and swap market.

By the end of 2015, sales volume totaled P248.2 billion from P98.4 in 2014 with the full operation of 10 regional treasury hubs nationwide.

LANDBANK continued to take an active role in investment banking deals for both government agencies and private corporations during the year. The P264 billion Domestic Liability Management Program of the Bureau of the Treasury, where LANDBANK served as the Lead Global Coordinator and Deal Manager, was lauded as the "Deal of the Year" by The Asset. The Bank also served as the lead arranger for the P15 billion NGCP Corporate Notes and co-lead arranger for P23 billion syndicated loan for the Mactan Cebu International Airport project.

In October 2015, LANDBANK issued the P6 billion Long-Term Negotiable Certificates of Time Deposit due 2021, the first of a government-owned bank in Philippine Dealing Exchange platform.

The Bank also entered into syndicated loans for Alsons Consolidate Resources, Green Core Geothermal, Inc., GN Power Kauswaga, Ltd., Thermas Visayas, Inc., Energy World Power Operations Philippines, Inc., and Panay Energy Development Corporation.

Moreover, the Bank participated in the underwriting of corporate bond issuances for Aboitiz Equity Ventures, Inc. and SM Prime Holdings. For the third straight year, LANDBANK was named as the Top Best Performing Government Securities Eligible Dealer by the Bureau of the Treasury, a feat that is unequalled in the industry. The Philippine Dealing and Exchange Corporation also recognized LANDBANK as one of the top 5 dealers in the market.

• *Remittance Products*

For the year 2015, LANDBANK generated USD1.57 billion of remittances sourced from foreign correspondent and depository banks and remittance partners in the Asia Pacific, Middle East, USA, Canada and Europe. This recorded a significant 41% growth over last year's remittances.

The Bank continued to have strong correspondent relationship with 721 foreign banks and maintained deposit accounts with 25 top-tier banks in 13 countries. Likewise, the Bank nurtured healthy partnerships with 155 foreign and local companies specializing in the remittance and overseas manpower deployment businesses.

To support its remittance business and enhance awareness of overseas Filipinos of its other banking products, the Bank also extends regular financial literacy seminars and campaigns in coordination with the BSP, Department of Foreign Affairs, Department of Labor and Employment, Overseas Workers' Welfare Administration and shipping and

LANDBANK signed a remittance partnership agreement with MoneyGram International, Inc. The partnership allowed overseas Filipinos in the United States, Canada, Europe, Middle East, Australia, New Zealand, Japan and parts of Asia to remit cash to their beneficiaries, which could be collected at any LANDBANK branch in the Philippines.

manning agencies. LANDBANK facilitated the opening of about 33,000 OFW ATM accounts, 50% more than 2014 figure. Through its remittance business, the Bank generated an Average Daily Balance of P1.8 billion in low-cost deposits from remittance partners, OFWs and OFW beneficiaries.

With the LANDBANK Remittance System (LBRS), an automated 24/7 and real-time system of processing remittances that supports various modes of data transmission and payment settlement, the Bank continued to aggressively promote its remittance services by forging partnerships with large local and global money transfer companies, as well as shipping and manning agencies.

In July 2015, the Bank launched its partnership with MoneyGram, providing cash pickup services in 100 pilot LANDBANK branches to take advantage of MoneyGram's global network. Overseas Filipinos may now send remittances from any MoneyGram agent abroad and have their beneficiaries claim it at any of the pilot branches. "Cash Pick Up Anywhere", a new settlement mode was implemented in the LBRS, allowing cash pickup transactions at any of the LANDBANK branches or partner-paying agents. In addition to the branches, LANDBANK has 13 partner-paying agents composed of commercial banks, rural banks and pawnshops bring the pay-out network to 2,718 outlets.

BANK SERVICES

- *Customer Care Center*

The LANDBANK Customer Care Center (CCC) provides 24/7 customer service assistance, including support for the Bank's electronic banking channels: iAccess, Mobile Banking App and weAccess. CCC receives calls and email sent by clients in and outside the Philippines, and attends to inquiries, concerns and complaints related to the Bank's products and services.

CCC underwent major restructuring in 2015. In January, CCC was transferred from the Card and E-Banking Group (CeBG) to the Corporate Affairs Department (CAD). The Services Management and the Quality and Complaint Management Units were also created to further enhance CCC's service delivery.

The Bank, through the CCC, implemented the LANDBANK Phone Access Phase I Project, which upgraded the Phonebankers' (PBs) phone system, and created LANDBANK's single hotline, 02-405-7000. CCC also started implementing the Call Queuing System and responding to queries from the Bank's official social networking sites on Facebook and Twitter.

In 2015, a total of 179,234 inquiries, requests and reported incidents made via phone and email were handled by the CCC.

- *Point of Sale (POS) Payment of NAIA Terminal Fees*

Several POS devices were installed by the Bank at the Ninoy Aquino International Airport (NAIA) to expedite the processing of payment of terminal fees by domestic and international passengers using ATM/debit cards. This innovation is aimed to provide convenience to passengers who need not wait and queue at the airport counters.

In 2015, a total of 27,261 POS transactions were processed amounting to P25.9 million.

CASH MANAGEMENT SERVICES FOR THE NATIONAL GOVERNMENT

MODIFIED DISBURSEMENT SYSTEM

As the primary depository bank of the national government, LANDBANK services the disbursement system of government funds through the Modified Disbursement System (MDS), in coordination with the Department of Budget and Management and the Bureau of the Treasury.

MDS is the payment procedure whereby the government banks are authorized to process payments of government agencies to facilitate settlement of accounts payables due to their creditors. Through the MDS, LANDBANK has supported agencies in reducing due and demandable accounts payable and minimizing volume of outstanding checks; and in addressing cash programming concerns through specific schedule of payments.

In 2015, the Bank processed 84.44% of the total disbursements of 39 government agencies worth P1.3 trillion involving 3.04 million transactions. These disbursements included payments and fund releases of the government for developmental projects, operating expenses and salaries/benefits of government personnel.

CONTINUOUS FORM CHECKS

LANDBANK handles 24 accounts maintained by seven government agencies and instrumentalities for payment of their employees' salaries and other benefits. In 2015, the Bank processed the encashment of a total of 344,000 continuous form checks amounting to P2.8 billion.

REVENUE COLLECTION SERVICES AND OTHER SERVICES

With its network of branches spread all over the country, LANDBANK becomes a strategic conduit of the government in the collection of duties and taxes. In 2015, the Bank collected a total of P241.9 billion taxes for the national government. Of this amount, P126.1 billion were tax collections of the Bureau of Internal Revenue involving 5.6 million transactions, while P7.8 billion were collections of tariffs and duties for the Bureau of Customs involving 39,877 transactions.

LANDBANK also serves as the collection arm of various government institutions (Philippine Health Insurance Corporation, Social Security System, Home Development Mutual Fund, National Home Mortgage and Finance Corporation, Social Housing Finance Corporation, National Single Window, POEA-Agency Hires), local government units (City Government of Muntinlupa, Davao City Water District, Dagupan City Water District, Leyte Metropolitan Water District) and state universities (Polytechnic University of the Philippines, Southern Luzon State University, Visayas State University). Total collections by the Bank for these institutions reached P5.2 billion in 2015.

ELECTRONIC MODIFIED DISBURSEMENT SCHEME (EMDS)

LANDBANK developed the eMDS as a secure Internet facility for national government agencies and instrumentalities. Aside from providing banking convenience to government entities, it also promotes efficiency and transparency through the automation of government transactions. Its functionalities include account information, transmission of Advice of Checks Issued and Cancelled (ACIC), transfer of fund allocation, processing of payment to creditors and requisition of checkbook.

In 2015, there were additional 857 newly enrolled agencies, bringing the total number of enrollees to 2,112. A total of 89,444 transactions were processed for the year with an equivalent amount of P72.96 billion.

LANDBANK and the Department of Social Welfare and Development (DSWD) distribute LANDBANK Prepaid Cards to beneficiaries of the Modified Conditional Cash Transfer (MCCT) Program.

CONDITIONAL CASH TRANSFER

LANDBANK serves as the distribution arm of the Department of Social Welfare and Development (DSWD) for the government's Conditional Cash Transfer (CCT) Program. To support the CCT Program, the identified beneficiaries were given cash cards and prepaid cards by the Bank where cash grants are credited. The Bank has also partnered with accredited rural banks, cooperatives and NGOs to serve as conduits in cash disbursements. Mobile ATMs were likewise deployed in various areas to facilitate the cash distribution.

In 2015, LANDBANK disbursed a total of P45.33 billion to 4.38 million household beneficiaries all over the country.

CUSTOMER SATISFACTION SURVEY

In 2015, LANDBANK commissioned the services of a third party research firm - The Nielsen Company (Philippines), Inc., to conduct a comprehensive and nationwide customer satisfaction survey for three years. This undertaking was aimed to measure the satisfaction level of clients on how the Bank delivers its products and services. Also, it is intended to establish a baseline and benchmark for subsequent studies.

The survey was conducted from July 23 to September 9, 2015 covering 351 Branches and 43 Lending Centers nationwide with a total of 5,954 respondents (5,691 Branch clients and 263 Lending Center clients). Computer-assisted personal interviewing was the methodology used for face-to-face interviews with individual branch clients. On the other hand, online interviews using a survey questionnaire was used for institutional branch clients and Lending Center clients.

The result of the survey showed an overall satisfaction rating of 95% by the randomly selected client-respondents. LANDBANK submitted the rating to the Governance Commission on GOCCs (GCG), in compliance with the performance agreement of the Bank in anticipating the needs and providing new/enhanced products and services to the clients.

DEVELOPING WORLD-CLASS OPERATIONS THROUGH THE BUSINESS EXCELLENCE FRAMEWORK

In 2015, the Bank adopted the theme "Pursuing Business Excellence through Operational Alignment" with the end view of further reinforcing a culture of excellence. One major step to foster a culture is to adopt an internationally comparable framework for excellence. This will take LANDBANK through the changing banking landscape both in the international and local fronts.

As part of its quest to promote excellence, LANDBANK, in 2015, took the bold move of applying for a Philippine Quality Award (PQA) recognition – the highest level of national recognition for exemplary organizational performance. The PQA application was made to enable the Bank to gauge itself against a tried and tested framework for business excellence. The PQA provides an internationally comparable framework and criteria for assessing organizational performance adopted from the Malcolm Baldrige National Quality Award criteria of the United States of America and National Quality Awards Program of other countries such as Japan, Singapore, Australia and in Europe.

In the PQA, LANDBANK was assessed on seven major areas, namely: (i) leadership, (ii) strategic planning, (iii) customer focus, (iv) measurement, analysis and knowledge management, (v) human resource focus, (vi) operations focus, and (vii) results. The preparation for the assessment visit was extensive and proved to be one of the major undertakings of the Bank for 2015.

The feedback report received reflected the strengths and weaknesses of the organization and also presented opportunities for improvement to enhance the quality of the Bank's service.

The Bank was cited as proficient in its existing practice of quality management, earning a LEVEL 2 recognition. This made LANDBANK only the second among all government applicants to achieve Level 2 recognition on the first application.

In order to sustain this status, LANDBANK continues to implement basic quality and productivity programs embodied in its quality management system roadmap. This will strategically drive the organization to fulfill its goals of creating a customer-centric culture attuned with internationally accepted standards. Moreover, LANDBANK has drawn action plans to address the gaps and opportunities for improvement cited in the feedback report and, at the same time, further built on the identified organizational strengths and best practices.

In 2015, the Quality Management Office under the Strategic Planning Group also spearheaded an extensive effort to cascade the business excellence and share Quality Management System (QMS) best practices. QMS process matrices were, likewise, established for the branch and lending operations for easy reference of critical factors and documentation of its processes.

LANDBANK President and CEO Gilda Pico and Agrarian Reform Secretary Virgilio de los Reyes lead the launch of the Portable Agrarian Reform Collection System (PARCS) in Sta. Cruz, Laguna.

INFORMATION TECHNOLOGY AND BANK PROCESSES AUTOMATION

Building upon the Bank's vision to deliver innovative financial and other banking services throughout the country, the Bank completed IT projects directed towards enhancement of operational efficiency, compliance with relevant national policies or regulations, risk mitigation and laying the ground for more improved client relationship management.

PORTABLE AGRARIAN REFORM COLLECTION SYSTEM (PARCS)

PARCS is a custom-designed business solution for the Agrarian Reform Beneficiaries which shifts the collection and remittance processes of Agrarian Reform Receivables from manual to an automated system through the use of a Point-of-Sale (POS) facility. This will effectively translate to the streamlining of the Bank's agrarian reform collection and remittance processes, thus increasing the Bank's collection rate and addressing issues of delayed under/non-remittance.

ONLINE SIGNATURE VERIFICATION SYSTEM (OSVS)

OSVS is a web-based system that allows online access of client's information of the Bank's deposit accounts and facilitates encashment or withdrawal at any LANDBANK branch. OSVS reduces time spent on signature verification of over-the-counter transactions.

CAPITAL ADEQUACY RATIO CONSOLIDATOR (CARC)

CARC is the extension of the Financial Reporting Package System which will replace the processes of the three CAR reporting systems. CARC will provide the Bank a solution that will further improve the implementation of the revised risk-based capital adequacy framework in compliance with the Bangko Sentral ng Pilipinas (BSP) Circular No. 781 of 2013 under Basel III.

COLLATERAL MANAGEMENT SYSTEM (CMS)

CMS is a system that can track the movement of the document inventory of collaterals across the Bank, and can trace the location, type and asset owners of the collateral.

Phase I of this project migrates the existing collateral document inventory of all lending units to CMS.

DATA QUALITY MANAGEMENT SYSTEM (DQMS)

DQMS is a data cleansing tool that will significantly reduce, if not eliminate, potential data quality problems that might inhibit the Bank from generating trusted information. DQMS shall ultimately provide a single view of the customers across various channels, products and data sources.

MODIFIED DISBURSEMENT SYSTEM (MDS)

MDS enables the process whereby the Philippine Government disburses funds to its line agencies (Departments and Bureaus) through the Government Servicing Banks.

MDS enabled the Bank to comply with the Unified Accounts Code Structure requirement of the National Government Agencies to facilitate reporting of all financial transactions of agencies.

ELECTRONIC MODIFIED DISBURSEMENT SYSTEM (eMDS)

The Electronic Modified Disbursement System (eMDS) is a web-based IT system developed by LANDBANK to automate certain processes of the Modified Disbursement Scheme (MDS). The eMDS is also a tool that promotes transparency in government transactions and helps the National Government in its cash and fund management.

Enhancement was made to eMDS to include verification of the MDS check issue date in order to disable negotiation of post-dated checks.

HUMAN RESOURCE INFORMATION SYSTEM (HRIS)

HRIS is an integrated solution for managing human capital of the Bank. It automates the three key human resource processes – talent management, workforce process and workforce deployment.

In 2015, Biometric Device and Management Software of the HRIS was rolled out to the 173 field units of the Bank.

MOBILE BANKING APPLICATION (MBA)

The LANDBANK Mobile Application System is an internet-based mobile banking solution. This allows the LANDBANK clients to securely manage their banking needs from their mobile devices (IOS and Android) at any time and from any location.

The LANDBANK Mobile Banking App was made available for free download in Apple's Appstore and Android's Google play. Phase 2 of MBA enables the customers to use the following features of the application:

- Fund Transfer (Inter-Bank fund transfer)
- Bills Payment (BancNet Billers)
- Credit Card Module

TRUST BANKING SYSTEM (TBS)

TBS is a web-based application for processing of investment, trading, monitoring and generation of reports for trust transactions.

TBS Phase 1 is in compliance with BSP Circulars No. 618 (Basic Standards in the Administration of Trust, Other Fiduciary and Investment Accounts), and No. 766 (Trust Governance and Risk Management Guidelines). The implementation covers the MoneyWare Custody, Client Relationship Manager and Client Onboarding modules.

TBS Phase 2 - Sub Phase II and Phase III implementation covers the Unit Investment Trust Fund and other trust products.

The Trust Banking Group also uses the TBS to further improve its product offerings, client servicing, and reduce administrative costs, thus boosting the Bank's asset and profitability.

ATM SYSTEM REPLACEMENT

The ATM System Replacement is in compliance with the BSP mandate to have a Europay, MasterCard and Visa (EMV)-compliant ATM system by January 1, 2017.

EMV is the international standard for credit and debit payment cards based on chip card technology. Phase I of the ATM System Replacement covers the migration of ATMs to the new switch.

EXPANDED USE OF THE BANK'S RETAIL INTERNET BANKING AND ELECTRONIC PAYMENT SYSTEM (EPS) BY FORGING TIE-UPS WITH MORE BUSINESSES, AGENCIES AND UNIVERSITIES.

The Bank's retail internet banking or iAccess offers individual depositors the advantage and ease of performing a range of banking transactions 24/7. Additional partner-agencies for bills payment transactions are the following:

- Dagupan City Water District
- Standard Insurance
- Toyota Financial
- PayPilipinas
- Philamlife Insurance
- Asia United Bank Credit Cards
- Citibank Card Services
- Food and Drug Administration
- Alphaland Balesin Island Club Inc.
- The City Club at Alphaland Makati Place Inc.
- MARANATHA Christian Academy of Imus
- China Bank Credit Card
- PLDT
- MERALCO
- Sterling Bank Personal Loan and Salary Loan

The LANDBANK's Electronic Payment System (ePS) may now be used to transact with the following:

- Subic Bay Metropolitan Agency's Electronic Billing and Payment System
- Polytechnic University of the Philippines' iApply ePayment system for online payment of application fees
- AMA University's payment gateway system for the online payment of tuition and graduation fees

LANDBANK PHONE ACCESS (LPA) UPGRADE

LPA allows handling of various non-cash banking transactions of enrolled clients through the use of a landline or mobile phone.

The implementation of LPA Upgrade Phase 1 covers the upgrade of the existing hardware and software to mitigate risk of obsolescence and to increase capacity of existing phone bankers.

DATA WAREHOUSE (DWH) UPGRADE

A data warehouse is a repository of integrated information from different data sources, internal or external, structured and optimized for analytical and informational processing or reporting. It is a subject-oriented, integrated, time-variant and non-volatile collection of data in support of management's decision making process.

In 2015, upgrading of the database, front-end and back-end components of the DWH was completed. The upgrade is essential for the Bank to tap the system's advance features and functionalities; and ensure continuous access to technical support and future product enhancements. The DWH upgrade resulted to about seven times faster processing of reports that can be generated from the DWH.

LANDBANK also had initiatives to further improve the composite hardware, software, network resources and services required for the existence, operation and management of an enterprise IT environment. These initiatives include additional robust disk storage, consolidated backup solution, tougher network and security appliances and solutions, and powerful database performance monitoring system.

Also in 2015, LANDBANK embarked on new IT projects simultaneous with ongoing projects that have been started in previous years. These are:

- Asset-Liability and Risk Management System (ALRMS);
- ATM System Replacement - Phase 2;
- Check Truncation System (CTS);
- Collateral Management System (CMS) – Phase 2;
- Customer Relationship Management System (CRMS) – Consultancy Services;
- Data Warehouse - Module 3 (Treasury and Bills Payable);
- Enterprise Fraud Management System (EFMS);
- Internet Banking System – Upgrade;
- Integrated Treasury System (ITS) – Upgrade;
- New Anti-Money Laundering System (NAMLS);
- Trust Banking System (TBS) - Phase 2 – Sub Phase 2 and Phase 3;
- Mainframe Operation System – Upgrade; and
- Upgrade of Unix-based Midrange Servers.

Partners for COMMUNITY DEVELOPMENT

-Maricel Villarama, cacao farmer

LAMAC MULTI-PURPOSE COOPERATIVE

As LANDBANK continues to diversify its loan services to priority sectors, the Lamac Multi-Purpose Cooperative (LMPC) was among the first cooperatives to benefit from the CACAO 100 (Credit Assistance for Cacao Agri-Business and Other Organizations) loan program. The P50-million loan from the Bank was used to put up the pilot nursery and plantation of cacao seedlings in Lamac.

Cacao is "a commodity that is easy to cultivate in terms of land preparation," the co-op's General Manager Maria Elena Limocon describes. It is "planted only once but gives multiple years of harvest making it a good crop investment." As they contribute to the agricultural efforts striving to meet the growing demand for cacao, LMPC hosts a 500-hectare cacao nursery and plantation in Lamac, Pinamungajan set to supply cacao seedlings to its clients and other farmers in the country. This project is in partnership with Kennemer Foods International, Inc. (KFI), which provided the technology, training and capacity building to the farmers, and assured market of the farm produce.

With 25 years of service, LMPC has also been influential in the delivery of basic social services to its home community, Lamac, including access to potable water, electric supply, road construction, infrastructure development, and livelihood programs. The cooperative has 25 branches in the Visayas region and continues to expand its reach in financing small and medium enterprises (SMEs) to vulnerable sectors.

Creating opportunities to foster growth became possible through the cooperative's partnership with LANDBANK. Its relationship with the Bank was significant in advancing development and promoting inclusive economic growth in the countryside. The co-op's chairperson and founding member, Dr. Delfin P. Tuquib, referred to LANDBANK as "the first to approach and offer assistance" to the development plans for Lamac.

With more investments funneled into social services, the partners for community development are set to do more in helping others grow.

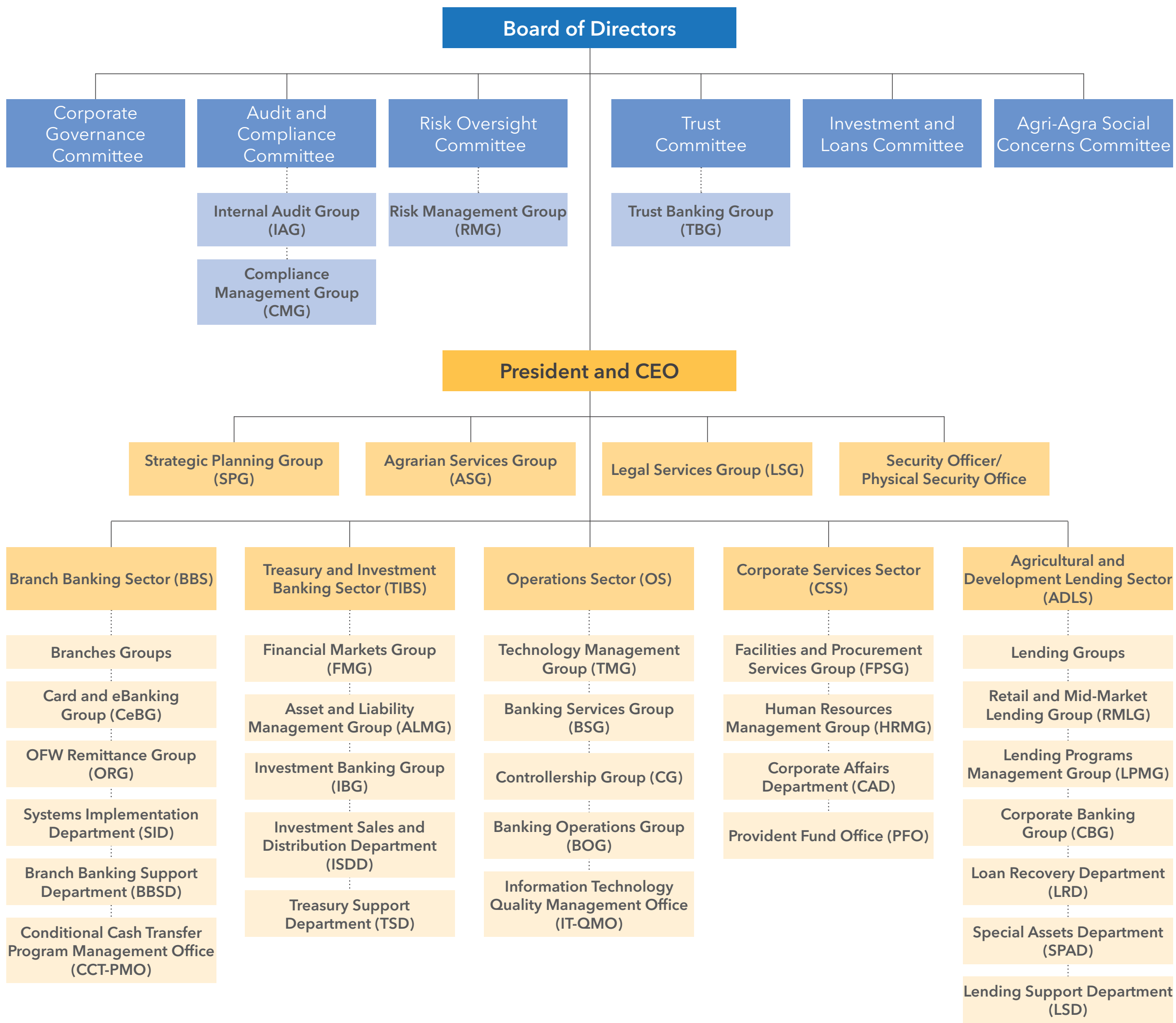
"Ang LANDBANK ang pinaka-unang organisasyong tumulong sa amin. Lumapit kami sa LANDBANK and from then on, palaki nang palaki ang credit line namin at nakapagbukas pa ng maraming opportunity na nakatutulong sa aming mga miyembro. Kung wala siguro ang LANDANK para sa amin, hindi siguro namin mararating kung nasaan kami ngayon. *(LANDBANK was the first organization to help us. We approached LANDBANK and from then on, our credit line grew bigger and allowed us to open a lot of opportunities which helped our members. If LANBANK wasn't there for us, I guess we wouldn't be able to reach where we are now.)*"

- Chairman Delfin P. Tuquib, Ph. D.

INSTITUTIONAL Viabililty

LANDBANK's corporate governance is reflected in its organizational structure that defines a governance hierarchy led from top by the Board of Directors and its delegated duties and responsibilities through the six (6) Board-level Committees namely, (1) the Corporate Governance Committee, (2) the Audit and Compliance Committee, (3) the Risk Oversight Committee, (4) the Trust Committee, (5) the Investment and Loan Committee, and (6) the Agri-Agra Social Concerns Committee. These six committees are ably supported by independent Bank units—the Trust Banking Group, Risk Management Group, Internal Audit Group and Compliance Management Group—which perform specific functions for the said Committees. These independent units report directly to the Board but are administratively supervised by the President and CEO. The Office of the Corporate Secretary provides logistics support to the LANDBANK Board.

As LANDBANK continually adheres to globally-accepted governance principles and best practices, it maintains the Board's independence from management such that the Chairman of the Board and the President and CEO are two distinct individuals with clearly delineated duties



and responsibilities. While the Chairman assumes leadership, monitors the Bank's adherence to good governance policies as well as the overall performance of the Bank, the President and CEO, on the other hand, directly manages the daily operations of the Bank and executes the policies and strategies approved by the Board in pursuit of its institutional goals and objectives.

Specifically, the President and CEO supervises five sectors: (1) Agricultural and Development Lending Sector; 2) Branch Banking Sector; 3) Corporate Services Sector; 4) Operations Sector; and 5) Treasury and Investment Banking Sector. The Bank units reporting directly to the Board of Directors are also administratively supervised by the President and CEO.

CORPORATE GOVERNANCE

Good corporate governance is an essential component to achieve corporate success and viability and to sustain economic growth.

In LANDBANK, the Board of Directors (BOD) is critically central to corporate governance.

The LANDBANK BOD is composed of the following:

1. **Hon. Cesar V. Purisima**
   Ex-Officio Chairman, Secretary, Department of Finance
2. **Ms. Gilda E. Pico**
   Vice Chairperson
   LANDBANK President and Chief Executive Officer
3. **Hon. Proceso J. Alcala**
   Ex-Officio Member
   Secretary, Department of Agriculture
4. **Hon. Virgilio R. de los Reyes**
   Ex-Officio Member
   Secretary, Department of Agrarian Reform
5. **Hon. Rosalinda D. Baldoz**
   Ex-Officio Member
   Secretary, Department of Labor & Employment
6. **Director Domingo I. Diaz**
   Representative, Private Sector
7. **Director Tomas T. De Leon, Jr.**
   Representative, Private Sector
8. **Director Crispino T. Aguelo**
   Representative, Agrarian Reform Beneficiaries
9. **Director Victor Gerardo J. Bulatao**
   Representative, Agrarian Reform Beneficiaries

The LANDBANK BOD sets the overall policies and strategic directions of the Bank, which serve as the guide of management and operating

Name	Training/Seminar attended
Director Domingo I. Diaz	Updating on Anti-Money Laundering Act LANDBANK Plaza, Malate, Manila, Philippines, October 28, 2015
Director Tomas T. De Leon, Jr.	Basic Trust Banking Seminar for Bank Officers and Directors Conducted by the Trust Institute Foundation of the Philippines LANDBANK Plaza, Malate, Manila, Philippines, June 20, 2015 2015 Cisco Executive Briefing Conference Conducted by Trends & Technologies, Inc. San Jose, California, USA, September 08-09, 2015 Updating on Anti-Money Laundering Act LANDBANK Plaza, Malate, Manila, Philippines, October 28, 2015
Director Crispino T. Aguelo	Basic Trust Banking Seminar for Bank Officers and Directors Conducted by the Trust Institute Foundation of the Philippines LANDBANK Plaza, Malate, Manila, Philippines, June 20, 2015 Updating on Anti-Money Laundering Act LANDBANK Plaza, Malate, Manila, Philippines, October 28, 2015
Director Victor Gerardo J. Bulatao	Basic Trust Banking Seminar for Bank Officers and Directors Conducted by the Trust Institute Foundation of the Philippines LANDBANK Plaza, Malate, Manila, Philippines, June 20, 2015 2015 Cisco Executive Briefing Conference Conducted by Trends & Technologies, Inc. San Jose, California, USA, September 08-09, 2015 Updating on Anti-Money Laundering Act LANDBANK Plaza, Malate, Manila, Philippines, October 28, 2015

units in the day-to-day operations. Moreover, the LANDBANK BOD provides the oversight functions in the overall Bank performance, and champions good corporate governance by strong adherence to ethical standards and compliance with legal, institutional and regulatory requirements. The BOD also ensures that the Bank remains accountable to its various stakeholders.

The following were the trainings attended by the Independent Board of Directors in 2015:

COMPENSATION OF LANDBANK DIRECTORS

Allowances and incentives of the members of the LANDBANK BOD are determined by the Governance Commission for Government-Owned or-Controlled Corporations (GCG) using as a reference, among others, Executive Order No. 24 dated February 10, 2011.

EVALUATION OF THE BOARD'S PERFORMANCE

Central to corporate governance is the performance evaluation of the BOD.

Performance rating sheets developed by the Institute of Corporate Directors are disseminated yearly to evaluate the performance of the Board and the Board-level Committees. The results of the performance assessments are evaluated and deliberated upon annually by the Corporate Governance Committee in a duly constituted meeting.

The Governance Commission for GOCCs (GCG) developed a second measure for performance assessment of the BOD. The internet-based Performance Evaluation for Directors (iPED) System was made to increase the level of confidentiality and security in the information being given by the directors. Each director accomplishes the Director Performance Review (DPR) Forms online and submits directly to the GCG through the iPED System. The DPR, one of the components of the Performance Evaluation for Directors in the GOCC Sector, appraises the performance of individual members of the GOCC Governing Board. This was implemented in 2015 which covered the performance evaluation for directors for CY 2014.

BOARD MEMBERS' ATTENDANCE TO MEETINGS

The LANDBANK BOD meetings are regularly held every second and fourth Monday of each month. In 2015, 24 regular Board meetings were held.

	Percentage of Attendance by the Members
Board Meetings	80.56%
Board and Board-level Committee Meetings	85.95%

UNITS UNDER THE BOARD

- *Internal Audit Group*

The Internal Audit Group (IAG) is functionally under the supervision of the Audit and Compliance Committee, a board-level Committee, and administratively under the Office of the President of the Bank. Its main function is to provide independent, objective assurance and support services designed to add value and improve the internal control systems, risk management and governance processes of the Bank.

For CY 2015, the IAG completed the audit engagements totalling 311 auditable units (including application audit and post-implementation review).

On top of its audit engagements, it also undertook other major programs and projects, among others, as follows:

- Validation of the 2015 ICAAP Document
- Validation of Expert-Based Credit Rating Systems
- Validation of Treasury Risk Measurement Models
- Review of the quality of loan accounts classified as large exposures
- Assessment of Eurogiro System
- Review of the Business Continuity Management Plan
- Development of the Audit Command Language Manual
- Outsourced the conduct of the review of Information and IT Security Plan

- Acted as lead in the preparation of the Business Case for the Enterprise Fraud Management System
- Acted as Lead Auditor during the internal audit of LANDBANK's Environmental Management System

In its continuing efforts to improve its audit processes and methodologies, IAG developed the Audit Command Language (ACL) Manual, revised the Risk Scoring/Risk Assessment Procedures for various bank units and IT systems, enhanced the audit data analytics, and established the audit rating systems for new units. Likewise, it has started the hiring of a consultant to assist in developing an end-to-end audit process methodology and update its risk-based audit framework to the latest COSO. The project aims to further improve Internal Audit's ability to help the Bank improve its operational efficiency and internal controls.

As part of its competency-building program, all auditors attended seminars and trainings to enhance their technical and soft skills. The Bank also encouraged and provided support to auditors in obtaining global certifications and post-graduate studies.

The LANDBANK Trust Banking Group (TBG) celebrated its 40th anniversary in 2015. TBG held various events and investment forums aimed to extend efficient and competent trust products and services solutions to both private and government sectors.

• Trust Banking Group

The year 2015 marked the Trust Banking Group's (TBG) 40th year in the industry, posting a total of P69.30 billion, placing TBG in the 9th place among 25 trust entities in the country.

Living up to its commitment as "Stewards for Growth and Good Governance", TBG continues to spread and advocate financial literacy through various campaigns and activities such as investment forums and seminars locally and abroad, to create awareness and instill change in the individuals' financial outlook and priorities. Details of the new trust products and services in 2015 are contained on page 42 under Customer-Centric Bank Products and Services.

• Risk Management Group

The Risk Management Group (RMG) serves as the oversight on risk management policies and is responsible for the institutionalization of risk culture across the Bank. Highlights of RMG's accomplishments are contained in the section on C.2 (Reinforcing Risk Management Measures and Controls and Pursuing New Initiatives for Effective Governance)

• Compliance Management Group

The Compliance Management Group (CMG) oversees the implementation of the Bank's Compliance System which is designed to identify and mitigate business risks and ensure that business operations are conducted in accordance with laws and regulations, Code of Conduct and the sound policies and standards of good practice. The CMG is headed by the Chief Compliance Officer (CCO) who functionally reports to the Board of Directors through the Audit and Compliance Committee.

To manage the compliance function more effectively and comprehensively execute the Compliance Program, the Compliance Management Office was reorganized into a

Compliance Management Group on August 27, 2015. The reorganization provided adequate resources with 12 additional manpower complement. The Anti-Money Laundering (AML) Department was restructured into three units to clearly define the specific AML compliance functions. All CMG personnel were sent to various training programs to progressively build the competencies and have broader skills and experiences necessary to effectively carry out the compliance functions.

Highlights of CMG's accomplishments are contained in the section on "Compliance Management Monitoring and Reporting Systems and other initiatives".

- *Office of the President and CEO*

The LANDBANK President and the CEO directly supervises four bank units. These are the following: (1) Strategic Planning Group, (2) Agrarian Services Group, (3) Legal Services Group, and (4) Security Officer/Physical Security Office.

- *Agricultural and Development Lending Sector*

The lending operations of the Bank are handled by the Agricultural and Development Lending Sector (ADLS), which is headed by EVP Cecilia C. Borromeo. The ADLS takes the lead in extending financial assistance to the mandated sectors of the Bank including farmers and fishers, and in providing loans supportive to agriculture and fisheries and to the other programs of the national government.

As of end of 2015, there were 38 Lending Centers based in key provinces and eight Lending Units at the Head Office catering to retail and mortgage banking, and corporate accounts. For efficient management and control, these Lending Units are clustered by major island groupings. These are the North and Central Luzon, Southern Luzon, Visayas and Mindanao Lending Groups. Program development, monitoring and sourcing of foreign and domestic funds are led by the Lending Programs Management Group while administrative support for the Sector is provided by the Lending Support Department.

The Loan Recovery Department and the Special Assets Department handle matters related to loan recovery for Head Office Lending Units, and ROPAs acquired by all Lending Units, respectively.

- *Branch Banking Sector*

Deposit-taking and in servicing branch banking requirements of the various clients of the Bank are led by the Branch Banking Sector (BBS). The BBS is headed by EVP Jocelyn dG. Cabreza. As of end-December 2015, the Bank had a total of 314 branches, 46 extension offices, 24 LANDBANK Easy Access Facilities (LEAF) and one servicing unit. These units are grouped by geographical locations for branch management and control, as follows – North and South NCR, North Luzon, Central Luzon, Southeast and Southwest Luzon, East and West Visayas, and East and West Mindanao Branches Groups. The Sector also takes the lead in supporting the banking requirements of OFWs, particularly the remittance business of the Bank, and the Bank's Card and e-banking operations. Administrative support to the various units of the Sector is handled by the Branch Banking Support Department. The Systems Implementation Department, on the other hand, provides support to all system users in the Branches.

The CCT Program Management Office (CCT-PMO) oversees the implementation requirements of the National Government's Conditional Cash Transfer (CCT) Program. The CCT PMO, in coordination with the Department of Social Welfare and Development, concerned Bank units, and LANDBANK-accredited CCT conduits, ensures the efficient delivery and distribution of cash grants to eligible beneficiaries.

- *Treasury and Investment Banking Sector*

The overall supervision over treasury operations, financial resource management and investment banking is taken on by the Treasury and Investment Banking Sector (TIBS). EVP Rabboni Francis B. Arjonillo headed the TIBS which is comprised of three groups, to wit: 1) Asset and Liability Management Group (ALMG); 2) Financial Markets Group (FMG); and 3) Investment Banking Group (IBG).

The ALMG manages LANDBANK's balance sheet and liquidity and reserve positions.

The FMG undertakes the management of the Bank's trading units for both Peso and Foreign Currency-denominated instruments and the formulation of trading strategies using fundamental and technical analysis as well as the monitoring of financial markets.

The IBG handles the provision of underwriting services and financial advisory for debt and equity capital market transactions, specialized and structured transactions, fund arrangement and advisory services for corporate finance transactions. It also handles investment banking services for project finance transactions as well as monitoring the performance of all of the Bank's investments in equity and other financial instruments.

• Operations Sector

The Operations Sector (OS) is headed by EVP Andres C. Sarmiento. It undertakes the provision of Bank-wide operational support including accounting services and the development and implementation of information technology system-related infrastructure. The OS is comprised of four Groups with the following corresponding functions:

- The Banking Services Group is in charge of the central cash vault servicing such as cash withdrawals from the Bangko Sentral ng Pilipinas (BSP), cash deliveries to the Bank's cash centers in the NCR and nearby provinces, ATM monitoring and transactions reconciliation, check monitoring, sorting and clearing, and the processing of collections and remittances from branches. It also handles the allocation and reimbursement of the National Government's Modified Disbursement Scheme (MDS).

- The Banking Operations Group oversees the international trade and non-trade transactions, foreign currency transactions, maintenance of loans subsidiary ledgers, and billing and collection functions pertinent to lending. It also process foreign and domestic inward and outward remittances.

- The Controllership Group supervises the performance of general accounting, inter-office floats management, preparation of the Bank's financial statements and reports for external regulatory bodies, Bank-wide budget preparation and control, management of the Bank's tax position and documentation of operations and preparation of procedural guidelines on Bank operations.

- The Technology Management Group oversees information technology (IT) management functions, particularly the coordination on the Bank's IT plans, designing of IT architecture, oversight on the implementation of IT programs in coordination with the designated project teams, management and enhancement of IT infrastructure and applications. It also provides technical evaluation or advice for end-user selection of application software and hardware.

• Corporate Services Sector

The Corporate Services Sector is headed by EVP Julio D. Climaco, Jr.. The sector handles the overall supervision of the delivery of human resource support services (through the Human Resources Management Group), administration of the Bank's facilities, properties and supplies (through the Facilities and Procurement Services Group), and the management of the Bank's Provident Fund (through the Provident Fund Office). It also covers the management and administration of LANDBANK's media and external relations programs (through the Corporate Affairs Department).

THE LANDBANK INCENTIVE STRUCTURE

LANDBANK continues to implement an incentive structure based on various Republic Acts (RA 3844 as amended by RA 7907) and issuances from the National Government (Malacañang Administrative Orders, DBM Circulars, GCG Circulars). The Bank incentives to employees and staff include, among others, basic pay, contribution to the Provident Fund, and other benefits (e.g., medical benefit, death and disability) and allowances (e.g. representation and travelling allowance or RATA, meal and children allowance, longevity pay). The Bank, likewise, provides night shift differential to employees who are required to work overnight.

REMUNERATION POLICY

LANDBANK maintains a remuneration policy that rewards good performance and is internally equitable and externally competitive. This policy enables the bank to attract and retain its pool of quality and competent employees.

BOARD-LEVEL COMMITTEES, THEIR FUNCTIONS, THEIR CHARTER PROVISIONS ON MEETINGS AND NUMBER OF MEETINGS HELD IN 2015

To aid in complying with the principles of corporate governance, the Board created the following Committees constituted as follows:

- *Corporate Governance Committee*

Chairperson	Director Tomas T. de Leon, Jr.
Vice Chairperson	Director Victor Gerardo J. Bulatao
Members	DOF Secretary Cesar V. Purisima (Alternate Member: Undersecretary Jeremias N. Paul, Jr.) DOLE Secretary Rosalinda D. Baldoz (Alternate Member: Undersecretary Nicon F. Fameronag) President and CEO Gilda E. Pico Director Domingo I. Diaz

The primary duties of the Corporate Governance Committee (CG Com) include the guarantee of the board's effectiveness and due observance of corporate governance principles and guidelines. Its thrust is to ensure that the LANDBANK Board and Management continuously adhere to the spirit of good corporate governance.

The Corporate Governance Committee (CG Com) involve oversight in the Bank's organizational structure, manpower-related matters and Board performance (including individual members' performance), and transparency and operational responsibility and accountability.

In 2015, the CG Com deliberated and recommended to the BOD the major initiatives from the different units of the Bank including those related to organizational changes, position leveling and Bank-wide qualification standards; Bank-wide job leveling and adjustment in position levels using the Towers Watson Global Grading System; 5th Collective Negotiation Agreement; and the Bank's Indemnity Plan for Directors, Officers and Employees.

During the year, the Corporate Governance Committee held eight meetings with 85.4% attendance by the CG Com members.

- *Audit and Compliance Committee*

Chairperson	Director Victor Gerardo J. Bulatao
Vice Chairperson	Director Tomas T. de Leon, Jr.
Members	DA Secretary Proceso J. Alcala (Alternate Member: Undersecretary Allan Q. Umali) Director Crispino T. Aguelo Director Domingo I. Diaz

The Audit and Compliance Committee (ACC) is a Board-level committee whose purpose is to provide assistance to the LANDBANK BOD in fulfilling its oversight responsibilities over the Bank's reporting policies, practices and control, internal and external audit functions, and compliance function.

The ACC's authority covers, among others, the investigation of matters within its terms of reference; functional supervision over the Internal Audit Group (IAG) and the Compliance Management Group (CMG); and the formulation of amendments to existing policies, systems and procedures arising from results of its evaluation, for BOD consideration.

Highlights of the accomplishments of ACC in 2015 include the approval of the plans and programs of IAG and CMG as well as the AML Compliance Testing Program; and the approval of the revisions in IAG's risk scoring system and procedures on Risk Assessment of Application System, the Compliance Manual, the Money Laundering and Terrorist Financing Protection Program, and the Risk-Based Compliance Methodology.

As a general practice, the ACC invited all units that failed the audit to present initiatives on how to address the noted weaknesses and, thus, improve internal control.

The ACC held 15 meetings in CY 2015 with an average attendance of 98.67%.

• Risk Oversight Committee

Chairperson	Director Tomas T. de Leon, Jr.
Vice Chairperson	DOF Secretary Cesar V. Purisima (Alternate Member: Undersecretary Jeremias N. Paul, Jr.)
Members	DA Secretary Proceso J. Alcala (Alternate Member: Undersecretary Allan Q. Umali) Director Crispino T. Aguelo Director Domingo I. Diaz

The Risk Oversight Committee (RiskCom) is primarily responsible for the Bank's risk management framework, policies and guidelines and ensures the alignment of risk management objectives with the Bank's overall business strategies and performance goals.

The RiskCom oversees the risk management program of the Bank ensuring that risk management systems are in place, limits and tolerances are observed, system of limits remain effective and immediate corrective actions are taken whenever there are breaches.

For 2015, the RiskCom held 18 meetings with an average attendance of 83 percent wherein 310 regular and special credit, treasury, operational and enterprise-wide risk reports were discussed, including stress testing reports on the Bank's loan and investment exposures. The Committee deliberated on and approved 11 major initiatives as well as 17 new/enhanced guidelines, the Legal Risk Manual and the Bank's action plan to comply with the provisions of BSP Circular #855 dated 29 October 2014 (re: Guidelines on Sound Credit Risk Management Practices).

The Committee also approved the valuation models for Investments in Non-Marketable Securities (INMES) and Unquoted Debt Securities Classified as Loans (UDSCL), which are part of the Bank's commitments to the GCG Sector for 2015. The Committee also approved the medium term plan of the RMG as expressed in the document "Journey to Advanced Approach in Calculating RWA."

Under the direction of the RiskCom, the ERM Phase III which analyzed the risk drivers, risk management strategies (preventive and mitigating) and the impact of the LANDBANK-DBP merger was conducted and completed with SGV consultants. Another major initiative was the completion of the ERM - AVP which was distributed to all BUs.

In the Performance Evaluation conducted by the RiskCom members, the Committee was rated "Superior"/"Exemplary."

• Trust Committee

Chairperson	DAR Secretary Virgilio R. de los Reyes (Alternate Member: Undersecretary Luis Meinrado C. Pañgulayan)
Vice Chairperson	DOF Secretary Cesar V. Purisima (Alternate Member: Undersecretary Jeremias N. Paul, Jr.)
Members	DOLE Secretary Rosalinda D. Baldoz (Alternate Member: Undersecretary Nicon F. Fameronag) President and CEO Gilda E. Pico SVP Josephine G. Cervero, Trust Officer

The Trust Committee (TrustCom) is duly constituted and authorized by the Board of Directors to oversee the fiduciary activities of the Bank in accordance with its authority.

The TrustCom ensures that all policies and procedures pertinent to trust account management are in place and are in conformity with the applicable laws, rules and regulations and prudent practices. These policies and procedures translate the Board's objectives and risk tolerance into prudent operating standards and should always be relevant, comprehensive and effective.

Particularly, the TrustCom oversees the performance of the Trust Officer who is vested with the function and responsibility of managing the day-to-day fiduciary activities. Also, the TrustCom is responsible in formulating the Group's strategic direction towards the goal of optimizing its trust and fiduciary business.

For 2015, the Trust Committee approved various guidelines and policies to aid in the conduct of proper administration of trust business, specifically, the – (i) Revised Guidelines on the Implementation of Unit Investment Trust Fund (UITF) for LANDBANK Marketing Units; (ii) Guidelines on the Selection of Pooled Funds; and (iii) Revised Investment Philosophy.

The TrustCom held eight meetings in 2015 with an average attendance of 80%.

• *Investment and Loan Committee*

The Investment and Loan Committee (ILC) provides support to the LANDBANK Board in the evaluation and approval of loan and investment proposals, in accordance with the Bank's Codified Approving/Signing Authority (CASA).

The ILC also evaluates and approves credit policies and guidelines including, but not limited to the following: a) limits on the Bank's total lending exposures to different industries/sectors; b) terms and conditions for each type of credit accommodation; c) remedial measures such as restructuring; and d) foreclosures, dacion en pago and other settlement options. In addition, the ILC reviews and recommends to the LANDBANK BOD approval of investment policies and guidelines that define the structure, eligible investments and management of investment portfolios.

The ILC is composed of LANDBANK President and CEO Gilda E. Pico as Chairman with Director Domingo I. Diaz as the Vice Chairman. The three members of the ILC include Directors Crispino T. Aguelo, Victor Gerardo J. Bulatao and Tomas T. De Leon, Jr.. The Committee held a total of 47 weekly meetings in 2015 with an average attendance of 83%.

The ILC approved 378 loan accounts and endorsed 235 accounts to the LANDBANK Board for approval or confirmation. A total of 36 credit-related policies and programs were deliberated and approved for implementation. It likewise evaluated 53 investment accounts which were endorsed for approval of LANDBANK Board.

The ILC approved five automated credit scorecards developed by the Credit Policy and Risk Management Department which includes credit scorecards for Local Government Units, Corporate Accounts, Small and Medium Enterprises, Livelihood Loan and Easy Home Loan Availers. These five scorecards were among the commitments of the Bank to the GCG for 2015.

All Board-level Committees, including the ILC, submitted Performance Rating Scorecards with parameters on Composition, Processes and Tasks. The overall rating of the ILC was "Exemplary."

• *Agri-Agra Social Concerns Committee*

Chairperson	Director Victor Gerardo J. Bulatao
Vice Chairperson	President and CEO Gilda E. Pico
Members	Director Crispino T. Aguelo DAR Secretary Virgilio R. de los Reyes (Alternate Member: Undersecretary Luis Meinrado C. Pañgulayan) DA Secretary Proceso J. Alcala (Alternate Member: Undersecretary Allan Q. Umali)

The duties and responsibilities of the Agri-Agra Social Concerns Committee (AASCC) include: (1) the formulation of non-credit policies to improve the delivery of services on CARP and other agri-agra matters, (2) clearing house for CARP-related non-credit programs of LANDBANK, and (3) monitoring of the status of implementation of the various non-credit agri-agra and social concerns programs of the Bank.

The AASCC held six meetings in 2015 with an average attendance rate of 80%.

REINFORCING RISK MANAGEMENT MEASURES AND CONTROLS AND PURSUING NEW INITIATIVES FOR EFFECTIVE GOVERNANCE

During the year, LANDBANK reinforced existing risk management measures and controls by adopting better statistical models and tools to strengthen risk assessment, measurement, control and monitoring of the various risks faced by the Bank. It also continued to pursue new initiatives that enhanced the Bank's implementation of the Enterprise Risk Management approach through the Risk Self-Assessment Process which prioritized critical risks that are inherent in the Bank's mandate and other business activities.

RISK MANAGEMENT PHILOSOPHY AND CULTURE

Risk Management (RM) is strongly embedded in the Bank's business strategy. It is an integrative component of good governance wherein the LANDBANK Board, through the Risk Oversight Committee (RISKCOM) and Senior Management ensures the adequacy of framework, policies, internal controls, RM systems and procedures to manage risks.

The core RM philosophy of the Bank is to balance risk and reward by maximizing business opportunities, operating within the risk threshold and minimizing losses beyond its appetite. RM is embedded in all the business processes of the Bank and it ascertains that risk-taking is commensurate with its risk appetite.

At LANDBANK, RM, internal audit and compliance complement each other's role to create a synergy that provides credence to the role of corporate governance in implementing an effective RM framework.

The Bank's RM approach is governed by the Board-approved Enterprise Risk Management (ERM) anchored on its mission, vision and strategic objectives. The Bank's implementation of ERM system with defined pro-active RM across various operations of the Bank is beyond compliance. ERM is implemented in three levels namely: 1) strategic, 2) portfolio and 3) transactional.

At the Strategic Level, the LANDBANK Board through the RiskCom and Senior Management are actively involved in an organizational-wide RM oversight which involves development and approval of RM policies, framework/structure, internal controls, and risk management system as well as the annual review thereof. The LANDBANK Board and Senior Management are also involved in an organizational-wide risk monitoring which is used as basis for decision-making and review of the Bank's controls/mitigating measures (operational, financial and compliance control) and risk management system.

At the Portfolio Level, the Groups or Departments oversee the implementation of policies and processes and monitor possible breaches. The Risk Management Group (RMG) recommends policies, processes and revisions based on risk reports submitted by the risk-taking Business Units (BUs) to address risk occurrences that cannot be solved at the level of the risk-taking BUs.

At the Transactional Level, the Authorized Risk Takers (ARTs) are involved in the actual implementation of risk policies and procedures. At LANDBANK, the ARTs embrace the continuous management of risk events and immediately escalate the risk occurrences that cannot be solved at their level to the Department or Group level.

RM involves the oversight function covering risk identification, assessment, measurement, control, monitoring and reporting of risks inherent in all activities of the Bank. The RMG, as an independent unit, performs the oversight function for all major risk areas (credit, market, liquidity, operational, among others) of the Bank. RMG reports functionally to the RiskCom and administratively to the President and Chief Executive Officer (CEO) of the Bank.

In 2015, the notable accomplishments of RMG include the development of two treasury valuation models and five credit scoring models as part of the Bank's commitments to the Governance Commission for GOCCs. The completion of bow-tie analysis for the LANDBANK-DBP merger risks and the dissemination of ERM Audio Visual Presentation (AVP) were completed as part of the Bank-wide implementation of ERM. Also, the RMG facilitated the preparation of the Bank's

2015 Internal Capital Adequacy Assessment Process (ICAAP) document which was submitted to the Bangko Sentral ng Pilipinas (BSP) before the deadline.

The Bank-wide implementation of operational RM tools was strengthened as RMG conducted walkthroughs to Bank's BUs on Risk and Control Self-Assessment (RCSA), Risk Assessment Register (RAR) and Risk Treatment Register (RTR), Business Impact Analysis (BIA), Business Continuity Questionnaire (BCQ) and ICAAP.

The management of Information Technology (IT) and security risks was intensified with the creation of the Information Security and Technology Risk Management Office (ISTRMO) that will be responsible and accountable for the organization-wide IT and security risk program.

Regular review and revision of risk guidelines and manuals were conducted in accordance with regulators' policies and industry best practices. The shock absorption capabilities of the Bank were ascertained through the regular conduct of credit and treasury risk stress testing. Moreover, regular and special market, credit, and operational risk reports were prepared and presented to the RISKCOM which substantiate that appropriate RM tools are embedded in the Bank's processes to ensure compliance with regulatory and internal risk control measures.

CREDIT RISK MANAGEMENT

The Bank defines counterparty credit risk on loans as the inability to review and analyze the credit quality of potential and existing borrowers to serve as basis for loan approval and to determine the probability of default on an on-going basis which could lead to economic losses. Credit risk is not limited to the loan portfolio and is found in all Bank activities where success depends on counterparty, issuer, or borrower performance. It arises any time Bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether or not reflected on or off the balance sheet.

The Bank considers its loan portfolio as the major source of credit risk. However, other sources of credit risk exist throughout the activities of the Bank, including the banking and trading book, and both On- and Off-Balance Sheet.

MAXIMUM CREDIT RISK EXPOSURE

The table on the following page shows the Bank's maximum exposure to credit risk, before and after considering eligible collateral held or other credit enhancements.

1. *Credit Exposures and Credit-Related Commitments*

As of December 31, 2015, the Bank's regular On-Balance Sheet Loans & Receivables amounted to P378,094 million, Net of Credit Risk Mitigation which consists mainly of primary collaterals such as deposit holdout, government securities, and sovereign guarantees. The bulk of Net Loans and Receivables went to Corporates at P240,421 million (63.59%), followed by Micro, Small and Medium Enterprises (MSMEs) at P45,474 million (12.03%), interbank loans at P34,004 million (8.99%), and government entities at P30,749 million (8.13%). The Bank also holds substantial receivables arising from repurchase agreements aggregating P83,736 million. For Net Off-Balance Sheet exposures of P45,070 million, the credit equivalent amounts are computed considering their respective Credit Conversion Factors (CCFs). These accounts are composed mainly of general guarantees of indebtedness (e.g., financial standby letters of credit – domestic and foreign), performance bonds and warranties related to particular transactions, and contingencies arising from movement of Goods and Trust transactions. Outstanding derivative exposures are mainly over-the-counter Foreign exchange (Fx) option contracts.

The Bank's Loans and Receivables reflected a Credit Risk Weighted Assets (RWA) of P356,549 million following the Standardized Approach in credit RM. This represents 69.49% of the Bank's aggregate RWA of P513,059 million. However, the Bank's Total Credit RWA (net of general loan loss provision) increased by P39,821 million or 9.52%, from P418,471 million in 2014 to P458,292 million in 2015.

On Balance Sheet Items	Net Exposures	0%	20%	50%	75%	100%	150%	Credit RWA
	2015 (In P Millions)							
Cash on Hand	26,568	26,568						-
Checks & Other Cash Items	311	-	311					62
Due from Bangko Sentral ng Pilipinas	314,890	314,890						-
Due from Other Banks	5,801	-	72	5,645		84		2,921
Available-for-Sale (AFS) Financial Assets	131,219	105,394		19,916		5,909		15,867
Held-to-Maturity (HTM) Financial Assets	123,351	114,223		3,964		5,164		7,146
Unquoted Debt Securities Classified as Loans	12,972	623		1,046		11,303		11,826
Loans & Receivables	378,094	-	1,399	20,321	45,371	308,848	2,155	356,549
1. Interbank Loans Receivables	34,004		1,081	16,719		16,199	5	24,782
2. Loans & Receivables - Others								
a. LGUs & Public Sector Entities	29,979					29,979		29,979
b. Government Corporation	770					770		770
c. Corporates	240,421		15			240,406		240,409
d. Micro/Small & Medium Enterprise	45,474		103		45,371			34,049
e. Loans to Individuals	25,081		200	3,602		21,279		23,120
3. Defaulted Exposures	2,365					215	2,150	3,440
Other Loans and Receivables[1]	83,736	83,736						-
Sales Contract Receivable (SCR)	838					394	444	1,060
Real & Other Properties Acquired	4,431						4,431	6,647
Total Exposures Excluding Other Assets	1,082,211	645,434	1,782	50,892	45,371	331,702	7,030	402,078
Other Assets	12,658	64	-	-	-	12,594	-	12,594
Total On-Balance Sheet Exposures	1,094,869	645,498	1,782	50,892	45,371	344,296	7,030	414,672
Off-Balance Sheet Items	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	Credit RWA
A. Direct credit substitutes	4,000			1		3,999		4,000
B. Transaction-related contingencies	38,575					38,575		38,575
C. Trade-related contingencies	2,495			1,375		1,120		1,808
D. Other commitments	-			-		-		-
Total Off-Balance Sheet Exposures	45,070	-	-	1,376	-	43,694	-	44,383
Counterparty RWA In The Trading Book	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	Credit RWA
Derivative Exposures	276	-	92	72	-	112	-	166
Total Exposures	1,140,215	645,498	1,874	52,340	45,371	388,102	7,030	459,221[2]

[1] Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions
[2] Total Credit Risk Weighted Assets (RWA) inclusive of general loan loss provision of P929 million

2. Management of Credit Risk

The goal of credit RM is to maximize the Bank's risk-adjusted rate of return by maintaining credit risk exposures within approved parameters. The Bank needs to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. It also considers the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to RM and essential to the long-term success of the Bank.

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

To effectively monitor and maintain the quality of its loan portfolio, the Bank conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves. As of December 31, 2015, the Bank's net Non-Performing Loan (NPL) stood at P790 million or 0.15% and that only P2,210 million or 1.32% of the total loan accounts (i.e., corporate type of borrower) under its Internal Credit Risk Rating System or ICRRS) are rated below the Acceptable level. In addition, the Bank sets applicable limits on its single borrower, real estate loans, large exposures, and industry concentration.

3. Credit Risk Rating

In compliance with BSP requirements, the Bank establishes its ICRRS for the purpose of measuring credit risk for corporate borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information as one of the bases in making credit decision. The ICRRS rating scale consists of ten grades, six of which fall under unclassified accounts, with the remaining four falling under classified accounts in accordance with regulatory provisioning guidelines. The Bank has also set up similar expert-based credit risk rating on its other loan streams.

Moreover, the Bank undertakes continuing development and implementation of automated credit risk rating models through its Credit Risk Engine System (CRES) Scoring Facility (CSF) to enhance its capability to determine the credit worthiness of its borrowers. In line with this, the Bank has recently approved the implementation of the following automated credit scoring models:

- Application Scoring Model for Individual Home Buyers
- Application Scoring Model for Salary Loan Availers
- Behavioral Scoring Model for Local Government Units (LGUs)
- Behavioral Scoring Model for Small and Medium Enterprises (SMEs)
- Behavioral Scoring Model for Corporates

4. Credit Risk Monitoring

Periodic escalation of credit risk exposures and underlying risk events is being undertaken via a formal reporting system. This enables the Bank through the ILC, RISKCOM and the LANDBANK Board, to keep tab of major credit issues or concerns that need priority action or resolution.

5. Collateral and Other Credit Enhancements

The required amount and type of loan collateral depend on borrower type and assessment of the credit risk of the borrower. The Bank's Credit Manual and credit policy issuances provide the guidelines on the acceptability of loan collateral and maximum valuation for each type of collateral.

The following are the primary collaterals accepted by the Bank:

- Holdout on Deposits
- Government Securities
- Real Estate Mortgage
- Chattel Mortgage

The Bank also accepts government guarantees, cross suretyship from corporations and other eligible guarantees. In the case of agricultural and agriculture-related loans that are vulnerable to the effects of climate and weather disturbances, borrowers are encouraged to avail of crop insurance guarantees and other insurance mechanisms to shield them from these risks.

6. Credit Stress Testing

The Bank regularly conducts stress testing of its loan portfolio taking into account risk events with high probability of occurrence. Utilizing such scenarios, tests are done to determine the magnitude of their impact on the Bank's loan portfolio, on the Credit RWA, and finally on the Capital Adequacy Ratio (CAR). The stress testing also includes prescribed regulatory tests such as uniform stress test and real estate stress test.

MARKET RISK MANAGEMENT

1. Market Risk Management Framework

LANDBANK is exposed to market risks in both its trading and non-trading banking activities. The Bank assumes market risk in market making and position taking in Government Securities (GS) and other debt instruments, equity, Fx and other securities, as well as, in derivatives or financial instruments that derive their values from price, price fluctuations and price expectations of an underlying instrument (e.g., share, bond, Fx or index).

The Bank's exposure on derivatives is currently limited to currency swaps and currency forwards to manage Fx exposure. Although the Bank is also exposed to derivatives that are embedded in some financial contracts, these are relatively insignificant in volume.

The Bank uses a combination of risk sensitivities, Value-at-Risk (VaR), stress testing, CAR and capital metrics to manage market risks and establish limits. The LANDBANK Board, RISKCOM and the Asset & Liability Committee (ALCO - Senior Management level) define and set the various market risks limit for each trading portfolio. The Treasury and Investment Banking Sector (TIBS), particularly the Financial Markets Group (FMG) which manages the Bank's trading units and the Asset and Liability Management Group (ALMG) which manages the Bank's liquidity and reserve positions, conducts risk-taking activities within limits at all times and ensures that breaches are escalated to Senior Management for appropriate action.

A management alert is activated whenever losses during a specified period equal or exceed specified management alert level. The Bank controls and minimizes the losses that may be incurred in daily trading activities through the VaR and Management Action Triggers (MATs).

Positions are monitored on a daily basis to ensure that these are maintained within established position limits to control losses. Position limits are subordinated to MATs and VaR limits. Macaulay and Modified Duration are used to identify the interest rate sensitivity of the Bond Portfolio of the Bank. Moreover, various tools such as Re-pricing Gap, Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to measure interest rate risk in the banking book.

In the same way, certain subsidiaries of the Bank independently quantify and manage their respective market risk exposures by maintaining their respective risk management system and processes in place.

2. Market Risk Weighted Assets

As of December 31, 2015, the Bank's Total Market RWA stood at P5,496 million, broken down as follows:

In P Millions	
Particulars	**Amount**
Interest Rate Exposure	P1,627
Equity Exposure	-
Fx Exposure	841
Options	3,028
Total Market RWA	**5,496**

The Total Market RWA represents 1.1% of the Bank's aggregate RWA of P513,059 million.

MANAGING MARKET RISK COMPONENTS

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

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

- *Interest Rate Risk Management*

a. Traded Market Risk

Market risk in trading arises primarily as a result of market making, application of risk management solutions and participation in syndications. The Bank continues to manage interest rate risk in trading activities through factor sensitivities and the use of an effective and independently validated VaR methodology and stress testing.

b. Interest Rate Risk in the Banking Book

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

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

The Bank manages interest risk based on approved policies and guidelines, established limit setting procedures and interest rate risk limits, application of interest rate risk measurement models and reporting standards such as Re-pricing Gap, EaR and EVE-at-Risk reports.

The two interest rate risk perspectives adopted by the Bank in measuring Interest Rate Risk in the Banking Book are as follows:

a. Earnings Perspective: The Bank uses the EaR Model to estimate changes in Net Interest Income (NII) under a variety of rate scenarios over a 12 month horizon.

The following table sets the Bank's Re-pricing Gap position as of December 31, 2015 and the increase/decline in earnings for upward and downward interest rate shocks in the banking book:

b. Economic Value Perspective: The Bank

Particulars	1 to 30 days	> 1 month to 3 months	> 3 months to 6 months	> 6 months to 12 months
	2015 (In P Millions)			
FINANCIAL ASSETS				
Due from BSP	P125,000	P0	P0	P0
Total Loans	134,841	72,539	51,552	25,106
Total Investments	2,171	532	682	5,807
Sales Contract Receivables	47	15	1	17
Total Financial Assets	**262,059**	**73,086**	**52,235**	**30,930**
FINANCIAL LIABILITIES				
Deposits	717,774	164,562	16,426	10,393
Bills Payable	0	704	8,107	0
Others	0	0	0	0
Total Financial Liabilities	**717,774**	**165,266**	**24,533**	**10,393**
OFF-BALANCE SHEET				
Derivatives	(18,824)	0	0	0
Commitments	0	0	0	(34,973)
Total Off-Balance Sheet	**(18,824)**	**0**	**0**	**(34,973)**
Re-pricing Gap	**(474,539)**	**(92,180)**	**27,702**	**(14,436)**

	Change in Interest Rates (in basis points)							
EaR	-300/-15	-200/-10	-100/-5	-50/-2.5	+50/+2.5	+100/+5	+200/+10	+300/+15
	14,212	9,474	4,737	2,369	(2,369)	(4,737)	(9,474)	(14,212)

uses the EVE-at-Risk Model to assess the potential long-term effects of changes in interest rates over the remaining life of the Bank's holdings. This model also measures the change in the Bank's economic value of equity for specified changes in interest rates.

The table below shows the increase (decline) in economic value for upward and downward rate shocks using the EVE-at-Risk Model to measure interest rate risk in the banking book.

Both viewpoints are assessed to determine the full scope of the Bank's interest rate risk exposure. Moreover, interest risk in the Bank is not managed in isolation. Interest risk measurement systems are integrated into the Bank's general risk measurement system and the results from models used are interpreted in relation with other risk exposures.

The interest rate risk exposures of the Bank are measured and reported to the ALCO and RISKCOM at least on a monthly basis under the earnings perspective through EaR Model, and quarterly for the economic value perspective using EVE-at-Risk Model.

	Change in Interest Rates (in P Millions)							
EVE-at-Risk	-300	-200	-100	-50	+50	+100	+200	+300
	8,477	5,607	2,781	1,385	(1,375)	(2,739)	(5,435)	(8,091)

• *Equity Price Risk Management*

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

(In P Millions)		
Particulars	**Position Limit**	**Management Alert Trigger**
Equity	P1,000	YTD Gain Erosion / Income Target

LANDBANK had the following significant exposures denominated in foreign currencies as of December 31, 2015:

• *Foreign Exchange Risk Management*

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

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

(In $ Millions)		
Particulars	**Position Limit**	**Management Alert Trigger**
Fx Trading	**50**	YTD Gain Erosion / Income Target
FS	**20**	

2015 (In $ Thousand)						
Particulars	USD	JPY	EUR	AUD	Others	TOTAL
ASSETS						
FCNCH/COCI	$17,219	$267	$263	$0	$5	$17,754
Due from Banks	101,352	5,340	13,138	$581	1,066	121,477
Held for Trading	1,864	0	0	0	0	1,864
Available For Sale Investment	598,378	0	0	0	0	598,378
IBODI	513,002	0	0	0	0	513,002
Interbank Loans Receivable	376,500	0	1,738	0	0	378,238
Loans & Receivables	237,888	68,216	0	0	0	306,104
Investment in Subsidiaries	0	0	1	0	923	924
Other Assets	15,591	926	0	0	0	16,517
Gross Fx Assets	**1,861,794**	**74,749**	**15,140**	**581**	**1,994**	**1,954,258**
LIABILITIES						
Deposit Liabilities	1,122,096	619	23,437	0	7	1,146,159
Bills Payable	108,392	306,906	0	0	28,974	444,272
Others	185,892	(93)	(2,237)	($547)	(223)	182,792
Gross Fx Liabilities	**1,416,380**	**307,432**	**21,200**	**(547)**	**28,758**	**1,773,223**

Particulars	USD	JPY	EUR	AUD	Others	TOTAL
			2015 (In $ Thousand)			
Fx PURCHASES						
Spot Fx Purchases	(10,644)	0	(2,172)	(1,460)	0	(14,276)
Forward Fx Purchases	0	0	0	0	0	0
Gross Fx Purchases	**(10,644)**	**0**	**(2,172)**	**(1,460)**	**0**	**(14,276)**
Fx SALES						
Spot Fx Sales	64,393	0	2,172	1,460	0	68,025
Forward Fx Sales	0	400,000	0	0	0	400,000
Gross Fx Sales	**64,393**	**400,000**	**2,172**	**1,460**	**0**	**468,025**

MARKET RISK MEASUREMENT AND VALIDATION MODELS

- *VaR Analysis*

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

LANDBANK uses internally developed Historical Simulation Model in computing VaR of Equities, Fx Net Open Position, GS, and Foreign Securities (FS) trading portfolios. The Bank continuously pursues initiatives to improve processes in preparation for the Bank's migration towards an Internal Model Approach for capital charging. The VaR disclosure is intended for external disclosure and for regulatory purposes. The Bank monitors VaR both at portfolio and across portfolio level.

Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management. The over-all VaR limit for the Bank's Treasury trading activities was set at P321 million throughout 2015.

- *Back-Testing*

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

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

Zone classification	Number of exceptions
safe/green zone	0-4 exceptions
non-conclusive/yellow zone	5-9 exceptions
problematic/red zone	10 or more exceptions

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

- *Stress Testing*

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

Stress Test is a risk management tool used to determine the impact on earnings of market movements considered "extreme", i.e., beyond "normal" occurrence. Stress Tests are the Bank's measures of risks to estimate possible losses which the VaR does not capture.

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

Results of PSA are also simulated in the CAR computation to be able to assess its impact on the CAR compliance set at 10.0% and the CET 1 ratio of at least 8.5% set by the BSP with conservation buffers.

LIQUIDITY RISK MANAGEMENT

• *Liquidity Risk Management Framework*

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

The Bank considers liquidity risk based on Market and Funding Liquidity Risk perspectives. Trading or Market liquidity risk refers to the inability to unwind positions created from market, exchanges and counterparties due to temporary or permanent factors. The Bank cannot easily eliminate or offset a particular position because of inadequate liquidity in the market. This may be associated with large transactions having significant effect on market prices that lack sufficient depth, or with structured or complex investments having small potential buyers. This liquidity risk perspective is captured through stress testing or scenario analysis.

Funding liquidity risk refers to current and prospective risk arising from the inability to meet investment and funding requirements arising from cash flow mismatches without incurring unacceptable losses. It occurs from the mismatch of asset, liability, exchange contract and contingent commitment maturities. Funding liquidity risk is being monitored and controlled through the classification of maturities of assets and liabilities over time bands and across functional currencies as reflected in the Liquidity Gap Report (LGR).

The LANDBANK Board exercises oversight through RISKCOM and delegated the responsibility of managing the overall liquidity of the Bank to the ALCO. The ALCO and the TIBS are responsible for the daily implementation and monitoring of relevant variables affecting the Bank's liquidity position. The ALCO reviews the Bank's assets and liabilities position on a regular basis and, in coordination with the TIBS, recommends measures to promote diversification of its liabilities according to source, instrument and currency to minimize liquidity risks resulting from concentration in funding sources. The ALCO meets twice a month or more frequently as required by prevailing situations. The RMG, through the Treasury Risk Management Department (TRMD), is responsible for the oversight monitoring of the Bank's liquidity risk positions and ensures that reports on the Bank's current risk are prepared and provided to ALCO and RISKCOM in a timely manner.

Although the Bank pursues what it believes to be a prudent policy in managing liquidity risk, a maturity gap does, from time to time, exists between the Bank's assets and liabilities. In part, this comes about as a result of the Bank's policy to seek higher yielding assets, a policy which will generally lead to the average maturity of its financial assets exceeding that of its liabilities.

LANDBANK performs a comprehensive liquidity risk measurement and control using as tool the Consolidated LGR covering the bank-wide balance sheet. Risk models used in liquidity RM are subjected to independent model validation as conducted by the Internal Audit Group (IAG).

• *Liquidity Risk Measurement Models*

The Bank manages the liquidity risk using the following tools:

a. Liquidity Gap Report

The Bank performs liquidity gap analysis using the LGR which is a risk measurement tool used in identifying the current liquidity position to determine the ability to meet future funding needs. It breaks down balance sheet items according to estimated maturities of assets and liabilities in order to determine any future structural imbalances such as long–term assets growing faster than long term liabilities. The RMG, through TRMD, assists ALCO in its function by preparing Peso, Fx Regular, FCDU and Consolidated LGR on a monthly basis.

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

	(In P Thousand)					
	PARENT					
	2015			2014		
Particulars	Due within one year	Due more than one year	TOTAL	Due within one year	Due more than one year	TOTAL
ASSETS						
Cash & Other Cash Items	26,889,156	0	26,889,156	24,247,689	0	24,247,689
Due from BSP	314,934,580	0	314,934,580	229,351,507	0	229,351,507
Due from Other Banks	5,781,050	1,685	5,782,735	6,284,410	975	6,285,385
Interbank Loan Receivable	17,799,877	0	17,799,877	17,243,602	0	17,243,602
Security Purchased Under Agreement to Resell	83,654,000	0	83,654,000	56,390,000	0	56,390,000
Loans & Receivables	155,403,886	293,642,674	449,046,560	132,153,291	269,111,938	401,265,229
Investments	30,652,845	254,175,401	284,828,246	36,225,870	265,439,491	301,665,361
Other Assets	2,106,127	18,026,935	20,133,062	2,770,327	17,387,787	20,058,114
Total Assets	**637,221,521**	**565,846,695**	**1,203,068,216**	**504,666,696**	**551,940,191**	**1,056,606,887**
LIABILITIES						
Deposits						
Demand	474,739,429	0	474,739,429	392,226,721	0	392,226,721
Savings	533,308,804	0	533,308,804	469,423,769	40	469,423,809
Time	26,735,535	444,090	27,179,625	46,276,487	24,619	46,301,106
LTNCD	0	11,000,000	11,000,000	0	5,000,000	5,000,000
Bills Payable	1,882,262	19,467,669	21,349,931	2,182,814	18,058,314	20,241,128
Unsecure Subordinated Debt	0	10,500,000	10,500,000	0	10,500,000	10,500,000
Due to BTr, BSP, & MCs/PCIC	2,240,728	163,469	2,404,197	1,755,387	117,078	1,872,465
Due to Local Banks	16,758	0	16,758	8,621	0	8,621
Other Liabilities & Payable	336,966	35,988,549	36,325,515	8,329,210	20,022,669	28,351,879
Total Liabilities	**1,039,260,482**	**77,563,777**	**1,116,824,259**	**920,203,009**	**53,722,720**	**973,925,729**

b. Core Deposit

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

c. Non-maturing Deposits

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

The following table sets forth the asset-liability gap position over the detailed time period for the Parent at carrying amounts in million pesos as of December 31, 2015 based on contractual repayment arrangements which take into account the effective maturities as indicated by the Bank's deposit retention history.

			(In P Millions)			
Particulars	Due within 3 months	Due more > 3 months to 6 months	Due more than 6 months to 1 year	Due more than 1 year to 5 years	Due more than 5 years	TOTAL
FINANCIAL ASSETS						
Cash & Due from Banks	300,140	0	47,465	0	2	347,607
Total Loans	171,752	61,919	23,187	96,116	197,526	550,500
Total Investments	9,954	588	20,111	70,258	183,917	284,828
Other Assets	1,392	0	714	0	18,027	20,133
Total Assets	**483,238**	**62,507**	**91,477**	**166,374**	**399,472**	**1,203,068**
FINANCIAL LIABILITIES						
Deposits	35,779	1,237	2,140	651	1,006,421	1,046,228
Borrowings	442	481	959	6,515	12,953	21,350
Other Liabilities & Unsecured Subordinated Debt	2,257	0	337	0	46,652	49,246
Total Capital	0	0	0	0	86,244	86,244
Total Liabilities & Capital	**38,478**	**1,718**	**3,436**	**7,166**	**1,152,270**	**1,203,068**
Assets & Liabilities Gap Position	**444,760**	**60,789**	**88,041**	**159,208**	**(752,798)**	

As of December 31, 2015, the Bank has in its possession a comfortable level of highly liquid assets to cover for liquidity risk that may arise in the earlier tenor buckets. Most assets (particularly loans and investments) have long term maturities. Cumulative gap after contingent accounts is positive in all buckets except in the 'more than 5 years' bucket. MCO limit was not breached in the entire time bucket within the one year horizon.

LANDBANK has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk, consistent with the nature and complexity of its business activities, overall level of risk, and its risk appetite. The Maximum Cumulative Outflow (MCO) limit set by the LANDBANK Board is one of the tools used to manage and control the liquidity risk in the gap report of the Bank. It is a measure of the liquidity gap between maturing assets and liabilities. MCO limits put a cap on the total amount of negative gaps in the '1 day to 1 year' time buckets.

d. Financial Ratio Analysis

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

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

e. Liquidity Stress Test

The Bank complements liquidity management and contingency planning through the use of stress testing and scenario analysis. Stress Testing for liquidity risk is done to supplement the LGR/MCO Model as it makes provisions for varied but plausible situations through scenario analysis with the single goal of preparing the Bank for potential liquidity problems. This could serve as input for making appropriate liquidity management decisions and come up with mitigating measures to ensure that the Bank will be able to withstand such events. The scenarios are based on historic events, case studies of liquidity crisis and models using hypothetical events.

Result of stress-test analysis helps the Bank focus on the level of liquidity that could be reasonably built within a specified period to meet different situations. This also serves as guide for the Bank in the limit setting process for the MCO and various financial ratios.

f. Liquidity Coverage Ratio

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

	(In P Million except when expressed in percentage)			
Particulars	2015 (Audited)	2014 (Audited)	2013 (Audited)	2012 (Audited)
Liquid Assets (*)	722,850	625,897	502,535	313,078
FINANCIAL RATIOS:				
Liquid Assets to Total Assets	60.08%	50.23%	59.33%	48.67%
Liquid Assets to Total Deposits	69.09%	68.55%	71.38%	61.70%

*Note: Liquid Assets include the following:
1. Cash and other Cash Items
2. Interbank Loans
3. Government Securities
4. Tradable non-Government securities and commercial paper

The Bank computes the LCR using the BSP prescribed formula:

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

Where:
High Quality Liquid Assets - comprised of cash or assets that can be converted into cash at little or no loss of value in private markets to offset the net cash outflows it could encounter under a liquidity stress scenario; and

Total Net Cash Outflows - the total expected cash outflows minus the total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days.

As of December 31, 2015, the Bank's simulation using the BSP's LCR template as indicated in the BSP Circular 905 Series of 2016 resulted in the LCR higher than the 90% minimum requirement for CY 2018 and maximum LCR trigger alert of 100% targeted for CY 2019.

g. Liquidity Contingency Plan (LCP)

The Bank formulated the Liquidity Contingency Plan (LCP) using extreme scenarios of adverse conditions to ensure that the Bank has sufficient liquidity at all times. The LCP evaluates the Bank's ability to withstand the extreme scenarios. The contingency plan focuses on the Bank's strategy for coordinating managerial action during a crisis and includes procedures for making up cash flow shortfalls in adverse situations.

In the event of a liquidity crisis, the Bank activates the contingency plan based on the recommendation of the ALCO which has the overall responsibility for the management and execution of the plan, unless otherwise elevated to the Crisis Management Committee (CMC).

Although deposit liabilities remain to be the major source of fund, the Bank identifies the different alternative funding sources like cash from operations, stock of marketable assets, government and retail deposit sources, and various credit lines from Banks, among others which are available within one day to six months. In 2015, the Bank's LCP was enhanced to include the procedures in conducting the liquidity testing.

OPERATIONAL RISK MANAGEMENT

In 2015, LANDBANK continued to strengthen its operational performance to attain its financial target. With reference to the business excellence theme for 2015, the Bank pursues operational alignment during the year. The Bank attains its overall strategic objectives through operational alignment where all BUs, support units and employees are made to understand how each individual performance is tied to the attainment of Bank's goal. The alignment of operations with that of organizational goals translates to solid financial gains and operational excellence.

Similarly, the Bank focused on enhancing internal business processes and continued its initiatives on International Organization for Standardization [ISO] (i.e., Environmental Management System [EMS] and Quality Management System [QMS]). Moreover, the Bank takes on a major challenge by applying for the Philippine Quality Award (PQA) Program as part of its thrust to continually improve business processes and develop world class operations.

A significant achievement of the Bank in 2015 in the area of Operational Risk Management (ORM) is the implementation and embedding of RM at the BU level. ORM across the institution is becoming a way of life, with the BUs becoming aware of the specific operational risks they are confronted with, taking a proactive stance in managing these risks, and escalating breaches as soon as they occur. BUs conduct self-assessment using various RM tools such as RCSA, RAR and RTR, BIA, BCQ, heat maps, and hazard maps to quantify potential operational losses which serve as their daily dashboard in monitoring operational risk. RMG regularly monitors and escalates to RISKCOM and the Management Committee (ManCom) the actual losses versus estimated losses.

• *Operational Risk Exposure*

LANDBANK uses the Basic Indicator Approach for calculating the capital charge for operations risk under Pillar 1. The Bank has been using the average Gross Revenues of the Bank for the last three years to calculate the Operational RWA. In compliance with BSP Circular #900 dated January 18, 2016, the scope of the Operational Risk is expanded to include event and legal risks.

As of December 31, 2015, the Bank's Total RWA for Operational Risk using the Basic Indicator Approach was P49,271 million or 9.6% of the Bank's aggregate RWA of P513,059 million. Cognizant that Gross Revenues (BSP proxy data) is but a shadow indicator of operational risks in the Basic Indicator Approach calculation, the Bank conducts a simulation of the computation of the 2015 estimated losses using actual historical losses of the Bank and estimated probability of occurrence in 2016 to determine the variance from the Basic Indicator Approach model.

Self-risk assessment of operations shows that the total estimated loss is way below the Total Operational RWA under the Basic Indicator Approach.

While the banking industry perceives system risk as high risk among the operational risk, LANDBANK has conducted a forward-looking risk assessment and put the following controls in place to avoid/mitigate the estimated losses from system risk:

- Enhancement and implementation of the Bank's IT Risk Management System
- Creation of the IT-Quality Management Office
- Strengthening the function of the ISTRMO under the RMG
- Upgrading of Automated Teller Machines (ATMs)
- Compliance with Europay Mastercard VISA (EMV)
- Continued upgrading of IT infrastructure
- Conduct of full cycle testing
- Implementation of IT governance
- Enhancement of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) for IT
- Enhancement of IT standards
- Observance of strict procurement process and monitoring of the performance of service providers
- Full compliance to information security policies
- Insurance coverage for fixed assets and electronic crimes
- Monitoring and oversight of the Senior Management, ITCom and RISKCOM

Equally important, the Bank has started to embark on other initiatives to mitigate system risk such as implementation of the Enterprise Fraud Risk Management System, upgrading of Security and Network Infrastructure and delivery channels such as internet and phone banking.

ENTERPRISE RISK MANAGEMENT

• *Risk Categories*

As the Bank recognizes all risks inherent to its mandate and its various business activities, it embarks on an Enterprise Risk Management (ERM) approach to capture all risk events categorized under BSP Circular No. 510 dated February 3, 2006 (re: Guidelines on Supervision by Risk): 1) credit risks, 2) market risks, 3) compliance risks, 4) liquidity risks, 5) interest rate risks, 6) operations risks, 7) reputation risks and 8) strategic risks. The 52 risks that comprise the Bank's Risk Universe and falling under the above eight categories are defined, customized and given substance in the LANDBANK Risk Dictionary developed under the ERM initiative.

Through the Risk Self-Assessment (RSA) process under the ERM, Senior Management prioritized critical risks in terms of inherent impact and effectiveness of RM practices. This resulted in the prioritization of 26 critical risks, from which the top five risks of the Bank were selected, as follows:

1. Market Risk: The failure to anticipate and manage fluctuations in the values of the Bank's investments; could lead to economic losses

2. Counterparty Credit Risk-Loans: The inability to review and analyze the credit quality of potential/existing borrowers to serve as basis for loan approval (at application) and to determine the probability of default (on an ongoing basis); could lead to economic losses

3. IT Management Risk: The failure to effectively prioritize IT initiatives and administer IT resources may lead to lost business and hinder the achievement of the Bank's goals and objectives

4. People Risks:

   People Development and Performance Risk: The inability to develop and enhance employee skills and provide a sound employee performance management system may reduce employee motivation and may adversely impact the achievement of desired performance and conduct

   Recruiting and Retention Risk: The inability of the Bank to attract, retain and develop competent employees might lead to organizational dysfunction and low morale

   Succession Planning Risk: The failure to create and implement a feasible continuance plan for key bank positions and employees might adversely affect the stability of organizational leadership and business continuity

5. Client Relationship Management Risk: The inability to effectively identify and address the customers' needs will negatively affect the Bank's reputation and relationship with customers

The risk profile of the Bank is subjected to regular review and the RSA yielded the following seven risks (part of the 26 critical risks) that needed to be immediately addressed:

1. Strategic Planning Risk: The failure to develop, implement and monitor institutional strategies and direction will threaten the Bank's overall viability and growth prospects

2. Socio-Political Risk: The failure to understand, address and anticipate political mandates and social & cultural developments will affect the Bank's overall operations

3. Technology Identification Risk: The failure to identify and prioritize the appropriate system and technology to support business processes or major initiatives may lead to costly investments and work inefficiencies, and may compromise product or service delivery

4. Measuring & Monitoring of Major Initiatives Risk: The failure to identify appropriate performance metrics and standards to monitor attainment of objectives and targets may prevent the achievement of desired output and performance

5. Lending Capacity Risk: The failure to maximize loanable funds might lead to loss of business opportunities for the Bank

6. Liquidity Risk: The failure to properly manage the Bank's cash flows and have sufficient available alternative fund sources at reasonable cost could affect the Bank's ability to meet its obligation as they fall due

7. Banking Regulations Risk: The failure to comply with the circulars, memoranda, advisories and other issuances of regulatory bodies as applicable to the banking industry, may result in loss of business, administrative/criminal penalties/sanctions and loss to reputations. It is also the failure to set the stage for higher capital requirement in order to strategically align economic capital with regulatory requirements like Basel III, Anti-Money Laundering Act (AMLA) and amendments, among others

In light of the impending merger and consolidation of LANDBANK and the Development Bank of the Philippines (DBP), a re-assessment of the Bank's risk profile was conducted and six emerging risks were identified in 2015:

1. People Risk: Failure to retain and motivate key personnel due to the changes brought about by the merger will lead to organizational dysfunction and low morale

2. IT Identification and Implementation: Failure to identify and implement the appropriate system and technology to support business processes or major initiatives of the merged bank may lead to costly investments and work inefficiencies, and may compromise product or service delivery

3. Asset Quality and Valuation: Failure to establish the appropriate valuation of assets and liabilities of the DBP and its subsidiaries that will be absorbed by the Bank, including commitments and contingencies on unrecorded assets and liabilities, might cause financial losses

4. Capital Reserve: Failure to maintain capital surplus (on top of the increased minimum regulatory requirements) to serve as a reserve from unforeseen losses arising from the merger and to support planned expansion may lead to regulatory sanctions and bank insolvency

5. Socio-Political: Failure to understand, address and anticipate policy mandates, as defined in the law and Executive Order, will affect the Bank's plan in its execution of the merger

6. Tone at the Top and Vision and Direction: Inability of the LANDBANK Board and Senior Management to establish a culture of accountability, integrity, professionalism and competency may result in an unfavorable working environment and lack of integrity in the way the merged Bank will conduct business. Failure to establish, align and communicate the merged Bank's vision and direction to the employees and customers, including its major initiatives, services, products and programs, may hamper the achievement of its objectives and strategies

Formulation of risk management strategies to mitigate the risk and its root causes was performed by risk teams from various risk-taking BUs using the Bow-Tie Analysis. The Bow-Tie Analysis map clearly displays the links between the potential causes, preventative and mitigating controls and consequences of the risks related to the merger.

The Bank's Risk Universe was also revisited and from a total of 52 risks, the Risk Universe increased to 62 risks and these were defined and included in the Bank's Risk Dictionary.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

For 2015, the Bank conducted a thorough and comprehensive Internal Capital Adequacy Assessment Process (ICAAP) process to determine the quality and adequacy of the Bank's capital, given the existing risks exposure as well as future risks arising from growth, new markets and expansion of the product portfolio. The LANDBANK Board and the Senior Management performed collaborative governance and provided directions to enhance the RM process and strengthen the capital position of the Bank.

ICAAP's primary purpose is to inform the LANDBANK Board and Senior Management of the ongoing self-assessment of the Bank's risk profile, how the Bank intends to mitigate significant risks, and how much additional future capital is necessary having considered other mitigating factors.

• *Enhancement of Risk Assessment*

To align with the local and global best practices, the Bank has strengthened and enhanced its ICAAP development process with the following major revisions:

- Linking the Bank's ERM Framework with ICAAP Model by relating the forward-looking risk assessment with the Risk Driver Maps containing the corresponding strategies
- Adopting the enterprise-wide view of risk, cross risk analysis & identification and management of emerging risk across the institution
- Linking the RCSA process in determining risk drivers and potential losses
- Institutionalizing the ICAAP Communication Process
- Implementation of the "ICAAP Quarterly Monitoring Report"
- Defining the primary risk owners and secondary risk owners

• *ICAAP Culture*

The ICAAP is embedded in the Bank's operating philosophy and has been cascaded down to the BUs level, forming an integral part of the Bank's RM process. This process enables its Board and Senior Management Team to assess, on a continuing basis, the risks that are inherent in the daily activities of the BUs.

All BUs of the Bank use ICAAP in its day-to-day operations with an awareness of the corresponding capital charge for every single transaction or business they will generate and implement. In monitoring the efficient performance of the BUs across the organization in the area of RM and utilization of capital, the Bank adopts a rigorous escalation and thorough monitoring process via regular reports.

• *Strengthening Capital Planning*

In 2015, the Bank had sufficient and strong capital to deliver its mandated services and to cover the risk inherent in its operations. Under the most probable scenario, LANDBANK estimated the 2015 year-end Capital Adequacy Ratio (CAR) at 12.8% vis-a-vis 10% percent required CAR. The actual CAR recorded as of December 31, 2015 was 12.9% implying a very objective risk assessment and capital planning. Similarly, the actual Common Equity Tier 1 (CET 1) ratio of 9.9% as of December 31, 2015 was not too far from the 9.7% projected CET 1 ratio. The actual CAR and CET 1 ratios of the Bank were more than the BSP's minimum requirements of 10% CAR and 8.5% CET 1 ratio which were both compliant with Basel III requirements.

The projected ICAAP ratios of CAR and CET 1 being very near the actual values of these ratios at end-December 2015 indicate that the ICAAP process has been conducted diligently and appropriately.

As a policy, the Bank maintains a strong capital base at all times to boost customer confidence, enhance competitiveness, ensure stability, and sustain long-term growth and viability. As such, the Bank continues to adhere to BSP's policies and rules and more specifically, complies with regulatory requirements on capital structure as well as capital adequacy and leverage ratios.

The Bank likewise continues to vigorously preserve real capital to sustain developmental pursuit and service its mandated clients while maintaining acceptable Return on Equity (RoE) of at least equal to the average RoE of the commercial banking industry.

The Bank's General Policy on Capital Planning was enhanced to establish capital levels that will adequately support the Bank's business plans and ensure continued compliance with the evolving capital and capital ratio requirements of the BSP. Given that the internal capital generation through earnings remains as the principal source of the Bank's capital accumulation process, the primary thrust of capital planning activities was maximizing its profitability (and consequently, high retained earnings) in the foreseeable future.

To address capital concerns on a more permanent basis, the Bank requested the National Government for P20 billion additional equity infusion in the 2016 General

Appropriations Act (GAA). This will give the Bank enough capital buffer to support the national development programs and expand loans to the mandated and priority sectors.

STRENGTHENING CORPORATE GOVERNANCE THROUGH ENHANCED COMPLIANCE MANAGEMENT SYSTEMS AND CONTROLS

LANDBANK in 2015 continued to implement various initiatives aimed at strengthening the Bank's Compliance Management Program through the effective mitigation of business risks arising from compliance with Philippine laws, rules and regulations, code of conduct and global standards of good governance. These activities were focused on enhancing the Bank's compliance monitoring and reporting processes and control mechanisms to efficiently respond to regulatory requirements and promote a stronger compliance management culture across the organization.

- *AML System Enhancements*

To meet the new reporting requirements of the Anti-Money Laundering Council on covered and suspicious transactions under the Report Format 1.0 (effective January 2015), several enhancements in the Bank's Anti-Money Laundering System (AMLS) were implemented during the year. The AMLS is a web-based system equipped with analytics capabilities for providing alerts and detecting transactions or accounts qualified as covered transactions (CTRs) and suspicious transactions (STRs).

These included the conduct of an alert-tuning exercise which reviewed and assessed the AMLS' alert scenarios and parameters wherein certain threshold settings were adjusted and non-productive ones were disabled to effectively identify and monitor suspicious transactions. To ensure timely resolution of alerts, the Bank instituted control measures such as the strict observance of the prescribed turnaround time on the disposition and resolution of the AML alerts. Moreover, policy guidelines on the AML Whitelisting of alerts were issued to minimize false positive alerts and optimize investigation activity.

The Bank also approved on March 18, 2015 the acquisition of a new AMLS which aims to further improve regulatory filing, detection processes, monitoring and reporting of possible suspicious transactions and overall effectiveness of the AMLS.

- *Annual Review and Updating of the Compliance Manual and the Money Laundering and Terrorist Prevention Program (MLPP) Manual*

To continuously respond to evolving internal and external conditions, the Compliance Manual which embodies the Bank's risk-based Compliance Program was revisited during the year. The Board-approved Manual documents the Bank's Compliance Program that sets out the compliance function's planned activities which include among others, the review and implementation of regulations, policies and procedures; regulatory risk assessment; compliance testing; reporting; and educating Bank personnel on regulations and compliance matters.

The Money Laundering and Terrorist Prevention Program (MLPP) was also reviewed and updated to include new and revised AML-related policies and guidelines such as the provisions of R.A. 10365 of 2013 "An Act Further Strengthening the AMLA" and Executive Order 17 (series of 2015) "Guidelines on Customer Acceptance, Risk Classification, Risk Assessment, Identification and Application of Due Diligence" wherein the customers are stratified to enable monitoring according to risk classification. The MLPP was approved by the LANDBANK Board on March 9, 2015.

To further strengthen detection and monitoring processes of funds especially those diverted to terrorism and similar activities, the MLPP incorporated new guidelines in handling negative media reports and whitelisting of AML alerts to reduce false positive alerts and improve alert investigation activity.

Also, the AML Compliance Testing Program was expanded to cover additional areas such as the identification and selection of testing samples and areas, reporting of findings, and evaluation and test-validation of responses and enforcement actions.

The updated MLPP was approved by the Anti-Money Laundering Committee on December 16, 2015.

• *Identification and Assessment of Regulatory Risks, Monitoring Compliance and Reporting Activities*

The Bank ensured that new regulatory issuances in 2015 were identified and assessed as applicable to the Bank's operations. These applicable regulations were disseminated to the concerned Bank units for information and compliance. To effectively monitor the actions taken by the concerned Bank units, the Compliance Management Group (CMG) required the Bank units to accomplish and submit to the CMG their Business Unit Compliance Action Plan report for periodic compliance testing and validation.

The Bank adopted different approaches in conducting compliance testing suited to the identified and assessed regulatory risks. In addition to the pre-testing and periodic testing done on newly-issued regulations, the Bank also conducted independent compliance testing on specific areas or activities that are highly vulnerable to regulatory risks. Further, a thorough review and assessment of other regulatory reports submitted to the Bangko Sentral ng Pilipinas (BSP), Anti-Money Laundering Council, Philippine Deposit Insurance Commission and Securities and Exchange Commission, among others, was also undertaken during the year. To ensure strict adherence and compliance of the Bank with regulatory requirements, the CMG immediately referred to the concerned Bank unit any noted breaches or deviations for appropriate action.

As part of the reporting process, the Chief Compliance Officer (also the Head of CMG) regularly apprises the Management and the Board-level Audit and Compliance Committee on new regulations and guidelines, compliance testing results, areas with compliance vulnerabilities, emerging regulatory risks, corrective measures undertaken and the Bank's general compliance status.

Also, during the year, the CMG managed the visitation/examination and exit conference conducted by the BSP where the Bank's concerned units provided their responses and updates to the BSP Report of Examination and other ad hoc requirements.

• *AML Training and Compliance-Related Activities*

The Bank continuously pursued initiatives aimed at fostering awareness and ownership of compliance and embedding a strong compliance culture across all sectors of the Bank.

As part of the continuing education of employees on the various risks emanating from compliance regulations specifically in enhancing knowledge on regulatory requirements, the CMG spearheaded an awareness campaign on compliance and AML issues through the conduct of a series of lectures (15) under the LANDBANK in Perspective Program for new hires and participants of the Branch Operations Development Program. Further, an AML refresher session was successfully implemented through the LANDBANK e-Learning Access Portal Program (LEAP), a web-based facility which generated 99% participation rate of the Bank's employees nationwide. Likewise, to strengthen the tone at the top, the LANDBANK Board and Senior Management were updated on the AML training during the year.

The CMG continued the issuance of the "Compliance Nuggets" which contains tidbits of information on compliance and AML matters that are easy-to-read and is posted regularly in the Lotus Notes and Bank's Newsgram publication. The Compliance Function Database which is the central record or repository of various regulations issued during the year for easy access of employees was also updated.

To establish a good working relationship with Bank units and strengthen the compliance culture at the business unit level, the CMG interfaces with designated Compliance Coordinators through periodic meetings and discussions on compliance issues. The CMG also participates in technical working groups and various committees to provide advisory services and guidance in managing compliance matters.

The Bank, through the CMG, always maintains constructive working relationship with various regulatory agencies by fostering open and transparent communication and holding of dialogues and consultations to clarify specific regulatory concerns.

HUMAN RESOURCE MANAGEMENT

CONTINUING COMPLIANCE WITH THE ANTI-RED TAPE ACT OF 2007

In support of Civil Service Commission's (CSC) goal to make agencies self-reliant in the implementation of the Anti-Red Tape Act (ARTA) and consistent with the thrust to enhance customer service, LANDBANK entered into an agreement with the CSC for the conduct of a self-funded ARTA-Report Card Survey (RCS) in April 2015. ARTA-RCS is an effective tool in monitoring agency performance in terms of ARTA compliance and customer satisfaction. The self-funded ARTA-RCS was conducted in 51 LANDBANK Branches/Extension Offices nationwide from May to September 2015 with 100% passing rate. Among the surveyed Branches, 15 got an "Excellent" rating, which automatically qualified them to the Citizen's Satisfaction Center Seal of Excellence Award conferred by the CSC after a two-phase validation process; one was rated "Outstanding"; 33 received a rating of "Good"; and 2 were "Acceptable".

In compliance with Section 4, Rule IV of the ARTA Implementing Rules and Regulations, LANDBANK's Citizen's Charter for Branch Banking Products and Services underwent review and revision in 2015. The revised version was reproduced in acrylic table top flip chart format.

HEALTHCARE SERVICES

In line with the Bank's continuing efforts to improve its worksite clinic services, the Medical Clinic has fully utilized the LANDBANK Medical Charts and Records of Employees (CARE) system. The LANDBANK Medical CARE system is an electronic medical records system that provides paperless clinic consultations, electronic storage of employees' medical database, medicine inventory report, report generation of health related benefits among others.

The LANDBANK Medical Clinic also made healthcare services more accessible by providing arrangements with RITEMED for access to discounted medicines through "My Access to Health Community Pharmacist Program" wherein a pharmacist is available at the LANDBANK Plaza every Monday and Wednesday to take employees' orders and deliver the same on the following day. A worksite blood extraction every first and third Wednesday of the month was arranged for the convenience of employees. Employees referred for blood tests need not go to hospitals and clinics to have their tests done. The free nutritional counselling services by a registered nutritionist/dietician were made available to interested Bank employees. It is scheduled every second and fourth Thursdays of the month, from 1:00 to 5:00 pm at the LANDBANK Medical Clinic, and from 5:30 to 9:00 pm at the LANDBANK Gym and Fitness Center. A total of 56 sessions of nutritional counselling were provided in 2015. Worksite medical services were provided for 7,902 patients with 28 emergency cases transported via the LANDBANK Ambulance which is available 24/7. Fifteen monthly Wellness Fora were organized with a total of 611 attendees with positive feedback in terms of creating awareness on personal health status, learning new info/insights, and application to improve health status based on a response rate of 89%. Twenty-four Health Notes were released (health information materials) through the Lotus Notes. Requests for medical-related benefits such as 160 financial assistance (for dreaded disease); 69 special leave (Magna Carta of Women); one Rehabilitation privilege; and 29 extension of sick leave with pay (for dreaded diseases) were evaluated. Recommendations for 128 proposals for Separation Incentive Package were also evaluated. Five Pulmonary Tuberculosis (PTB) primary case screening and 35 PTB close contact screening were conducted. Pre-employment medical evaluation for 557 proposed new hires were issued.

• *Annual Medical Examination*

As part of promoting health and wellness in the workplace, the Annual Medical Examination for LANDBANK officers and employees became mandatory in 2014. This risk management strategy was implemented to instill health consciousness among Bank employees and promote early detection and prevention of illness. The Bank organized the conduct of worksite Annual Physical Examination at the LANDBANK Plaza with 1,404 availers.

The enhanced Executive Check-Up (ECU) package was approved in 2015, wherein additional diagnostic tests and consultations to medical specialists have been included. The LANDBANK Medical Clinic established partnership with three additional medical facilities in Metro Manila and six in various provinces where officers can have their ECU. Thus, the medical facilities nationwide increased to 44. In 2015, 832 officers underwent ECU and 650 ECU results were evaluated.

A total of 5,172 employees benefitted from the free Flu Vaccination Program which is part of the disease prevention initiative of the Bank.

LANDBANK DAY CARE CENTER (LBDCC)

The LANDBANK DAY CARE CENTER (LBDCC) was established in August 2005 for employees' children ages 3-12 years old. As a component of the Bank's total Wellness Program, the LBDCC aims to promote work-life balance, improve employee morale, enhance psychological well-being and ensure sustained productivity among its employees.

The LBDCC celebrated its 10th year anniversary on August 27, 2015. Highlighting the said event was the recognition received by the Bank from the Department of Social Welfare and Development for LBDCC's outstanding (5 Stars/ Level 3) compliance with the standard set in the implementation of Early Childhood Care and Development Center-Based Programs. For school years 2014-2015, 2015-2016 and Summer 2015, the Center has a total of 68 enrollees benefiting 89 employee-parents and receiving positive feedback from availers (95-100% response rate) on quality of facility/service, impact on child and on work productivity, stress management, well-being and loyalty to LANDBANK. To date, since it started operation, 2,590 children were already served.

LANDBANK Day Care Center celebrated its 10th anniversary on August 27, 2015.

The LBDCC also received the certificate of Accreditation of Teachers for Highly Competent Performance in the implementation of the Early Childhood Care and Development Center-Based Programs.

LANDBANK GYM AND FITNESS CENTER

The LANDBANK Gym and Fitness Center continues to operate on a daily basis, from 6:00 to 8:00 am and resumes at 5:00 to 9:00 pm. Group exercise activities (e.g., Yoga, Zumba, Dance Aero and Yogalates are available from Monday to Friday, from 5:30 to 6:30 pm. The Fitness Instructor designs individualized fitness program for employees depending on their need. Body Composition Analysis is done quarterly to monitor the progress of each enrolled employee. Other activities done on a scheduled basis include rope training, smart core circuit training and speed-agility workout.

In 2015, physical fitness programs for a total of 10,188 gym use and 1,794 Group Exercise Class attendees were implemented at the LANDBANK Gym and Fitness Center.

LACTATION STATION

The Bank's Lactation Station was established in August 2012 to promote exclusive breastfeeding and support various government issuances on Gender and Development (GAD), Magna Carta of Women and Milk Code. To create awareness of these programs, the Bank also provides opportunities for employee volunteerism and participation in wellness and breastfeeding forum. Continuing parenting seminars and learning sessions were conducted for information, education and motivation campaigns.

As of December 2015, the number of lactation stations has increased from the original two to six cubicles. This is to serve the growing number of availers from 10 in 2012 to 20 in 2015. On May 21, 2015, the LANDBANK received a renewal of its certification as a "Mother-Baby Friendly Workplace" from the Department of Health. The Bank also organized the conduct of a learning session on breastfeeding with 50 attendees.

LANDBANK receives the Mother-Baby Friendly Workplace Certificate from DOH represented by Dr. Ruben Siapno, Head-Field Operations Division and representatives from the Family Health Development.

EMPLOYEE WELLNESS AND VOLUNTEERISM PROGRAMS

To further promote wellness and volunteerism, nine Small Group Learning Sessions with a total of 242 attendees and three Big Group Learning Sessions with a total of 105 attendees were conducted. The Bank also supported the employees in external sports tournaments such as Government Corporations Athletic Association (golf, shoot fest, bowling, chess, badminton, volleyball, basketball), Bankers' Athletic Association (badminton and bowling), Philippine Clearing House Corporation Employees Association (bowling) and 1st Civil Service ASEAN Games through GCAA with four players (two for table tennis, one for bowling, and one for badminton).

LANDBANK also participated in the Be RICEponsible Campaign implementing the serving of brown rice/mixed rice at LANDBANK Canteen.

Various activities providing employees the opportunity to release stress and foster fellowship with colleagues were organized. These include Health and Wellness Fair with 465 attendees and 97 participating service providers, 11 ballroom dancing sessions with 959 attendees, eight competitive sports events (badminton, basketball, bowling, chess, darts, table tennis, volleyball and billiards).

Three Family Day events were conducted. These are Pacquaio-Mayweather Match with 652 attendees; Papal visit with 397 attendees; and film showing of "Heneral Luna" with 550 attendees.

A Christmas party for kids with 244 attendees was organized. LANDBANK also partnered with four Employee Clubs for eight recreational/sports events with 890 participants.

Among the employee volunteerism initiatives was a bloodletting activity with 355 successful blood donors (74% success rate) yielding 159,750 mL of blood for the Philippine Red Cross. In line with this, the Bank received a Platinum Award from the Philippine Red Cross on July 23, 2015.

LANDBANK employees and service company workers also took part in the Bank's Corporate Social Responsibility (CSR) activities specifically the Gawad Sibol and the annual and quarterly cleanups of the Manila Bay SUNSET Partnership Program. Details of these programs have already been discussed earlier under the Pursuit of Mandate.

Gender and Development (GAD) was promoted through the partnership with employee support group. Four learning sessions on GAD-related topics (parenting, breastfeeding, women's reproductive health) were conducted.

LANDBANK also participated in the Women's Month celebration organized by the Philippine Commission on Women. It includes participation in the 18-day campaign to End Violence Against Women (VAW)/Orange your icon for 18 days advocacy.

Spiritual Wellness in the Workplace was implemented through the conduct of regular worship services, special thanksgiving masses and spiritual counseling at the LANDBANK Chapel in coordination with the Catholic community. There were two learning sessions with a total of 67 attendees and special projects (e.g., Bible museum exhibit, handwritten Unity Bible).

RELIEF AND DISASTER ASSISTANCE PROGRAM

In 2015, 174 LANDBANK employees and service company workers (SCWs) deployed in the Bank who were victims of the 7.2 magnitude earthquake in Bohol and Typhoon "Yolanda" in 2013 received a total of P7.89 million donation from the President's Social Fund (PSF) released by the Office of the President through the Presidential Management Staff (PMS).

The first tranche of the PSF financial assistance amounting to P3.99 million, which is equivalent to 50% of the total donation, was given to LANDBANK on May 29, 2015, with each beneficiary receiving P50,000 or P15,000 depending on the damage to their houses. The second tranche will be released upon favorable result of the PMS' field validation/ inspection on the reconstructed/repaired housing units of the concerned employees.

LANDBANK likewise granted a total of P808,000 financial assistance through its Relief and Disaster Assistance Fund for 221 Bank employees and service company workers deployed in the Bank who were victims of Typhoons "Ruby" and "Lando" in 2015.

The Bank's relief and disaster assistance program in the form of emergency relief or financial assistance is a manifestation of Management's concern for its employees and other workers serving the Bank. This assistance program helps or alleviates the condition of eligible beneficiaries who suffered losses or damages to properties in areas stricken by disaster or calamity as declared by proper authorities.

To ensure uniformity and consistency in the implementation of the program, the Bank formulated the Guidelines on the Implementation of the Relief and Disaster Assistance (RDA) Program.

EMPLOYEE DISCIPLINE AND ACCOUNTABILITY

Cognizant of the responsibilities as civil servants, LANDBANK formulated and implemented policies in 2015 to ensure employee discipline and accountability such as Guidelines in Handling Past Due Financial Obligations of LANDBANK Employees; Rules on Prohibited Concerted Mass Actions and Guidelines on Access and Usage of Official and Personal Social Networking Site (SNS) Accounts; and Revised Guidelines on the Loss of Life and Disability Benefit Plan (LLDBP). An amendment was made on the Guidelines on LANDBANK's Litigation Expenses and Liability Indemnity Plan for Directors, Officers and Employees (DOEs).

DEVELOPMENT OF THE BANK'S COMPETENCY FRAMEWORK

In line with the Bank's mandate of developing an agile organization, the Human Resources Management Group (HRMG), tasked to attract, retain, and competitively compensate talents, crafted the 3-Year Competency Framework Development as one of our commitment to the Governance Commission for GOCCs (GCG).

LANDBANK'S CORE COMPETENCIES

Social Responsibility
Customer Focus
Excellence
Innovation
Accountability
Collaboration

LANDBANK's continuing efforts towards the development and implementation of competency-based HR processes has reached its first milestone as it wraps up the crafting of its Competency Framework.

Competencies clarify the knowledge, skills and abilities required for successful performance. These are typically evaluated based on demonstration of observable behaviors. A competency framework provides the foundation for performance management, career pathing and planning, learning and development, and succession management.

With the partnership with Willis Towers Watson, the Bank was able to identify the Bank's Core Competencies as well as the Functional Competencies required to perform critical processes of its various units. Core competencies are behaviors expected from all employees that are aligned to culture and values of the organization.

LANDBANK's core competencies were fleshed out from a careful study of its Vision/Mission and Medium Term Plan. In addition, the Bank's senior officers including the President and CEO Gilda E. Pico were interviewed to solicit their views on the Bank's culture and what it takes for the realization of its Vision/Mission. The perspectives of LANDBANK personnel were likewise considered through focus group discussions with officers and staff from each of the Bank's Sectors.

Meanwhile, Functional Competencies are job-specific competencies that drive proven high-performance, quality results for a given position. Competencies that are required for the Bank's operations were systematically identified by designated Work Content Experts and Competency Writers, as facilitated by Willis Towers Watson. Their output is the result of a series of workshops and review sessions conducted on top of their regular workload. They have also been able to draft the Competency Profile for each position in their respective departments.

An established Competency Framework will help the Bank towards more sound talent management decisions i.e., recruiting and identifying high potentials, communicating performance expectations, identifying and addressing skills gap, among others. This also enabled the Bank to comply with one of its 2015 strategic deliverables with the GCG.

LEARNING AND DEVELOPMENT INITIATIVES

As an integral contributor to the Corporate Services Sector's (CSS) annual performance, the Organization Development Department, as the learning and development arm of the Bank, was able to facilitate the attendance of 7,614 employees or 99.35% of the entire bank-wide population. This accomplishment fulfilled the 2015 Collective Negotiation Agreement (CNA) with the Land Bank of the Philippines Employee Association (LBPEA) which requires that all Bank employees should attend at least one training per year.

For the Management and Leadership Development Programs (MLDP), Batch 4 of the Management Training Program (MTP) was completed on June 2015 with 32 graduates. As for the Branch Officers Development Program (BODP), Batch 1 graduated in September 2015 with 25 participants. Batch 7 of the Leadership Development Program (LDP), on the other hand, graduated in July 2015 with 30 participants while Batch 8 commenced in November 2015 with 30 participants.

For the Graduate Education Program (formerly National Scholarship for Development), all 125 slots were already filled-up. As of November 2015, 38 scholars already graduated. At the end of the year, the number of scholars reached 94.

FINANCIAL HIGHLIGHTS

RESULT OF OPERATION

LANDBANK sustained the ascending trend of its consolidated net income to P13.97 billion in 2015, P1.33 billion or 10% higher than the record P12.64 billion net income the Bank generated in 2014.

The net interest income increased to P28.25 billion in 2015, P3.45 billion or 14% higher than the P24.80 billion in 2014 due to significantly higher increase in interest income against interest expense. Interest income increased by P5.66 billion to reach P37.06 billion in 2015, while interest expense increased by P2.21 billion to reach P8.81 billion in 2015. Higher interest income came from loans and investments mainly due to higher loan portfolio, while higher interest expense was mainly due to interest on deposits, which increased by P2.44 billion due to P133.28 billion improvement in deposit level.

Other operating income, on the other hand, amounted to P7.23 billion in 2015, P574 million or 7% lower against P7.81 billion in 2014 due to FX loss on revaluation of foreign borrowings. Other operating expense amounted to P21.11 billion, P2.35 billion or 13% higher than P18.76 billion in 2014.

FINANCIAL CONDITION

LANDBANK remains to be the fourth largest bank in terms of assets reaching P1.21 trillion in 2015 from P1.06 trillion in 2014. Regular loans increased to P435.6 billion or by 13% over the P386.6 billion in the previous year. Investment portfolio on the other hand, declined to P285.2 billion or by 6% against P302.0 billion in 2014 attributed mainly to reduction in government securities available for sale. The loan and investment portfolios are fully funded by deposit liabilities that exceeded the trillion level for the first time at P1.045 trillion from P912.6 billion in 2014.

LANDBANK is one of only four banks with more than P1.0 trillion in deposits, with the next largest bank having less than P500 billion outstanding balance.

CAPITAL AND CAPITAL RATIOS

As of December 31, 2015, LANDBANK has P25.0 billion authorized capital composed of P20.0 billion common stocks and P5.0 billion preferred stocks. The common stocks are fully subscribed by the National Government (NG) including the P12.0 billion paid-up capital.

Similar to other universal and commercial banks, LANDBANK adopted the Basel III standards in computing for the capital ratios beginning 31 January 2014 pursuant to BSP Circular No. 781 issued in 2013. Consistent with Basel III and BSP requirements, contained in the following table below are the details and composition of the Bank's comparative capital and capital ratios for 2015 and 2014.

The Bank's CET 1 capital increased in 2015 due to record income, even if it was partially negated by lower unrealized gains on AFS securities. Total CET 1 capital however, is lower in 2015 mainly due to significantly higher regulatory adjustments.

Since March 2009, the Bank has an outstanding investment in MRTC amounting to US$143 million (P6.78 billion) representing preference shares and unsecuritized equity rental payments (ERPs). The investment was classified as Investment in Non-Marketable Equity Securities (INMES) and categorized as investment in non-financial allied undertaking. When Basel III standards were implemented beginning January 2014, among the major revisions were the inclusion of INMES in the regulatory adjustments or deduction to CET 1 capital.

(Except for the ratios, all figures in P Million)

	GROUP		PARENT	
	Dec. 2015	Dec. 2014	Dec. 2015	Dec. 2014
TIER 1 (going concern) Capital				
Common Equity Tier (CET) 1 Capital	**80,003.57**	**75,216.66**	**80,003.57**	**75,216.66**
Paid-up Common Stock	11,971.00	11,971.00	11,971.00	11,971.00
Retained Earnings	43,757.04	37,670.14	43,757.04	37,670.14
Undivided Profits	13,323,40	12,070.19	13,323,40	12,070.19
Net Unrealized Gain/(Loss) on AFS Securities	10,952.12	13,505.33	10,952.12	13,505.33
Regulatory Adjustments to CET 1 Capital	**28,940.07**	**20,368.39**	**30,403.06**	**22,282.81**
Total CET 1 Capital	**51,063.49**	**54,848.27**	**49,600.51**	**52,933.85**
Additional Tier 1 Capital	-	-	-	-
TOTAL Tier Capital 1	**51,063.49**	**54,848.27**	**49,600.51**	**52,933.85**
TIER 2 (gone concern) Capital	**15,092.21**	**14,703.45**	**15,069.97**	**14,681.89**
Instrument issued eligible as Tier 2 Capital	**10,500.00**	**10,500.00**	**10,500.00**	**10,500.00**
General loan loss provision	4,592.21	4,203.45	4,569.97	4,181.89
TOTAL Qualifying Capital	**66,155.70**	**69,551.72**	**64,670.47**	**67,615.74**

The said equity investments were approved by the Monetary Board (MB) in consideration of the NG's interest and the buyout arrangement of LANDBANK and DBP that shall be undertaken by the NG. Since its acquisition in 2009 however, LANDBANK and DBP have requested the MB for several extension of the authority to hold-on to these securities, with the most recent extension having expired on 31 December 2014. Without the MB extension, LANDBANK's P6.78 billion equity investments were deducted from its CET 1 capital as shown in the table below, and adversely affected the Bank's CET1, Tier 1 and their corresponding ratios including CAR.

	GROUP		PARENT	
	Dec. 2015	Dec. 2014	Dec. 2015	Dec. 2014
REGULATORY ADJUSTMENTS TO CET 1 CAPITAL	**28,940.07**	**20,368.39**	**30,403.06**	**22,282.81**
Total outstanding unsecured credit accommodations, both secured and unsecured to DOSRI	3,402.54	3,614.82	3,700.30	4,435.33
Defered tax assets	709.27	743.60	645.19	681.69
Other tangible assets	899.90	533.39	899.20	532.01
Investment in equity of unconsolidated subsidiary banks and quasi banks, and other financial allied undertakings	910.79	-	1,409.59	1,351.90
Investment in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies	-	877.01	910.79	877.01
Significant minority investment (10%-50% of voting stocks) in banks and quasi banks, and other financial allied undertaking	492.57	473.00	360.00	360.00
Minority investment (below 10% of voting stocks) in banks and quasi banks, and other financial allied undertaking	91.58	89.04	30.58	30.63
Other equity investments in non-financial allied undertakings and non-allied undertakings	22,433.44	14,037.53	22,447.42	14,014.25

Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements follows:

	GROUP					
	2015			2014		
	Regulatory Capital	**Reconciling Items**	**Audited Financial Statements**	**Regulatory Capital**	**Reconciling Items**	**Audited Financial Statements**
Paid-up common stock	11,971.00		11,971.00	11,971.00		11,971.00
Retained earnings	43,757.04	8,043.35	51,800.39	37,670.14	9,139.76	46,809.90
Revaluation Increment		61.20	61.20		61.20	61.20
Undivided profits	13,323.40	645.23	13,968.63	12,070.19	572.19	12,642.38
Net unrealized gains or losses on AFS securities	10,952.12	(5.03)	10,947.09	13,505.33	(4.43)	13,500.90
Deductions	(28,940.07)	28,940.07	-	(20,368.39)	20,368.39	0.00
Tier 1 (CET 1) Capital/Total equity	**51,063.49**	**37,684.82**	**88,748.31**	**54,848.27**	**30,137.11**	**84,985.38**
Tier 2 Capital	**15,092.21**	**(15,092.21)**	**-**	**14,703.45**	**(14,703.45)**	**-**
TOTAL Qualifying Capital/Total equity	**66,155.70**	**22,592.61**	**88,748.31**	**69,551.72**	**15,433.66**	**84,985.38**
	PARENT					
	2015			2014		
Paid-up common stock	11,971.00		11,971.00	11,971.00		11,971.00
Retained earnings	43,757.04	5,900.21	49,657.25	37,670.14	7,145.30	44,815.44
Undivided profits	13,323.40	340.19	13,663.59	12,070.19	319.20	12,389.39
Net unrealized gains or losses on AFS securities	10,952.12		10,952.12	13,505.33		13,505.33
Deductions	(30,403.06)	30,403.06	-	(22,282.81)	22,282.81	-
Tier 1 (CET 1) Capital/Total equity	**49,600.50**	**36,643.46**	**86,243.96**	**52,933.85**	**29,747.31**	**82,681.16**
Tier 2 Capital	**15, 069.97**	**(15,069.97)**	**-**	**14,681.89**	**(14,681.89)**	**-**
TOTAL Qualifying Capital/Total equity	**64,670.47**	**21,573.49**	**86,243.96**	**67,615.74**	**15,065.42**	**82,681.16**

	GROUP		PARENT	
	Dec. 2015	Dec. 2014	Dec. 2015	Dec. 2014
RISK-WEIGHTED ASSETS				
Credit Risk-Weighted Assets				
RW On-balance Sheet Assets	414,672.49	382,934.71	412,448.68	380,778.93
RW Off-balance Sheet Assets	44,382.12	37,223.88	44,382.12	37,223.88
Counterparty RW Assets in the Trading Books	165.96	186.41	165.96	186.41
Deduction: Gen loan loss provision in-excess of permitted	(928.77)	(1,873.62)	(930.03)	(1,873.33)
TOTAL Credit Risk-Weighted Assets	**458,291.80**	**418,471.39**	**456,066.73**	**416,315.90**
Market risk-weighted Assets				
Interest Rate Exposure	1,626.63	1,778.54	1,626.63	1,778.54
Equity Exposure	-	83.30	-	83.30
Foreign Exchange Exposure	840.61	647.17	840.61	647.17
Options	3,028.19	3,534.36	3,028.19	3,534.36
TOTAL Market Risk-Weighted Assets	**5,495.42**	**6,043.37**	**5,495.42**	**6,043.37**
TOTAL Operational Risk-Weighted Assets	**49,271.32**	**45,018.68**	**48,612.27**	**44,231.88**
TOTAL Risk-Weighted Assets	**513,058.54**	**469,533.43**	**510,174.41**	**466,591.15**

There is a significant increase in total risk-weighted assets (RWA), particularly on credit RWA due to the expansion of balance sheet and inclusion of accumulated market gains on debt securities.

Basel III requires the establishment of a 2.5% capital consevation buffer comprised of CET 1 capital. The buffer is designed to ensure that banks build up capital buffer during normal times that can be drawn upon as losses are incurred. Capital distribution constraints will be imposed if the bank falls short of the capital requirement.

In 2014, which is the initial year of Basel III implementation, the Bank's CET 1 Ratio stood at 11.68%, which is considerably ahead of the 6% minimum BSP requirement and 8.5% requirement including the capital conservation buffer. The CET 1 ratio declined to 9.95% in 2015 due to lower CET 1 capital combined with higher risk-weighted assets. Since the Bank has no outstanding AT1 capital, Tier 1 capital ratio likewise stood at 9.95%, which is comfortably above than the 7.5% BSP requirement.

LANDBANK's December 2015 total or capital adequacy ratio (CAR) stood at 12.89%, which showed a substantial decline compared to the 14.81% CAR in the previous year. The Bank's CAR is expected to further decline in the beginning of 2016 as the P10.5 billion subordinated notes are eligible as tier 2 capital until the end of 2015 only per BSP Circular Nos. 768 series of 2012 and 781 series of 2013. In fact, the Bank exercised its call option on the said notes in January 2016 given the above circumstances.

The growth rate of the Bank's capital is noticeably slower compared to the other major accounts, e.g., assets, deposits and loans. This is especially true to the CET 1 capital – the highest quality of capital, which is precisely what Basel III wants to improve. Moreover, the Bank's capital ratios are in serious decline for the last three years given the recent regulatory challenges combined with the Bank's limitation in raising capital.

Beginning 2015, LANDBANK had discussions with various stakeholders in concerned government agencies to raise capital. By December 10, 2015, the Bank was allocated about P9 billion as capital infusion under R.A. 10717 or the FY 2016 General Appropriations Act. With NG's better appreciation of the Bank's role in various government programs and the banking sector as Domestic Systemically Important Bank (DSIB), LANDBANK looks forward to further increases in capitalization in the medium-term.

	GROUP		PARENT	
	Dec. 2015	Dec. 2014	Dec. 2015	Dec. 2014
CET 1 RATIO	**9.95%**	**11.68%**	**9.72%**	**11.34%**
Minimum CET 1 Ratio	6.00%	6.00%	6.00%	6.00%
Capital Conservation Buffer	3.95%	5.68%	3.72%	5.34%
Tier 1 Capital Ratio	**9.95%**	**11.68%**	**9.72%**	**11.34%**
TOTAL Capital Ratio	**12.89%**	**14.81%**	**12.68%**	**14.49%**

LANDBANK FOUNDATION AND SUBSIDIARIES

LANDBANK Countryside Development Foundation, Inc.

The LANDBANK Countryside Development Foundation, Inc. (LCDFI) is a non-stock, non-profit corporate foundation of the Land Bank of the Philippines established in March 1983. The Foundation embodies LANDBANK's commitment to spur development in the countryside particularly among its priority sectors such as the small farmers and fisherfolk, ARBs, and CFIs.

In 2013, it was classified by the Governance Commission for GOCCs (GCG) as a government-owned and controlled corporation (GOCC), and as such, LCDFI endeavors to comply with all pertinent rules and regulations governing GOCCs and government entities. By 2015, LCDFI successfully transitioned from a non-government organization into a GOCC by ensuring that its systems and processes are compliant with relevant laws and regulations, particularly those concerning disclosure requirements and statutory liabilities.

LCDFI personnel attended the required training courses conducted by the GCG, Commission on Audit (COA), Philippine Commission on Women (PCW), Civil Service Commission (CSC) and the Government Procurement Policy Board (GPPB) to ensure proper compliance.

The Office of the President appointed a new set of Trustees as LCDFI's governing board in 2015. Before the year ended, each member of the LCDFI Board was able to complete the required Orientation-Seminar on Public Corporate Governance for board of directors/trustees of GOCCs.

FINANCIAL HIGHLIGHTS
(In P Million)

	2015	2014	Growth
Gross Revenues	17.95	25.36	-29.22%
Total Expenses	17.57	24.75	-29.01%
Net Income After Tax	0.38	0.61	-37.70%
Net Income After other Comprehensive Income	N/A	N/A	N/A
Total Resources	106.10	105.55	0.52%
Total Liabilities	3.17	2.64	20.08%
Total Equity	102.93	102.91	0.02%

In 2015, the Total Revenue of LCDFI decreased by P7.41 million mainly due to the change in accounting treatment particularly in recognition of donations. Total Expenses also decreased by P7.1 million because the number of trainings requested decreased to 79 batches as compared to 178 batches in 2014. LCDFI's Total Resources and Equity improved by P0.6 million and P0.02 million, respectively.

A closer coordination was done by LCDFI with the Lending Program Management Group (LPMG) and the Development Assistance Department (DAD) to implement the Capacity Building Program. This resulted to increased enhancement in the program's systems and processes.

Capacity Building Program. In 2015, LCDFI conducted 79 out of the 79 batches of trainings requested; updated 12 training modules; and monitored 16 batches of training to ensure compliance with the new implementing guidelines. LCDFI was able to train 1,267 training participants from 403 LANDBANK Borrowing Cooperatives.

LCDFI Productivity Tool. In 2015, at the request of Lending Programs Management Group (LPMG), LCDFI and Systems and Implementation Department (SID) initiated the development of the LCDFI Productivity Tool as part of database management for improved monitoring of training activities. The LCDFI Productivity Tool was turned over to LCDFI in July 2015. However, population of data started by September 2015 after several test runs that helped address some technical errors.

Bangon Mini-Farms Program. LCDFI also continued its implementation of the Bangon Mini-Farms Program in CY 2015. This program was developed to provide assistance to farmers based in Leyte and other nearby areas affected by the Typhoon Yolanda. The objective of the Bangon Mini-Farms Program is to introduce farmers to the natural mini-farms technology as a means to end hunger and poverty one farmer family at a time.

In 2015, LCDFI was able to conduct five (5) batches of monitoring meetings in Capoocan, Ormoc, Tacloban and other areas in Leyte and Iloilo. Two (2) farm audits were also conducted in various areas in Leyte to ensure proper implementation of the organic mini-farms technology as well as address emerging concerns of the farmer-members of the Bangon Alpha Sector Association, Inc. (BASAI).

LCDFI also conducted a training on "7 Habits for Highly Effective People: Mindset Resilience" for the 55 participants who are farmer-members of the BASAI. The said training, held on March 5-6, 2015, was implemented in coordination with the Center for Leadership and Change, Inc..

Another training, conducted by LCDFI this time, in partnership with the Department of Agriculture (DA) for 70 BASAI farmer-members is the "Good Agricultural Practices Orientation Seminar" held at Kananga, Leyte on September 25, 2015.

Likas Saka Program. LCDFI also continued to implement the Likas Saka Program in 2015 for farmer clusters in Tarlac and the Bondoc Peninsula, Quezon Province. The program also advocates the organic agriculture technology implemented by farmer clusters through locally-based Local Resource Persons (LRPs).

For the year, LCDFI was able to distribute "camoteng bagin" and other farm materials to the two (2) farm clusters in Tarlac and the Bondoc Peninsula, Quezon Province. Two batches of monitoring meetings was conducted in Narciso, Quezon to determine needs of participating farmer clusters as well as provide updates on the organic agriculture technology.

To ensure that LRPs assigned in the Likas Saka Program are updated on developments about the organic agriculture technology, LCDFI enrolled them in the Integrated Organic Farming Systems and EM Technology training conducted by the Costales Nature Farms in Majayjay, Laguna on November 18-19, 2015.

Scholarships. LCDFI continued to assist in the administration of LANDBANK's GAWAD PATNUBAY Scholarship Program by monitoring the academic performance of six scholars based in Bukidnon, Oriental Mindoro, Batangas and Aklan. LCDFI also implemented the Scholarship Program supported by the Land Bank of the Philippines Employees Association (LBPEA) and the Middle Management and Officers Association, Inc. (MMOAI). The 20 beneficiaries of this scholarship program are enrolled in agri-related courses at the Misamis Oriental State College of Agriculture and Technology (MOSCAT) and the Central Mindanao University (CMU).

CSR Program. As part of its corporate social responsibility (CSR) initiatives, LCDFI, along with other LANDBANK Subsidiaries, agreed to be part of the Manila Bay SUNSET Partnership Program, Inc. (MBSPPI), the flagship CSR program of LANDBANK which aims not only to clean-up Manila Bay and nearby coastal areas but also promote environmental awarenes, protection and conservation. LCDFI employees participated in the Annual Manila Bay Clean-Up organized by LANDBANK in August 2015.

LANDBANK Insurance Brokerage, Inc.

The LANDBANK Insurance Brokerage, Inc. (LIBI) was established by LANDBANK to service the insurance requirements of the Bank and its clients. It is engaged in the business of general insurance brokerage and management and consultancy services on insurance-related activities. Insurance product lines include fire insurance, life insurance and other miscellaneous insurance business from engineering, aviation, credit card, floater, pre-need lines, among others. Its secondary purpose is to engage in the business of buying and selling of foreign currencies.

FINANCIAL HIGHLIGHTS
(In P Million)

	2015	2014	Growth
Gross Profit	138.1	133.2	4%
Total Expenses	46.9	37.2	26%
Net Income After Tax	72.2	75.7	(5%)
Total Assets	1,223.8	1,115.7	10%
Total Liabilities	313.3	237.7	32%
Total Equity	910.2	877.9	4%

As at December 31, 2015, LIBI's Insurance Division generated net premium volume amounting to P572.04 million, an increase of P4.13 million or 0.73 per cent compared to last year's P567.90 million net premium volume. Net service fees from insurance brokering for the year of P95.99 million is P2.35 million or 2.36 per cent higher than last year's P93.64 million net service fees. The minimal increase was due to reduction of commission rate on salary loan by 5% effective April 01, 2015. Trading Income for the year of P12.92 million is 29.33 per cent or P2.93 million higher against last year's Trading income of P9.99 million. Volume of dollars traded by LIBI-Forex Division, on the other hand, amounted to USD163.29 million. This represents an increase of USD75.93 million or 86.92 per cent compared to last year's volume of dollars traded of USD87.36 million. For CY2015, LIBI realized a net income after tax (NIAT) of P72.2 million, a decrease of P3.55 million or 5 per cent compared to CY2014 NIAT of P75.76 million. CY2015 NIAT was 9.27 per cent or P7.37 million below the 2015 target of P78.58 million. This is primarily due to the increase in provision for probable losses by 56.6 per cent or P3.87 million, from P6.71 million in CY2014 to P10.6 million in CY2015 million. Return on Equity (ROE) is 7.93 per cent while Return on Asset (ROA) is 5.90 per cent, both were lower by 8.17 per cent and 13.09 per cent respectively, compared to last year's ROE of 8.64 per cent and ROA of 6.79 per cent. Per capita income is P1.95 million, lower by 7.27 per cent or P0.153 million compared to last year's per capita income of P2.10 million. CY2015 EBITDA is 68 per cent, lower by 6 per cent compared to CY2014 EBITDA margin of 74 per cent.

Masaganang Sakahan, Inc.

Year 2015 marked continuous improvement in MSI operations and financial performance. Through MSI's Board's directions and guidance, together with the management's and workforce's teamwork and esprit de corps, MSI attained its targets for the year.

- *Focus on Stakeholders*

Through persistent marketing efforts and some policy changes, MSI without foregoing its corporate accounts for milled rice, developed and expanded niche market called the "primary market" of milled rice. This primary market refers to businesses whose core business activity involves the purchase of milled rice either for consumption or for purposes of selling.

For CY 2015, MSI served 35 primary accounts and 16 corporate accounts with a combined traded volume of 17,941 bags of milled rice, higher by 23 percent compared to CY 2014 traded volume of 14,560 bags.

Also in the same year, MSI assisted 25 cooperatives for its Payment-In-Kind (PIK) Program for Palay and Milled Rice and collected for LANDBANK loan payment of cooperatives amounting to P141.47 million.

These cooperatives-partners were given due recognition in December 2015 for their support and contribution in the success of the PIK Program.

It is also in 2015 that MSI conducted its first ever survey to assess the level of customer satisfaction to the quality of its services. The mean survey results of 4.52, with 5 being the highest and 1 being the poor, are very encouraging and affirmed that MSI are doing things right.

It was also in 2015 that MSI management, through the Board's stewardship, initiated the purchase of a two-hectare property located in Sta. Rosa, Nueva Ecija. This property will be developed as a Learning Farm for small land holdings that will cater to farmers-cooperatives and organization in order to expand our assistance to them.

• *Enhancing Internal Processes and Learning*

With the strengthening of logistics through procurement of additional cargo trucks in CY 2014, MSI was able to shorten its delivery response to clients in CY 2015 to an average of 2.42 days from the previous 12 days.

MSI's toll milling process remained comparable with the industry standard and stood at 63.43 percent average milling recovery. More so, with good forecasting and inventory turn-over, plant operation was able to fully maximize its warehouse capacity and housed a total of 134,778 cavans of palay.

In MSI's efforts to improve business efficiency, MSI also focused in 2015 on reviewing and enhancing operational structure and policies. MSI have developed a competency framework and provided essential training to employees in order to strengthen our human resource capabilities.

• *Financial Highlights*

MSI realized gross revenues of P291.65 million increased by 11 percent or P29.18 million compared to year 2014 of P262.47 million. This enabled MSI to attain a gross profit of P56.31 million, 68 percent higher than last year's gross profit of P33.55 million. As a result, net operating income rose 149 percent from P14.40 million in 2014 to P35.91 million in 2015. Net Income After Tax increased by P13.11 million or 105 percent to P25.63 million from P12.52 million in 2014.

Total Resources reached P203.16 million, higher by 36 percent or P54.23 million compared to year 2014 of P148.94 million. Total liabilities increased by 106 percent or P36.64 million from last year's P34.65 million to this year's P71.29 million. Stockholder's equity improved by P17.59 million or 15 percent from last year's P114.29 million to P131.88 million in 2015.

FINANCIAL HIGHLIGHTS
(In P Million)

	2015	2014	Growth
Gross Revenues	291.646	262.467	11.12%
Total Expenses	20.400	19.147	6.54%
Net Income After Tax	25.632	12.520	104.73%
Total Resources	203.164	148.939	36.41%
Total Liabilities	71.286	34.647	105.75%
Total Equity	131.878	114.292	15.39%

MSI's Gross Revenue increased by P29.2 million from P262.5 million in 2014 to P291.6 million in 2015. Net Income After Tax, Total Resources and Equity correspondingly increased to P25.6 million, P203.2 million and P131.9 million respectively.

LANDBANK Resources and Development Corporation

The LANDBANK Resources and Development Corporation (LBRDC) handles the Bank's construction facility requirements particularly branch construction, relocation and renovation, automated teller machine booth construction and LANDBANK Easy Access Facility (LEAF).

In addition, LBRDC helps the Bank in the disposal of non-performing assets by providing brokering services, real estate management and development of the Bank's foreclosed assets. LBRDC also provides housekeeping, janitorial, sanitation, manpower and air-conditioning maintenance services.

In 2015, LBRDC complted three building constructions and forty-six (46) renovations of branch offices and LEAF. With these accomplishments, LBRDC generated P189.37 million in construction revenues. LBRDC also generated P130.39 million revenue from manpower services and P37.73 million from other business activities like brokering, property management, air-conditioning unit (ACU) maintenance services and rentals of building. LBRDC posted a net income after tax of P58.88 million in 2015, 131 percent of the year-end target of P45.04 million and over by 81 percent or P26.34 million of 2014 net income after tax.

The company's total resources increased by 4 percent or P24.18 million primarily due to the increase in short-term investment by P12.0 million and increase in receivables by P43.0 million. Total liabilities decreased by 21 percent or P18.42 million due to the decrease in payables by P2.0 million, accrued expenses by P14.0 million, due to government entities by P1.0 million and advances from clients by P8.0 million. Stockholders' Equity also increased by 9 percent or P43 million due to net income generated in 2015.

In the same year, LBRDC developed skills and capabilities through various seminars and trainings, LBRDC continued its housekeeping, janitorial and sanitation services for LANDBANK Plaza Headquarters and Satellite Offices as well as for LANDBANK Field Units nationwide. LBRDC also continued providing manpower and janitorial services to HOLCIM Phil., Inc. (Calumpit and Norzagaray Plants) and its subsidiary, Excel concrete Logistics, Inc. LBRDC also provided manpower services to LIBI. LBRDC expanded its ACU maintenance services which cover LANDBANK Branches in NCR North and South area and at present include LANDBANK Branches in North, Central, Southeast and South West Luzon areas.

- *Financial Highlights*

(In P Million)			
	2015	2014	Growth
Gross Revenues	370.53	360.02	2.92%
Total Expenses	293.20	320.74	(8.59%)
Net Income After Tax	58.88	32.54	80.95%
Net Income After Other Comprehensive Income (if applicable)	-	-	-
Total Resources	568.45	544.27	4.44%
Total Liabilities	69.32	87.74	(20.99)%
Total Equity	499.13	456.52	9.33%

LANDBANK Leasing and Finance Corporation

LANDBANK Leasing and Finance Corporation (LLFC) complements LANDBANK by making available various leasing and financial facilities that support priority sectors in the acquisition of equipment and other capital assets. LLFC also provides working capital requirements which allows them to expand, upgrade or modernize operations. Among the priority sectors serviced by the Corporation are SMEs, rural banks, government agencies, government corporations and agri-business companies.

For the year-ending December 31, 2015, LLFC realized gross revenue of P536.1 million as against P342.2 million in total expenses resulting to a Net Income after Tax (NIAT) of P145.0 million. NIAT for 2015 was P5.4 million higher than the 2014 net income of P139.6 million.

Total resources of the Corporation at year-end stood at P3.97 billion slightly lower than the total resources in the previous year. Total Portfolio for year-ending 2015 amounted to P3.7 billion. Of the total portfolio, P1,009.5 million are lease/ loans facilities for SMEs, P1,1407.9 million for government agencies including GOCCs, P1,112.8 million for large corporations and P171.2 million for other sectors as of December 31, 2015.

LLFC has been implementing a transport re-fleeting program, a tie-up with Land Transportation and Franchising and Regulatory Board (LTFRB) and Land Transportation Office (LTO) to provide financing for UV Express operators and other public transport operators for the replacement of their existing vehicles which have been used for more than 13 years. The Corporation was able to grant credit to fifty-two (52) public transport operators for their vehicle requirement in 2015. Since the program started, the Corporation was able to assist 134 transport operators which translated to a total public transport re-fleeting portfolio of P116.8 million as of December 31, 2015.

FINANCIAL HIGHLIGHTS
(In P Million)

	2015	2014	Growth
Gross Revenues	536.1	515.5	4.00%
Total Expenses	342.2	329.5	3.85%
Net Income After Tax	145.0	139.6	3.87%
Total Resources	3,971.3	4,005.6	(0.86%)
Total Liabilities	2,561.7	2,668.6	(4.01%)
Total Equity	1,409.6	1,337.0	5.43%

Awards received by LANDBANK in 2015

Global CSR Excellence and Leadership Award

LANDBANK won the Global CSR Excellence and Leadership Award from the ***World CSR Congress*** *in India. The award recognizes outstanding achievements in economic, environmental and social dimensions by identifying and rewarding exemplary businesses in various aspects of Corporate Social Responsibility.*

Outstanding CEO – ADFIAP 2015 Awards

LANDBANK President and CEO Gilda E. Pico won the ***2015 ADFIAP Outstanding CEO Award*** *for her "sterling performance in leading and sustainably managing the Bank since 2006".*

Outstanding Development Projects – ADFIAP 2015 Awards

LANDBANK also bagged the ADFIAP "Outstanding Development Project" award under the Human Capital Development category for its Innovative Training and Responsive Approaches for Institutional Nurturing (iTRAIN).

Awards received by LANDBANK in 2015

Asia Trailblazer Awards 2015

*LANDBANK was **Highly Commended** for its LANDBANK Mobile LoanSaver (LMLS) under the Process Excellence in Loan Origination Category at the **6th Retail Banker International Asia Trailblazer Summit and Awards 2015** held in Singapore.*

Green Leadership Award

*LANDBANK's Environmental Due Diligence (EDD) Program won for LANDBANK the Green Leadership Award conferred during the **Asia Responsible Entrepreneurship Awards**.*

Awards received by LANDBANK in 2015

Karlsruhe Sustainable Finance Award

LANDBANK was recognized by the Global Sustainable Finance Network (GSFN) for its contributions to the field of sustainable finance.

Asian Banking and Finance

The LANDBANK Mobile LoanSaver (LMLS), the first paperless and fully electronic loan application service in the Philippines, bagged two awards from Asian Banking & Finance Retail Banking Awards 2015.

LMLS was recognized as Mobile Banking Initiative of the Year and Core Banking System Initiative of the Year by the Asian Banking and Finance magazine.

Awards received by LANDBANK in 2015

2015 Banking Awards by International Banker

LANDBANK bagged three major awards at the 2015 International Banker Banking Awards in London including:

- Best Commercial Bank Philippines 2015
- Best Innovation in Retail Banking Philippines 2015
- Best Banking CEO of the year Asia 2015 for LANDBANK President and CEO Gilda Pico

Bangko Sentral ng Pilipinas

LANDBANK was recognized as "Outstanding CSF Lending Bank under the Credit Surety Fund (CSF) category at the 2015 Awards Ceremony and Appreciation Lunch for BSP Stakeholders held in July 2015.

LANDBANK was also recognized as "Outstanding Respondent in Survey of Inflation Forecasts."

Philippine Quill Award

Newsgram, LANDBANK's official newsletter received an Award of Merit at the Philippine Quill Awards 2014 conferred by the ***International Association of Business Communicators****. Newsgram won under the Communication Skills Division, Publications Category.*

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End-December 2015

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Representative, Agrarian Reform Beneficiaries

Victor Gerardo J. Bulatao
Director
Representative, Agrarian Reform Beneficiaries

Virgilio R. Delos Reyes
Director
Secretary, Department of Agrarian Reform

Rosalinda D. Baldoz
Director
Secretary, Department of Labor and Employment

Proceso J. Alcala
Director
Secretary, Department of Agriculture

Tomas T. De Leon, Jr.
Director
Representative, Private Sector

Domingo I. Diaz
Director
Representative, Private Sector

Management Team

End–December 2015

Cecilia C. Borromeo
Executive Vice President
Agricultural and Development Lending Sector

Gilda E. Pico
President and CEO

Jocelyn D.G. Cabreza
Executive Vice President
Branch Banking Sector

Julio D. Climaco, Jr.
Executive Vice President
Corporate Services Sector

Andres C. Sarmiento
Executive Vice President
Operations Sector

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From left: VP Felix L. Manlangit, FVP Teresita E. Cheng, VP Virgilio M. Quintana, VP Rosemarie M. Osoteo, SVP Liduvino S. Geron, SVP Reynauld R. Villafuerte

Agricultural and Development Lending Sector

From left: VP Elsie Fe NB. Tagupa, FVP Lolita T. Silva, SVP Joselito P. Gutierrez, SVP Edward John T. Reyes, VP Lucila E. Tesorero, VP Charlotte I. Conde

From left: FVP Filipina B. Monje, SVP Daisy M. Macalino, FVP Leila C. Martin, VP Cielito H. Lunaria, FVP Ma. Celeste A. Burgos, VP Vilma V. Calderon

From left: VP Khurshid U. Kalabud, FVP Renato G. Eje, FVP Camilo C. Leyba, VP Mauricio C. Feliciano, VP Althon C. Ferolino, FVP Ananias O. Lugo, Jr.

From left: FVP Ramon R. Monteloyola, SVP Jennifer A. Tantan, FVP Randolph L. Montesa, VP Ana S. Concha, FVP Manuel Jose Mari S. Infante, VP Marilou L. Villafranca, VP Nomerlito A. Juatchon

Corporate Services Sector

VPs and up
End-December 2015

From left: VP Annalene M. Bautista, FVP Catherine Rowena B. Villanueva, VP Voltaire Pablo P. Pablo III

Operations Sector

VPs and up
End-December 2015

From left: FVP Conrado B. Roxas, SVP Yolanda D. Velasco, FVP Antonio V. Hugo, Jr., VP Ma. Eloisa C. Dayrit, SVP Alan V. Bornas, VP Minda D. Rubio, VP Winston Rochel L. Galang

Treasury and Investment Banking Sector

VPs and up
End-December 2015

From left: SVP Christopher Ma. Carmelo Y. Salazar, VP Lolita M. Almazar, SVP Carel D. Halog, VP Christine G. Mota, FVP James A. Aldana

LANDBANK Foundation and Subsidiaries

End-December 2015

From left: LCDFI Exec. Dir. Peter Andrew S. Gutierrez, LIBI GM George R. Francisco, LBRDC Pres. Simeona S. Guevarra, MSI Pres. & CEO Roy C. Oscillada, LLFC Pres. & CEO Manuel H. Lopez

List of SENIOR OFFICERS and DEPARTMENT HEADS

As of 31 December 2015

UNITS UNDER THE BOARD AND OFFICE OF THE PRESIDENT

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Corporate Secretary
Reynauld R. Villafuerte
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Efren S. Tedor
VICE PRESIDENT

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Noemi P. Dela Paz
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Constance V. Manuel
ASSISTANT VICE PRESIDENT

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ASSISTANT DEPARTMENT MANAGER

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Regulatory Compliance Department
Reynaldo Michael R. Bien
INFORMATION TECHNOLOGY OFFICER

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Generoso S. David
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ASSISTANT VICE PRESIDENT

Small & Medium Enterprises - Mid-Market Lending Department 2
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Abel E. Madarang
DEPARTMENT MANAGER

Mortgage Banking Department II
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North NCRBG Cluster B
Delma O. Bandiola
ASSISTANT VICE PRESIDENT

North NCRBG Cluster C
Myrgie O. Mendoza
DEPARTMENT MANAGER

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Rossana S. Coronel
ASSISTANT VICE PRESIDENT

South NCRBG Cluster B
Mylene B. Macapagal
DEPARTMENT MANAGER

South NCRBG Cluster C
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East Visayas Branches Group
Manuel Jose Mari S. Infante
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West Visayas Branches Group
Mauricio C. Feliciano
VICE PRESIDENT

East Mindanao Branches Group
Camilo C. Leyba
FIRST VICE PRESIDENT

West Mindanao Branches Group
Khurshid U. Kalabud
VICE PRESIDENT

CORPORATE SERVICES SECTOR
Julio D. Climaco, Jr.
EXECUTIVE VICE PRESIDENT

Corporate Affairs Department
Catherine Rowena B. Villanueva
FIRST VICE PRESIDENT

Provident Fund Office
Belina A. Llamanzares
PROVIDENT FUND OFFICER

Facilities & Procurement Services Group
Annalene M. Bautista
VICE PRESIDENT

Procurement Department
Alwin I. Reyes
ASSISTANT VICE PRESIDENT

Facilities Management Department
Hermie C. Villa
ASSISTANT DEPARTMENT MANAGER

Project Management & Engineering Department
Alexander S. Lazaro
ASSISTANT DEPARTMENT MANAGER

Human Resource Management Group
Voltaire Pablo P. Pablo III
VICE PRESIDENT/OIC

Employee Relations Department
Voltaire Pablo P. Pablo III
VICE PRESIDENT

Organization Development Department
Emmanuel G. Hio, Jr.
ASSISTANT VICE PRESIDENT

Personnel Administration Department
Joselito B. Vallada
ASSISTANT VICE PRESIDENT

OPERATIONS SECTOR
Andres C. Sarmiento
EXECUTIVE VICE PRESIDENT

Banking Operations Group
Conrado B. Roxas
FIRST VICE PRESIDENT

Property Valuation & Credit Information Department
Winston Rochel L. Galang
VICE PRESIDENT

International Trade Department
Susan I. Mariano
ASSISTANT VICE PRESIDENT

Loans Implementation Department
Maria Edelwina D. Carreon
ASSISTANT VICE PRESIDENT

Foreign & Domestic Remittance Department
Corazon A. Gatdula
DEPARTMENT MANAGER

Banking Services Group
Antonio V. Hugo, Jr.
FIRST VICE PRESIDENT

Central Clearing Department
Reynaldo C. Capa
ASSISTANT VICE PRESIDENT

ATM & Cash Management Department
Arnold Jose G. Adolfo
ASSISTANT DEPARTMENT MANAGER

MDS & Collections Management Department
Irish D. Tan
ASSISTANT DEPARTMENT MANAGER

Controllership Group
Yolanda D. Velasco
SENIOR VICE PRESIDENT

Financial Accounting Department
Ma. Eloisa C. Dayrit
VICE PRESIDENT

Administrative Accounting Department
Celia G. Barretto
ASSISTANT VICE PRESIDENT

Treasury Operations Department
Merceditas N. Oliva
ASSISTANT VICE PRESIDENT

Agrarian Accounting Office
Jaime G. Dela Cruz
DEPARTMENT MANAGER

Systems & Methods Department
Benjamin P. Villanueva, Jr.
ASSISTANT DEPARTMENT MANAGER

Technology Management Group
Alan V. Bornas
SENIOR VICE PRESIDENT

IT-Project Management Office
Minda D. Rubio
VICE PRESIDENT

Data Center Management Department
Alden F. Abitona
ASSISTANT VICE PRESIDENT

Electronic Banking Systems Department
Arthur E. Dalampan
ASSISTANT VICE PRESIDENT

Network Operations Department
Enrique L. Sazon, Jr.
ASSISTANT VICE PRESIDENT

Retail Banking Systems Department
Grace Ofelia Lovely V. Dayo
ASSISTANT VICE PRESIDENT

Enterprise Systems Department
Marites D. Laserna
INFORMATION TECHNOLOGY MANAGER

IT Security Office
Lolita L. Sumaylo
INFORMATION TECHNOLOGY OFFICER

Production Control & Administrative Services
Alona L. Manabat
INFORMATION TECHNOLOGY OFFICER

TREASURY & INVESTMENT BANKING SECTOR

Investment Sales & Distribution Department
Lolita M. Almazar
VICE PRESIDENT

Treasury Support Department
Nida S. Pagdanganan
MANAGER

Asset & Liability Management Group
Christopher Ma. Carmelo Y. Salazar
SENIOR VICE PRESIDENT

Balance Sheet Management Department
Ivy C. Sacramento
ASSISTANT VICE PRESIDENT

Liquidity & Reserve Management Department
Ma. Elizabeth L. Gener
ASSISTANT VICE PRESIDENT

Financial Markets Group
Carel D. Halog
SENIOR VICE PRESIDENT

Capital Markets Trading Department
Ma. Francia O. Titar
ASSISTANT VICE PRESIDENT

FX Sales & Hedging Solutions Department
Adelfa R. Masacupan
ASSISTANT VICE PRESIDENT

Rates & FX Trading Department
Christine G. Mota
VICE PRESIDENT

Investment Banking Group
James A. Aldana
FIRST VICE PRESIDENT

Investment Banking Department 2
Florence Rosalind R. Claveria
SENIOR MANAGEMENT ASSOCIATE

Independent AUDITOR'S REPORT

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City
CORPORATE GOVERNMENT SECTOR
Cluster 1 - Banking And Credit

The Board of Directors
Land Bank of the Philippines
Manila

We have audited the accompanying financial statements of Land Bank of the Philippines (LBP), and its subsidiaries (referred to as the "Group") which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in capital funds and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS
Management is responsible for the preparation and fair preparation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

AUDITOR'S RESPONSIBILITY
Our responsibility is to express an opinion on theses financial statements based on our audits. We conducted our audits in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free form material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION
In our opinion the financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

EMPHASIS OF MATTER
We draw attention to Note No. 10 to the 2015 and 2014 Financial Statements which disclosed, among others, that LBP's Available-for-sale – Domestic-Private investments account include unrestored 3,336,800 MERALCO shares with far value of P1,077.376 million and P861.901 million in 2015 and 2014, respectively. Likewise, the corresponding cash and property dividends earned amounting to P212.647 million and P169.448 million in 2015 and 2014, respectively, and 9,488,394 shares of stock in Rockwell Land Corporation, respectively, we still unpaid to LBP.

To compel MERALCO to comply with the Supreme Court decision, LBP filed the Petition to Cite MERALCO and other Respondents in Indirect Contempt before the Supreme Court on April 14, 2015. On May 30, 2016, LBP filed its reply to the Comment of MERALCO.

Our opinion is not modified in respect of the above matter.

COMMISSION ON AUDIT

CORA D. MARQUEZ
Supervising Auditor

17 June 2016

LANDBANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the **Land Bank of the Philippines and Subsidiaries (the Group)** and the **Land Bank of the Philippines (the Parent)** is responsible for the preparation and fair presentation of the financial statements as at and for the years ended December 31, 2015 and 2014, including the additional components attached therein in accordance with the prescribed financial reporting framework indicated therein. This responsibility 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 before such statements are issued to the regulators, creditors and other users.

The Commission on Audit has examined the financial statements of the Group and of the Parent Company in accordance with the Philippine Standards on Auditing and has expressed opinion on the fairness of presentation upon completion of such audit in its report to the Board of Directors.

ANTONIO V. HUGO, JR.
FVP, Controllership Group

ANDRES C. SARMIENTO
EVP, Operations Sector

Gilda E. Pico

GILDA E. PICO
President and CEO

Signed this 17th day of June 2016.

Land Bank of the Philippines

Statements of
FINANCIAL POSITION

December 31, 2015 and 2014 (In Philippine Pesos)

	NOTE	GROUP		PARENT	
ASSETS		**2015**	**2014**	**2015**	**2014**
Cash and other cash items	4	26,890,158,158	24,249,017,453	26,889,156,228	24,247,688,757
Due from Bangko Sentral ng Pilipinas	5	314,934,579,624	229,351,506,667	314,934,579,624	229,351,506,667
Due from other banks	6	5,890,459,969	6,385,038,678	5,782,735,575	6,285,385,480
Interbank loans receivable	7	17,799,876,515	17,243,602,502	17,799,876,515	17,243,602,502
Securities purchased under agreements to resell	8	83,654,000,000	56,390,000,000	83,654,000,000	56,390,000,000
Held for trading	9	8,474,023,572	14,812,839,661	8,474,023,572	14,812,839,661
Available for sale investments	10	154,131,204,263	191,341,108,669	154,131,204,263	191,341,108,669
Held to maturity investments	11	122,601,782,887	95,814,859,572	121,784,243,661	95,025,587,221
Loans and receivables - net	12 & 17	450,481,755,326	402,186,672,410	449,046,560,011	401,265,228,544
Investments in subsidiaries	13	0	0	438,775,006	485,826,068
Investment property - net	14	6,406,027,644	6,808,621,138	6,290,389,090	6,689,559,753
Property and equipment - net	15	6,779,753,581	5,943,264,176	6,243,994,847	5,478,999,412
Non-current assets held for sale		371,034,571	247,326,754	347,281,087	223,573,270
Other resources - net	16 & 17	7,272,783,211	7,798,319,866	7,251,396,648	7,765,981,310
Deferred income tax	22	72,431,321	63,857,317	0	0
		1,205,759,870,642	**1,058,636,043,863**	**1,203,068,216,127**	**1,056,606,887,314**
LIABILITIES AND CAPITAL FUNDS					
Liabilities					
Deposit liabilities	18	1,045,860,316,022	912,579,675,350	1,046,227,858,264	912,951,636,151
Bills payable	19	21,749,930,995	20,241,127,845	21,349,930,995	20,241,127,845
Unsecured subordinated debt	20	10,500,000,000	10500,000,000	10,500,000,000	10,500,000,000
Derivative liabilities		0	45,033,435	0	45,033,435
Deposits from other banks		16,757,519	8,621,427	16,757,519	8,621,427
Treasurer's, Manager's and Cashier's checks		1,937,582,485	1,496,752,187	1,937,582,485	1,496,752,187
Payment order payable		91,205,588	99,378,030	91,205,588	99,378,030
Marginal deposits		65,26,470,264	314,270,814	6,526,470,264	314,270,814
Cash letters of credit		7,463,598,413	8,502,862,025	7,463,598,413	8,502,862,026
Other liabilities	21	22,865,695,463	19,862,931,058	22,710,855,010	19,766,046,856
		1,117,011,556,749	**973,650,652,171**	**1,116,824,258,538**	**973,925,728,771**
Capital funds	30				
Common stock		11,971,000,000	11,971,000,000	11,971,000,000	11,971,000,000
Paid-in surplus		101,098,220	101,098,220	101,098,220	101,098,220
Retained earnings free		24,508,784,600	19,673,039,494	23,273,646,428	17,876,609,603
Retained earnings reserve		27,190,507,032	27,035,769,169	26,282,507,032	26,837,732,453
Undivided profits		13,968,627,299	12,642,378,560	13,663,584,070	12,389,392,660
Revaluation increment		61,200,000	61,200,000	0	0
Net unrealized gains on securities available for sale		10,947,096,742	13,500,897,249	10,952,121,839	13,505,325,607
		88,748,313,893	**84,985,382,692**	**86,243,957,589**	**82,681,158,543**
		1,205,759,870,642	**1,058,636,034,863**	**1,203,068,216,127**	**1,056,606,887,314**

The Notes on pages 117 to 150 form part of these financial statements.

Land Bank of the Philippines

Statements of
COMPREHENSIVE INCOME

For the years ended December 31, 2015 and 2014 (In Philippine Pesos)

		GROUP		PARENT	
	NOTE	2015	2014	2015	2014
INTEREST INCOME					
Loans		23,799,609,005	19,909,873,384	23,559,487,460	19,677,443,351
Investments		10,829,494,262	9,673,579,409	10,802,059,058	9,645,497,490
Due from Bangko Sentral ng Pilipinas		2,424,170,012	1,810,161,431	2,424,170,012	1,810,161,431
Deposit in banks		11,530,149	11,672,397	11,198,867	11,361,740
Others		944,399	1,847,916	944,399	1,847,916
		37,065,747,827	31,407,134,537	36,797,859,796	31,146,311,928
INTEREST EXPENSE					
Deposit liabilities		7,335,408,475	4,896,023,103	7,342,236,329	4,903,215,076
Unsecured subordinated debt		816,547,054	868,767,451	828,378,360	866,642,756
Borrowed funds		616,875,000	838,907,458	616,875,000	838,907,458
Others		48,113,382	1,182,027	48,595,739	1,225,033
		8,816,943,911	6,604,880,039	8,836,085,428	6,609,990,323
NET INTEREST INCOME		28,248,803,916	24,802,254,498	27,961,774,368	24,536,321,605
PROVISION FOR CREDIT LOSSES	17	133,518,969	65,791,632	104,913,927	45,063,405
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		28,115,284,947	24,736,462,866	27,856,860,441	24,491,258,200
OTHER OPERATING INCOME					
Gain from sale/redemption/reclass of non-trading of FA and Liab		1,831,786,246	1,429,733,490	1,831,786,246	1,429,733,490
Foreign exchange gains from revaluation		17,655,071	1,753,070,671	17,655,071	1,753,070,671
Dividends		1,552,119,872	1,671,014,712	1,552,119,872	1,671,014,712
Fees and commission		1,549,824,362	1,300,013,395	1,453,857,264	1,206,370,245
Gain from dealings in foreign currency		565,106,953	602,142,846	551,915,699	591,827,585
Miscellaneous - net		1,718,117,526	1,053,121,588	1,656,665,105	1,012,501,313
		7,234,610,030	7,809,096,702	7,063,999,257	7,664,518,016
OTHER OPERATING EXPENSES					
Compensation and fringe benefits		8,304,826,220	7,586,397,122	8,250,565,505	7,538,570,875
Loss on financial assets and liabilities - held for trading		772,171,362	429,139,853	772,171,362	429,139,853
Taxes and licenses		2,562,892,267	2,129,445,971	2,532,522,963	2,098,969,755
Depreciation and amortization		806,350,955	740,509,476	784,062,577	719,774,222
Rent		829,452,217	818,350,989	918,231,706	871,351,483
Miscellaneous expenses		7,833,729,859	7,054,348,801	7,827,861,561	7,054,266,437
		21,109,422,880	18,758,192,212	21,085,415,674	18,712,072,625
INCOME BEFORE INCOME TAX		14,240,472,097	13,787,367,356	13,835,444,024	13,443,703,591
PROVISION FOR INCOME TAX	22	271,844,798	1,144,988,796	171,859,954	1,054,310,931
NET INCOME		13,968,627,299	12,642,378,560	13,663,584,070	12,389,392,660
OTHER COMPREHENSIVE INCOME					
Net unrealized losses on securities available for sale		(2,553,800,507)	(2,832,655,029)	(2,553,203,768)	(2,832,200,348)
TOTAL COMPREHENSIVE INCOME		**11,414,826,792**	**9,809,723,531**	**11,110,380,302**	**9,557,192,312**

The Notes on pages 117 to 150 form part of these financial statements.

Land Bank of the Philippines

Statements of Changes in CAPITAL FUNDS - GROUP

For the years ended December 31, 2015 and 2014 (In Philippine Pesos)

	Common Stock		Paid-in	Retained Earnings	Retained Earnings	Undivided	Revaluation	Net Unrealized Gain/(Loss)	
	Shares	Amount	Surplus	Free	Reserve	Profits	Increment	on Securities	TOTAL
Balance, December 31, 2013	**1,197,100,000**	**11,971,000,000**	**101,098,220**	**17,401,514,252**	**24,481,710,645**	**11,780,443,475**	**61,200,000**	**16,333,552,278**	**82,130,518,870**
Net income during the year						12,642,378,560			12,642,378,560
Net unrealized loss on securities								(2,832,655,029)	(2,832,655,029)
Declaration of cash dividends				(6,123,822,037)					(6,123,822,037)
Transfer to retained earnings free				11,780,443,475		(11,780,443,475)			-00
Transfer to retained earnings reserve				(2,893,000,000)	2,893,000,000				-00
Payment of Trust Operations Business' judgement Obligation and BSP Penalty					(338,941,476)				(338,941,476)
PFRS/prior period adjustment				(491,898,483)					(491,898,483)
Currency translation difference				(197,713)					(197,713)
Balance, December 31, 2014	**1,197,100,000**	**11,971,000,000**	**101,098,220**	**19,673,039,494**	**27,035,769,169**	**12,642,378,560**	**61,200,000**	**13,500,897,249**	**84,985,382,692**
Net income during the year						13,968,627,299			13,968,627,299
Net unrealized loss on securities								(2,553,800,507)	(2,553,800,507)
Declaration of cash dividends				(6,136,074,048)					(6,136,074,048)
Transfer to retained earnings free				12,642,378,560		(12,642,378,560)			0
Transfer to retained earnings reserve				(710,000,000)	710,000,000				0
PFRS/prior period adjustment				(991,417,779)	(555,225,421)				(1,546,643,200)
Closure of excess book value over cost of investment in subsidiaries				1,555,035					1,555,035
Closure/Dissolution of LBP Finance Services, Italy				30,718,778	(36,716)				30,682,062
Currency translation difference				(1,415,440)					(1,546,643,200)
Balance, December 31, 2015	**1,197,100,000**	**11,971,000,000**	**101,098,220**	**24,508,784,600**	**27,190,507,032**	**13,968,627,299**	**61,200,000**	**10,947,096,742**	**88,748,313,893**

The Notes on pages 117 to 150 form part of these financial statements.

Land Bank of the Philippines

Statements of Changes in CAPITAL FUNDS - PARENT

For the years ended December 31, 2015 and 2014 (In Philippine Pesos)

	Common Stock		Paid-in	Retained Earnings	Retained Earnings	Undivided	Net Unrealized Gain/(Loss)	
	Shares	Amount	Surplus	Free	Reserve	Profits	on Securities	TOTAL
Balance, December 31, 2013	**1,197,100,000**	**11,971,000,000**	**101,098,220**	**15,839,741,407**	**24,176,673,929**	**11,530,110,968**	**16,337,525,955**	**79,956,150,479**
Net income during the year						12,389,392,660		12,389,392,660
Net unrealized loss on securities							(2,832,200,348)	(2,832,200,348)
Declaration of cash dividends				(6,000,000,000)				(6,000,000,000)
Transfer to retained earnings free				11,530,110,968		(11,530,110,968)		0
Transfer to retained earnings reserve				(3,000,000,000)	3,000,000,000			0
Payment of Trust Operations Business' judgement Obligation and BSP Penalty					(338,941,476)			(338,941,476)
PFRS/prior period adjustment				(493,045,059)				(493,045,059)
Currency translation difference				(197,713)				(197,713)
Balance, December 31, 2014	**1,197,100,000**	**11,971,000,000**	**101,098,220**	**17,876,609,603**	**26,837,732,453**	**12,389,392,660**	**13,505,325,607**	**82,681,158,543**
Net income during the year						13,663,584,070		13,663,584,070
Net unrealized loss on securities							(2,553,203,768)	(2,553,203,768)
Declaration of cash dividends				(6,000,000,000)				(6,000,000,000)
Transfer to retained earnings free				12,389,392,660		(12,389,392,660)		0
PFRS/prior period adjustment				(990,940,395)	(555,225,421)			(1,546,165,816)
Currency translation difference				(1,415,440)				(1,415,440)
Balance, December 31, 2015	**1,197,100,000**	**11,971,000,000**	**101,098,220**	**23,273,646,428**	**26,282,507,032**	**13,663,584,070**	**10,952,121,839**	**86,243,957,589**

The Notes on pages 117 to 150 form part of these financial statements.

Land Bank of the Philippines

Statements of
CASH FLOWS

For the years ended December 31, 2015 and 2014 (In Philippine Pesos)

	GROUP		PARENT	
	2015	**2014**	**2015**	**2014**
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	37,066,536,210	30,288,470,007	36,798,454,847	30,025,853,449
Interest paid	(8,822,846,251)	(6,162,229,505)	(8,842,038,516)	(6,166,763,997)
Fees and commission	1,549,824,362	1,300,013,395	1,453,857,264	1,206,370,245
Loss on financial assets and liabilities held for trading	(772,171,362)	(429,139,853)	(772,171,362)	(429,139,853)
Gain from dealings in foreign currency	565,106,953	602,142,846	551,915,699	591,827,585
Miscellaneous income	1,718,117,526	1,053,121,588	1,656,665,105	1,012,501,313
General and administrative expenses	(19,363,604,311)	(17,300,898,156)	(19,412,286,155)	(17,294,406,868)
Operating income before changes in operating assets and liabilities	**11,940,963,127**	**9,351,480,322**	**11,434,396,882**	**8,946,241,874**
Changes in operating assets and liabilities				
(Increase)/Decrease in operating assets				
Interbank loans receivable	(556,274,013)	(10,206,995,002)	(556,274,013)	(10,206,995,002)
Held for Trading	6,338,816,089	(12,465,762,515)	6,338,816,089	(12,465,762,515)
Loans and receivable	(48,109,451,983)	(79,418,326,566)	(47,566,902,160)	(79,882,999,597)
Other resources	130,557,927	(2,096,010,252)	129,531,166	(2,130,873,982)
Increase/(Decrease) in operating liabilities				
Deposit liabilities	133,280,640,672	208,820,521,473	133,276,222,113	208,893,497,289
Derivative liabilities	(45,033,435)	(257,359,582)	(45,033,435)	(257,359,582)
Marginal deposits	6,212,199,450	(237,722,901)	6,212,199,450	(237,722,901)
Treasurer's, Manager's and Cashier's Checks	440,830,298	382,031,185	440,830,298	382,031,185
Other liabilities	1,282,252,638	6,773,185,124	1,338,491,438	6,809,251,494
Net cash generated from operations	**110,915,500,770**	**120,645,041,286**	**111,002,277,828**	**119,849,308,263**
Income taxes paid	(44,822,725)	(194,918,196)	0	(144,995,274)
Net cash generated from operating activities	**110,870,678,045**	**120,450,123,090**	**111,002,277,828**	**119,704,312,989**
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	(1,421,478,370)	(1,389,734,583)	(1,332,470,081)	(998,082,551)
Disposals of investment property	247,697,943	329,338,542	247,697,943	320,800,638
Additions to Non-current assets held for sale	(123,707,817)	(211,802,830)	(123,707,817)	(214,756,850)
Dividends received	1,552,119,872	1,671,014,712	1,552,119,872	1,671,014,712
Gain from investment securities	1,831,786,246	1,429,733,490	1,831,786,246	1,429,733,490
Decrease/(increase) in:				
Available for sale investments	34,656,103,899	(14,336,266,571)	34,656,700,638	(14,337,154,360)
Held to maturity investments	(26,786,923,315)	(54,910,274,250)	(26,758,656,440)	(54,924,404,512)
Investment in subsidiaries	0	0	47,051,062	0
Net cash provided by/used in investing activities	**9,955,598,458**	**(67,417,991,490)**	**10,120,521,423**	**(67,052,849,433)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid	(6,136,074,048)	(6,123,822,037)	(6,000,000,000)	(6,000,000,000)
Other charges to capital	(1,507,240,030)	(984,707,034)	(1,547,581,256)	(972,954,791)
Increase/(decrease) in:				
Bills payable	1,793,017,457	(3,621,452,274)	1,393,017,457	(3,337,452,273)
Unsecured subordinated debt	-	(6,934,000,000)	0	(6,934,000,000)
Net cash used in financing activities	**(5,850,296,621)**	**(17,663,981,345)**	**(6,154,563,799)**	**(17,244,407,064)**
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	17,655,071	1,753,070,671	17,655,071	1,753,070,671
NET INCREASE IN CASH AND CASH EQUIVALENTS	**114,993,634,953**	**37,121,220,926**	**114,985,890,523**	**37,160,127,163**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	24,249,017,453	20,355,853,798	24,247,688,757	20,354,849,364
Due from Bangko Sentral ng Pilipinas	229,351,506,667	249,580,207,968	229,351,506,667	249,497,117,699
Due from other banks	6,385,038,678	3,196,280,106	6,285,385,480	3,140,486,678
Securities purchased under agreements to resell	56,390,000,000	6,122,000,000	56,390,000,000	6,122,000,000
	316,375,562,798	**279,254,341,872**	**316,274,580,904**	**279,114,453,741**
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	26,890,158,158	24,249,017,453	26,889,156,228	24,247,688,757
Due from Bangko Sentral ng Pilipinas	314,934,579,624	229,351,506,667	314,934,579,624	229,351,506,667
Due from other banks	5,890,459,969	6,385,038,678	5,782,735,575	6,285,385,480
Securities purchased under agreements to resell	83,654,000,000	56,390,000,000	83,654,000,000	56,390,000,000
	413,369,197,751	**316,375,562,798**	**431,260,471,427**	**316,274,580,904**

The Notes on pages 117 to 150 form part of these financial statements.

Notes to FINANCIAL STATEMENTS

(All amounts in Philippine Peso unless otherwise stated)

1. Corporate Information

The Land Bank of the Philippines (Parent) is a financial institution wholly-owned by the National Government. The Parent was established in 1963 as the financial intermediary of the Land Reform Program of the government. Later, it became the first universal bank by charter with expanded commercial banking powers to sustain its social mission of spurring countryside development.

The Parent is a depository bank of the government and its various instrumentalities. The Parent services the requirements of the national government, local government units and government-owned and controlled corporations. As of December 31, 2015, 67 percent of the deposit portfolio came from the government while the rest came from private depositors.

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

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

The accompanying comparative financial statements of the Parent were authorized for issue by the Parent's Board of Directors on February 19, 2016 while those of the subsidiaries were approved for issue by their respective Board of Directors on various dates.

2. Summary of Significant Accounting Policies

2.1 Basis of Financial Statements Preparation

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

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

The functional currency of RBU and FCDU is Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year.

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

2.2 Statement of Compliance

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

2.3 Basis of Consolidation

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

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

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

Significant Accounting Policies

Foreign currency translation

Transactions and balances

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

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

Fair Value Measurement

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

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

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

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

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

Short-term investments – Carrying amounts approximate fair values.

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

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

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

Determination of fair value

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

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

Derivative Instruments

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

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

a) Held for trading

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

(b) Loans and receivables, amounts due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements

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

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

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

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

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

Impairment of Financial Assets

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

Financial assets carried at amortized cost

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

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

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

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

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

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

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

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

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

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in 'Provision for credit losses' in the statement of comprehensive income.

Assets Carried at Cost

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

AFS Investments

If an AFS investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that security previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity instruments recognized in the statement of comprehensive income are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Offsetting financial instruments

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

Fiduciary Activities

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

Subsequent Events

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

Impairment of Property and Equipment, Investment Property and Other Resources

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

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

Investments in Subsidiaries

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

Property and Equipment

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

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

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

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

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

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

Investment properties

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

Investment properties are measured at their fair value as the deemed cost as allowed under PFRS 1 and PAS 40. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss. Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of an investment property are recognized in the profit and loss in the year of derecognition.

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

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

Intangible Assets

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (three to five years).

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

Income Taxes

Income tax on the profit for the year comprises current tax only. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity. 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 assets are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes and the carry forward benefits of the net operating loss carryover (NOLCO) and the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates that have been enacted or substantially enacted as of the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced, if appropriate.

Employee Benefits

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

Leases

(a) LBP Group is the lessee

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

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

(b) LBP Group is the lessor

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

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

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

Revenue Recognition

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

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

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

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

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

Commitment fees received to originate a loan when the loan commitment is outside the scope of PAS 39 are deferred and recognized as an adjustment to the effective interest rate. If the loan commitment expires, the fee is recognized as revenue on expiry.

Borrowing Costs

Borrowing costs are expensed when incurred.

Changes in Accounting Policies and Disclosures

New and amended Standards and Interpretations

The Group applied the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group. Except for these standards and amended PFRS which were adopted as of January 1, 2014, the accounting policies adopted are consistent with those of the previous financial year.

PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have no impact on the Group's financial position or performance.

PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments have no impact on the Group's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group since none of the entities in the Group qualifies as an investment entity under PFRS 10.

Annual Improvements to PFRS/PAS (2010-2012 cycle)

In the 2010-2012 annual improvement cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, Fair Value Measurement. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group's financial position or performance.

New Standards, Amendments and Interpretations not yet adopted

The Group intends to adopt the following standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have significant impact on its financial statements.

New Standards

PFRS 9, *Financial Instruments – Classification and Measurement (2010 version) –*

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual period beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Securities and Exchange Commission (SEC) and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.

Amendments

PAS 16, *Property, Plant and Equipment and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*

The revised PAS 16 and PAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The amendments to PAS 16 explicitly prohibits revenue-based depreciation of property, plant and equipment while the amendments to PAS 38 introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reason that there are multiple factors that influence revenue and that not all these factors are related to the way the asset is used or consumed. The revised standards are effective for periods beginning January 1, 2016, with earlier application permitted.

PAS 16, *Property, Plant and Equipment and PAS 41, Agriculture – Change in Financial Reporting for Bearer Plants*

The amendments require entities to account for bearer plants in the same way as property, plant and equipment in PAS 16, Property, Plant and Equipment, because their operation is similar to that of manufacturing, bringing them within the scope of PAS 16, instead of PAS 41. The produce growing on bearer plants will remain within the scope of PAS 41. The amended standards are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The amendments are not applicable to the Group.

PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

Annual Improvements to PFRSs (2010 - 2012 cycle)

The Annual Improvements to PFRSs (2010 - 2012 cycle) which will take effect for annual periods beginning on or after January 1, 2015, contain non-urgent but necessary amendments to the following standards:

PFRS 2, *Share-based Payment – Definition of Vesting Condition*

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after January 1, 2015. This amendment does not apply to the Group as it has no share-based payments.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32.

Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after January 1, 2015. The Group shall consider this amendment for future business combinations.

Revaluation Method (Amendments to PAS 16 and PAS 38 – *Proportionate Restatement of Accumulated Depreciation and Amortization)*

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, and intangible assets, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation or amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b. The accumulated depreciation or amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

PAS 24, *Related Party Disclosures – Key Management Personnel*

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are applied retrospectively and affect disclosures only.

Annual Improvement to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011 - 2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of 'Effective PFRSs'*

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

PFRS 13, *Fair Value Measurement – Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PAS 40, *Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2012 - 2014 cycle)

The Annual Improvements to PFRSs (2012 - 2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7 – *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits – Regional Market Issue regarding Discount Rate*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting – Disclosures of Information 'Elsewhere in the Interim Financial Report'*

This amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments – Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting.

PFRS 9, *Financial Instruments (2014 or final version)*

In July 2014, the final version of PFRS 9, Financial Instruments, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

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

The Group conducted an evaluation of the financial impact of the adoption of PFRS 9 based on the audited financial statements as of December 31, 2013 and decided not to early adopt PFRS 9 in its 2014 financial reporting.

3. Significant Accounting Judgments and Estimates

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

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

Judgments

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

a. Operating lease commitments

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

b. Impairment losses on loans and receivables and HTM investments

The Group reviews its loans and receivables and HTM investments to assess impairment at least on an annual basis or earlier when an indicator of impairment exists. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial asset before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The carrying values of receivables from customers and HTM investments of the Group and the Parent are P573,083,538,213 and P570,830,803,672 as of December 31, 2015 and P498,001,531,982 and P496,290,815,765 as of December 31, 2014, respectively.

c. Impairment of AFS investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The carrying values of AFS investments of the Group and the Parent are P154,131,204,263 and P154,131,204,263 as of December 31, 2015 and P191,341,108,669 and P191,341,108,669 as of December 31, 2014, respectively.

d. Classification under HTM investments

The classification of non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Further, the Group determines whether the investments are quoted or not; unquoted debt investments are classified under Loans and receivables. If the Group fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount or close to maturity – it will be required to reclassify the entire held-to-maturity portfolio as available-for-sale. The investments would therefore be measured at fair value instead of amortized cost. The carrying values of held-to-maturity investments of the Group and the Parent are P122,601,782,887 and P121,784,243,661 as of December 31, 2015 and P95,814,859,572 and P95,025,587,221 as of December 31, 2014, respectively.

e. Recognition of deferred tax asset

The Group cannot yet establish when it will realize its deductible temporary differences and carry forward benefits of NOLCO and MCIT. When the Group is already in a positive tax position, the Management will review the level of deferred tax assets that it will recognize in the books.

Estimation uncertainty

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

a. *Fair value of financial instruments (including derivatives)*

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

b. *Useful lives of property and equipment*

The Group's Management determines the estimated useful lives and related depreciation charges for its property and equipment. The Bank will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying values of property and equipment of the Group and the Parent are P6,779,753,581 and P6,243,994,847 as of December 31, 2015 and P5,943,264,176 and P5,478,999,412 as of December 31, 2014, respectively.

4. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2015	2014	2015	2014
Cash on hand	26,568,204,651	23,991,771,539	26,568,204,651	23,991,753,730
Checks and other cash items	306,472,027	242,995,996	306,472,027	242,995,996
FX Currency notes & coins on hand	33,701	0	33,701	0
Returned checks and other cash items	8,461,631	8,151,384	8,461,631	8,151,384
Petty cash fund	5,115,441	4,137,167	4,963,441	3,981,500
Revolving fund	1,108,173	1,388,282	258,243	233,062
Payroll fund	762,534	573,085	762,534	573,085
	26,890,158,158	24,249,017,453	26,889,156,228	24,247,688,757

5. Due from Bangko Sentral ng Pilipinas

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

6. Due from Other Banks

This account consists of:

	Group		Parent	
	2015	2014	2015	2014
Deposit with local banks	212,853,919	216,298,754	105,129,525	122,501,914
Deposit with foreign banks	5,677,606,050	6,168,739,924	5,677,606,050	6,162,883,566
	5,890,459,969	6,385,038,678	5,782,735,575	6,285,385,480

The Group maintains nostro accounts on global basis with 23 foreign depository banks totaling 30 and 28 accounts in 2015 and 2014, respectively, the most significant of which are as follows:

2015	2014
1. Wells Fargo Bank, N.A.	1. Wells Fargo Bank, N.A.
2. Standard Chartered Bank, N.Y.	2. Standard Chartered Bank, N.Y.
3. LandesBank Baden-Wurttemberg	3. The Bank of New York
4. The Bank of New York	4. Standard Chartered Bank, Frankfurt
5. Standard Chartered Bank, Frankfurt	5. Mizuho Corporate Bank

Deposits with foreign banks as of December 31, 2015 include special deposit account with Standard Chartered Bank - Tokyo amounting to JPY393,219,878 which is restricted for disbursements on special lending projects.

7. Interbank Loans Receivables

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

	2015	2014
Domestic	2.53% to 2.56%	2.31% to 3.22%
Foreign	0.015% to 0.61%	0.05% to 0.18%

8. Securities Purchased under Agreements to Resell

This account consists of the Parent's Government Securities Purchased under Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas.

Securities Purchased under Agreements to Resell of the Parent carry interest rate at 4.00 per cent as of December 31, 2015 and 2014.

9. Held for Trading

This consists of:

	Group		Parent	
	2015	2014	2015	2014
Government Securities – Domestic	7,121,502,080	13,059,317,753	7,121,502,080	13,059,317,753
Government Securities – Foreign	0	399,971,813	0	399,971,813
Private Securities – Domestic	4,701,575	46,634,236	4,701,575	46,634,236
Derivative with positive fair value	1,347,819,917	1,306,915,859	1,347,819,917	1,306,915,859
	8,474,023,572	14,812,839,661	8,474,023,572	14,812,839,661

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

	2015	2014
Domestic	1.62% to 10.50%	1.62% to 4.17%
Foreign	2.00% to 9.50%	7.25% to 7.39%

HFT includes the foreign exchange (FX) risk cover of the Parent's borrowings from multilateral agencies amounting to P1,144,019,566 in 2015 and P1,185,748,949 in 2014 which is treated as a derivative financial instrument per BSP Monetary Board Resolution No. 1063 dated August 14, 2008.

Under a Memorandum of Agreement between the National Government (thru the Department of Finance) and the Parent, the former shall guarantee and assume the FX risk relating to foreign currency denominated borrowings from multilateral agencies (i.e. World Bank, Asian Development Bank, JICA, etc.) which are relent in local currencies. The fair value changes on the FX risk cover are reported immediately in the statement of comprehensive income. As of December 31, 2015, the outstanding notional amount of the FX risk cover amounted to JPY7,548,631,599.

Prior to 2007, the value of the FX risk cover as an option derivative varies on the movement of the foreign exchange rates of the Bills Payable. Beginning 2007, in accordance with Monetary Board Resolution No. 1063 dated August 14, 2008, the Bank applied the standard option valuation model approach which resulted in a decrease in the derivative asset amounting to P41,729,383 and P763,160,380 in 2015 and 2014, respectively.

The derivative with positive fair value comprise of the following:

	2015	2014
Foreign Exchange Risk Cover	1,144,019,566	1,185,748,949
Debt Warrants	87,698,051	83,337,375
Forward Contracts	116,102,300	37,829,535
	1,347,819,917	1,306,915,859

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

10. Available for Sale Investments

This account consists of:

	Group		Parent	
	2015	2014	2015	2014
Domestic				
Government	102,246,734,504	141,401,875,363	102,246,734,504	141,401,875,363
Private	16,447,378,034	15,375,784,241	16,447,378,034	15,375,784,241
Foreign				
Government	25,651,369,845	24,730,075,720	25,651,369,845	24,730,075,720
Private securities	2,508,304,235	2,543,227,518	2,508,304,235	2,543,227,518
Investment in non-marketable securities, net of allowance for probable losses of P1,408,592,444 in 2015 and P1,395,864,252 in 2014	7,277,417,645	7,290,145,827	7,277,417,645	7,290,145,827
	154,131,204,263	191,341,108,669	154,131,204,263	191,341,108,669

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

	2015	2014
Domestic	1.62% to 12.88%	1.62% to 10.50%
Foreign	2.75% to 10.63%	2.75% to 10.63%

Available-for-sale investments-Domestic Private include 42,002,750 MERALCO shares of stocks with market value of P13,440,880,000 which are subject of legal disputes.

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

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

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

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

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

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

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

Still undelivered are 3,366,800 shares, plus accrued cash dividends thereon, amounting to P212,647,0888 as of December 31, 2015, plus 9,488,394 shares of stock in Rockwell Land Corporation as property dividends, and the unpaid dividends due from the 1,402,750 MERALCO shares amounting to P8,145,010. These 1,402,750 shares are part of the 38,635,950 shares restored to LBP, but certificated in the name of the other party before the Supreme Court decision was partially implemented.

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

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

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

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

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

On December 4, 2015, MERALCO filed their Comment to the Petition and thereafter, LBP filed its Reply to said Comment on May 30, 2016.

Parent's Accumulated market gains/losses on AFS government and private issues as of December 31, 2015 amounted to P13,222,303,806. Parent's Net unrealized gains/losses on AFS was P10,952,121,838.

The difference in the amount outstanding of the local currency accumulated market gains/losses and net unrealized gains/losses on AFS as of December 31, 2015 in the amount of P2,270,181,968 represents the remaining unamortized portion of the net unrealized gain or loss, that has been recognized directly in equity when the Available-for-sale securities has been reclassified to Held to maturity securities on various dates. The said amount shall be continuously amortized to profit or loss over the remaining life of the Held-to-maturity securities.

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

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

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

	Acquisition Cost As of December 31, 2015 (In US Dollars)	Book Value As of December 31, 2014 (In US Dollars)	Percentage in MRTC
• MRT III Bonds	124,761,720	201,074,114	
• MRT III Preferred Shares	54,000,000	54,000,000	
Securitized ERPs	178,761,720	255,074,114	26.65%
Unsecuritized ERPs	90,579,859	89,146,324	11.12%
	269,341,579	344,220,438	37.77%

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

11. Held to Maturity Investments

This account consists of:

	Group		Parent	
	2015	2014	2015	2014
Government				
Domestic	111,168,854,442	84,435,913,445	110,351,315,216	83,646,641,094
Foreign	6,312,833,190	6,417,637,520	6,312,833,190	6,417,637,520
Private				
Domestic	4,525,369,411	4,390,829,795	4,525,369,411	4,390,829,795
Foreign	594,725,844	570,478,812	594,725,844	570,478,812
	122,601,782,887	95,814,859,572	121,784,243,661	95,025,587,221

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

	2015	2014
Domestic	2.12% to 18.25%	4.12% to 18.25%
Foreign	5.12% to 11.63%	6.38% to 11.63%

12. Loans and Receivables

This account consists of:

	Group		Parent	
	2015	2014	2015	2014
Interbank loans receivable	16,709,831,946	25,995,346,298	16,709,831,946	25,995,346,298
Allowance for credit losses	(372,425,567)	(367,395,268)	(372,425,567)	(367,395,268)
	16,337,406,379	25,627,951,030	16,337,406,379	25,627,951,030
Loans to Government	77,116,862,729	80,506,194,217	78,912,843,115	82,824,858,809
Allowance for credit losses	(46,612,110)	(51,127,669)	(44,833,201)	(51,127,669)
	77,070,250,619	80,455,066,548	78,868,009,914	82,773,731,140
Agrarian Reform and other Agriculture Loans	72,463,771,389	55,795,542,442	72,435,187,659	55,754,235,883
Allowance for credit losses	(802,391,283)	(724,227,807)	(802,391,283)	(724,227,807)
	71,661,380,106	55,071,314,635	71,632,796,376	55,030,008,076
Microfinance Loans	9,312,152,807	6,971,020,476	9,312,152,807	6,971,020,476
Allowance for credit losses	(280,484,849)	(156,220,321)	(280,484,849)	(156,220,321)
	9,031,667,958	6,814,800,155	9,031,667,958	6,814,800,155
SME/MSE Loans	40,914,536,276	30,877,551,710	40,914,536,276	30,877,551,709
Allowance for credit losses	(1,409,011,227)	(1,111,225,753)	(1,409,011,227)	(1,111,225,753)
	39,505,525,049	29,766,325,957	39,505,525,049	29,766,325,956
Contract to Sell	1,220,138,412	1,282,224,885	1,220,138,412	1,282,224,885
Allowance for credit losses	(60,124,866)	(73,314,078)	(60,124,866)	(73,314,078)
	1,160,013,546	1,208,910,807	1,160,013,546	1,208,910,807
Loans to Private Corporation	195,860,324,146	165,321,960,307	194,168,885,913	163,804,142,986
Allowance for credit losses	(1,222,570,672)	(735,789,548)	(1,062,855,272)	(571,127,665)
	194,637,753,474	164,586,170,759	193,106,030,641	163,233,015,321
Loans to Individuals for Housing Purposes	3,888,373,652	3,101,040,445	3,888,373,652	3,101,040,445
Allowance for credit losses	(77,954,795)	(36,720,320)	(77,954,795)	(36,720,320)
	3,810,418,857	3,064,320,125	3,810,418,857	3,064,320,125
Loans to Individual for Consumption	15,701,598,988	14,541,031,539	15,701,598,988	14,477,276,691
Allowance for credit losses	(291,792,666)	(227,444,916)	(291,792,666)	(227,444,916)
	15,409,806,322	14,313,586,623	15,409,806,322	14,249,831,775

Loans to Individual for Other Purposes	2,426,139,439	1,528,750,385	2,307,306,091	1,528,758,213
Allowance for credit losses	(32,989,036)	(21,565,434)	(32,286,304)	(21,565,434)
	2,393,150,403	1,507,184,951	2,275,019,787	1,507,192,779
	431,017,372,713	382,415,631,590	431,136,694,829	383,276,087,164
Accrued interest receivable	3,412,268,550	3,160,858,597	3,407,919,772	3,156,316,487
Allowance for credit losses	(268,093,309)	(254,381,199)	(268,093,309)	(254,362,340)
	3,144,175,241	2,906,477,398	3,139,826,463	2,901,954,147
Accounts receivable	1,728,392,031	1,659,864,301	1,599,142,055	1,550,519,583
Allowance for credit losses	(820,507,950)	(796,956,839)	(767,859,383)	(755,355,307)
	907,884,081	862,907,462	831,282,672	795,164,276
Sales contract receivable	881,212,093	1,019,347,210	882,876,193	1,019,105,578
Allowance for credit losses	(44,625,559)	(10,422,080)	(44,625,559)	(10,422,080)
	836,586,534	1,008,925,130	838,250,634	1,008,683,498
Sales contract receivable	881,212,093	1,019,347,210	882,876,193	1,019,105,578
Allowance for credit losses	(44,625,559)	(10,422,080)	(44,625,559)	(10,422,080)
	836,586,534	1,008,925,130	838,250,634	1,008,683,498
Due from ARF	190,422,226	316,154,122	190,422,226	316,154,122
Unquoted debt securities	13,608,063,739	13,738,151,839	13,608,063,739	13,738,151,839
Allowance for credit losses	(697,980,552)	(770,966,502)	(697,980,552)	(770,966,502)
	12,910,083,187	12,967,185,337	12,910,083,187	12,967,185,337
Lease contract receivable	1,516,217,992	1,730,336,312	0	0
Allowance for credit losses	(40,986,648)	(20,944,941)	0	0
	1,475,231,344	1,709,391,371	0	0
	450,481,755,326	402,186,672,410	449,046,560,011	401,265,228,544

Interest rates on loans in 2015 range from 0.3175 per cent to 39.00 per cent for peso denominated loans and from 1.650 per cent to 30.00 per cent for foreign currency denominated loans.

Unquoted debt securities of the Parent classified as loans consist of government and private securities amounting to P882,198,165 and P12,307,724,278, respectively, as of December 31, 2015 and P2,195,003,049 and P10,772,182,288, respectively, as of December 31, 2014. The account includes Metro Rail Transit Corporation's (MRTC) Bonds with book value of $201,074,114 (P9,462,547,804) which form part of LBP's interests in the said company purchased in accordance with the approval of the Bank's Board of Directors in November 2008 and broken down as follows:

	Face Value	Book Value	
	USD	USD	PHP
FX Regular	271,112,311	145,870,414	6,864,661,682
FCDU	108,325,146	55,203,700	2,597,886,122
	379,437,457	201,074,114	9,462,547,804

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

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

Allowance for credit losses

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

	2015	2014
Balance, January 1	3,340,369,232	3,248,889,188
Provision	37,173,978	0
Write-offs	(178,740,457)	(560,158,832)
Transfers and other adjustments	1,235,357,277	651,638,876
Balance, December 31	4,434,160,030	3,340,369,232

As of December 31, 2015 and 2014, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2015		2014	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	65,736,248,945	15.09	64,885,108,416	16.78
Various guarantees	126,857,104,169	29.12	125,785,577,548	32.54
Various mortgages	129,522,139,940	29.74	94,176,988,746	24.36
	322,115,493,054	73.95	284,847,674,710	73.68
Unsecured loans	113,455,361,805	26.05	101,768,781,685	26.32
Gross loan at amortized cost	435,570,854,859	100.00	386,616,456,395	100.00

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

	2015	2014
Total NPLs	6,394,449,785	6,821,304,507
Allowance for credit losses	(4,434,160,030)	(3,340,369,232)
Net NPLs	1,960,289,755	3,480,935,275

13. Investment in Subsidiaries

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

Name	Amount
LBP Leasing and Finance Corporation (formerly LBP Leasing Corporation)	310,252,630
LBP Insurance Brokerage, Inc.	52,500,000
LBP Resources and Development Corporation	51,467,436
Masaganang Sakahan, Inc.	24,554,940
	438,775,006

14. Investment Property

This account consists of:

	Group					
	2015			2014		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	5,714,389,263	2,754,029,924	8,468,419,187	6,163,649,291	2,855,220,646	9,018,869,937
Additions (Disposals)	(573,893,167)	44,280,441	(529,612,726)	(446,545,340)	(103,905,410)	(550,450,750)
At December 31	5,140,496,096	2,798,310,365	7,938,806,461	5,717,103,951	2,751,315,236	8,468,419,187
Accumulated depreciation and impairment						
At January 1	597,617,301	1,058,793,463	1,656,410,764	697,369,181	1,043,884,757	1,741,253,938
Depreciation	0	129,798,857	129,798,857	303,586	117,897,588	118,201,174
Transfers/Adjustment	(223,181,682)	(74,605,628)	(297,787,310)	(96,690,184)	(111,975,698)	(208,665,882)
Impairment	6,927,700	37,428,806	44,356,506	325,589	8,683,230	9,008,819
At December 31	381,363,319	1,151,415,498	1,532,778,817	601,308,172	1,058,489,877	1,659,798,049
Net book value	4,759,132,777	1,646,894,867	6,406,027,644	5,115,795,779	1,692,825,359	6,808,621,138

	Parent					
	2015			2014		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	5,635,438,217	2,670,131,928	8,305,570,145	6,082,981,873	2,774,037,338	8,857,019,211
Additions (Disposals)	(573,893,167)	44,280,441	(529,612,726)	(447,543,656)	(103,905,410)	(551,449,066)
At December 31	5,061,545,050	2,714,412,369	7,775,957,419	5,635,438,217	2,670,131,928	8,305,570,145
Accumulated depreciation and impairment						
At January 1	597,617,301	1,018,393,091	1,616,010,392	694,307,485	1,006,727,168	1,701,034,653
Depreciation	0	126,376,026	126,376,026	0	114,958,392	114,958,392
Transfers/Adjustment	(223,181,682)	(74,605,628)	(297,787,310)	(96,690,184)	(111,975,699)	(208,665,883)
Impairment	3,540,415	37,428,806	40,969,221	0	8,683,230	8,683,230
At December 31	377,976,034	1,107,592,295	1,485,568,329	597,617,301	1,018,393,091	1,616,010,392
Net book value	4,683,569,016	1,606,820,074	6,290,389,090	5,037,820,916	1,651,738,837	6,689,559,753

Depreciation and amortization of the Group amounting to P129,798,857 and P118,201,174 and of the Parent amounting to P126,376,026 and P114,958,392 in 2015 and 2014, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Investment properties acquired through foreclosure as of December 31, 2015 which are still within the redemption period by the borrowers and with on-going court case amounted to P151,302,095 and P1,760,483,789, respectively. Properties amounting to P66,840,080 are agricultural lands covered by the government's agrarian reform program.

15. Property and Equipment

This account consists of:

Group	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2015	Total 2014
At Cost										
At January 1	574,855,611	140,371,508	4,469,793,359	560,643,168	81,427,277	5,782,471,582	719,442,031	75,764,688	12,404,769,224	11,230,337,806
Additions	35,493,817	57,356,848	138,752,205	152,989,683	7,620,048	1,229,140,721	69,055,388	907,487	1,691,316,197	1,651,033,661
Disposals	0	0	0	(9,294,086)	(8,340,335)	(182,884,845)	(5,613,543)	0	(206,132,809)	(200,288,131)
Transfers	2,635,208	(83,319,238)	4,404,598	(33,992,696)	1,382,229	(109,842,712)	0	0	(218,732,611)	(271,743,937)
At December 31	612,984,636	114,409,118	4,612,950,162	670,346,069	82,089,219	6,718,884,746	782,883,876	76,672,175	13,671,220,001	12,409,339,398
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	1,959,857,694	242,172,522	57,049,746	3,819,474,199	300,280,945	59,164,697	6,437,999,803	6,137,669,173
Depreciation & amortization	0	0	48,197,291	48,418,445	1,350,737	470,368,730	9,825,966	3,612,832	581,774,001	511,978,930
Disposals	0	0	0	(3,930,218)	(5,616,648)	(158,255,255)	(4,897,337)	0	(172,699,458)	(185,752,772)
Transfers/Adjustments	0	0	(8,642,267)	842,309	11,833,657	14,373,829	0	4,521,905	22,929,433	(22,006,529)
At December 31	0	0	1,999,412,718	287,503,058	64,617,492	4,145,961,503	305,209,574	67,299,434	6,870,003,779	6,441,888,802
Allow for Losses	0	0	7,213,932	530,222	2,825,144	10,632,286	0	261,057	21,462,641	24,186,421
Net book value	612,984,636	114,409,118	2,606,323,512	382,312,789	14,646,583	2,562,290,957	477,674,302	9,111,684	6,779,753,581	5,943,264,176

Parent	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2015	Total 2014
At Cost										
At January 1	574,855,611	140,371,508	4,380,355,828	560,516,493	64,033,468	5,756,042,074	285,738,416	57,598,516	11,819,511,914	11,020,983,938
Additions	24,711,817	57,356,848	130,634,766	152,955,343	7,620,048	1,227,389,513	0	0	1,600,668,335	1,268,265,467
Disposals	0	0	0	(9,294,086)	(7,116,466)	(181,311,140)	0	0	(197,721,692)	(199,537,166)
Transfers	2,635,208	(83,319,238)	4,404,598	(33,992,696)	1,382,229	(109,842,712)	0	0	(218,732,611)	(270,200,326)
At December 31	602,202,636	114,409,118	4,515,395,192	670,185,054	65,919,279	6,692,277,735	285,738,416	57,598,516	13,003,725,946	11,819,511,913
Accumulated Depreciation & Amortization										
At January 1	0	0	1,926,560,841	242,064,440	46,823,251	3,799,686,519	250,186,643	51,004,387	6,316,326,081	6,025,535,568
Depreciation & amortization	0	0	44,752,909	48,377,118	159,497	468,775,110	2,195,049	0	564,259,683	496,283,830
Disposals	0	0	0	(3,930,218)	(5,077,497)	(157,061,801)	0	0	(166,069,516)	(185,289,591)
Transfers/Adjustments	0	0	(8,642,267)	856,277	12,381,336	14,634,959	0	4,521,905	23,752,210	(20,203,727)
At December 31	0	0	1,962,671,483	287,367,617	54,286,587	4,126,034,787	252,381,692	55,526,292	6,738,268,458	6,316,326,080
Allow for Losses	0	0	7,213,932	530,222	2,825,144	10,632,286	0	261,057	21,462,641	24,186,421
Net book value	602,202,636	114,409,118	2,545,509,777	382,287,215	8,807,548	2,555,610,662	33,356,724	1,811,167	6,243,994,847	5,478,999,412

Depreciation and amortization of the Group amounting to P581,774,001 and P511,978,930 and of the Parent amounting to P564,259,683 and P496,283,830 in 2015 and 2014, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Office equipment, furniture and vehicles with carrying amount of P379,684,742 and P192,191,198 in 2015 and 2014, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P11,898,469 and P76,198,267 in 2015 and 2014, respectively.

16. Other Resources

This account consists of:

	Group		Parent	
	2015	2014	2015	2014
Accrued interest receivable	2,971,701,785	3,223,900,121	2,971,701,785	3,223,900,121
Sundry debits	1,391,962,556	2,187,835,099	1,391,962,556	2,187,835,099
Prepaid expenses	393,040,775	364,683,800	436,598,468	400,425,908
Other intangible assets	900,274,550	534,415,596	899,195,138	532,006,525
Documentary stamps	27,628,975	49,214,974	27,628,975	49,214,974
Stationery & supplies on hand	124,464,570	123,295,435	123,029,011	120,964,758
Accounts receivable	134,723,706	126,381,868	131,162,894	120,886,384
Inter-office float items	6,906,291	2,021,563	6,906,291	2,021,563
Others	1,322,080,003	1,186,571,410	1,263,211,530	1,128,725,978
	7,272,783,211	7,798,319,866	7,251,396,648	7,765,981,310

17. Allowance for Credit Losses

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

	2015	2014
Balance at beginning of year:		
Loan portfolio	3,340,369,232	3,248,889,188
Receivables from customers and Other assets	3,999,664,246	4,116,195,669
	7,340,033,478	7,365,084,857
Provisions charged to operations	104,913,927	45,063,405
Accounts charged off and others	(179,874,259)	(560,854,824)
Transfer/adjustments	1,214,757,224	490,740,040
	1,139,796,892	(25,051,379)
Balance December 31	8,479,830,370	7,340,033,478
Balance at end of year:		
Loan portfolio (Note 12)	4,434,160,030	3,340,369,232
Receivables from customers and other assets	4,045,670,340	3,999,664,246
	8,479,830,370	7,340,033,478

With the foregoing level of allowance for credit losses, Management believes that the Parent has sufficient allowance to cover any losses that the Parent may incur from the non-collection or non-realization of its loans and receivables and other risk assets.

The account includes provision for credit losses/impairment losses of the Parent as follows:

	2015	2014
Loans and receivables	37,173,978	0
Other loans and receivables	3,234,807	10,073,219
Property and equipment	3,214,963	4,324,411
Others	61,290,179	30,665,775
	104,913,927	45,063,405

18. Deposit Liabilities

This account consists of:

	Group		Parent	
	2015	2014	2015	2014
Domestic				
Demand deposits	474,530,109,127	392,016,125,763	474,739,410,247	392,226,720,970
Savings deposits	505,527,477,627	458,518,375,865	505,685,191,060	458,673,787,117
Time certificate of deposits	852,279,517	1,250,400,874	852,279,517	1,250,400,874
Long Term Negotiable Certificate of Deposits	11,000,000,000	5,000,000,000	11,000,000,000	5,000,000,000
	991,909,866,271	856,784,902,502	992,276,880,824	857,150,908,961
Foreign				
Demand deposits – FCDU/EFCDU	18,723	0	18,723	0
Savings deposit – FCDU/EFCDU	27,623,085,394	10,744,068,078	27,623,613,083	10,750,022,420
Time certificate of deposit – FCDU/EFCDU	26,327,345,634	45,050,704,770	26,327,345,634	45,050,704,770
	53,950,449,751	55,794,772,848	53,950,977,440	55,800,727,190
	1,045,860,316,022	912,579,675,350	1,046,227,858,264	912,951,636,151

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.25 to 3.75 per cent in 2015 and 0.25 to 3.50 per cent in 2014. Foreign deposit rates range from 0.31 to 1.12 per cent and from 0.15 to 2.50 per cent in 2015 and 2014, respectively.

19. Bills Payable

This account consists of:

	Group		Parent	
	2015	**2014**	**2015**	**2014**
Bangko Sentral ng Pilipinas	70,499,354	97,859,986	70,499,354	97,859,986
Domestic borrowings	771,973,888	458,025,983	371,973,888	458,025,983
Foreign borrowings	20,907,457,753	19,685,241,876	20,907,457,753	19,685,241,876
	21,749,930,995	20,241,127,845	21,349,930,995	20,241,127,845

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

Creditor/Funder	2015	2014
World Bank/IBRD	8,225,523,429	6,932,091,743
Asian Development Bank (ADB)	585,369,941	613,392,073
Japan International Cooperation Agency (JICA)	10,733,047,997	10,707,812,782
Kreditanstalt fur Wiederaufbau (KfW)	1,363,516,386	1,431,945,278
	20,907,457,753	19,685,241,876

The total foreign borrowings of P20,907,457,753 is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P14,616,998,330 are provided with foreign exchange risk cover (FXRC) by the National Government. This has historical value of P15,885,781,869. The Bank's foreign borrowings from multilateral and bilateral agencies have maturities ranging from 15 to 40 years.

Interest rates on foreign and domestic borrowings in 2015 range from 0.71 to 2.70 per cent and 0.75 to 4.75 per cent, respectively, while for 2014, the rates range from 0.62 to 2.70 per cent and 0.75 to 4.75 per cent, for foreign and domestic borrowings, respectively.

20. Unsecured Subordinated Debt

This account consists of:

	Issue Date	Maturity Date	2015	2014
Domestic	January 27, 2012	January 27, 2022	10,500,000,000	10,500,000,000
			10,500,000,000	10,500,000,000

21. Other Liabilities

This account consists of:

	Group		Parent	
	2015	**2014**	**2015**	**2014**
Accrued interest, fringe benefits, taxes and other expense payable	4,101,260,604	3,939,866,691	3,977,173,119	3,866,230,626
Accounts payable	12,722,905,667	7,317,610,347	12,788,784,896	7,384,086,816
Due to Agrarian Reform Fund	242,406,604	204,032,161	242,406,604	204,032,161
Sundry credits	500,707,725	3,070,892,212	500,707,725	3,070,892,212
Unearned income	38,021,752	45,196,685	38,130,661	45,305,594
Withholding tax payable	318,482,447	233,037,663	317,161,940	231,032,999
Miscellaneous liabilities	3,651,652,110	3,624,919,239	3,820,253,049	3,722,610,515
Others	1,290,258,554	1,427,376,060	1,026,237,016	1,241,855,933
	22,865,695,463	19,862,931,058	22,710,855,010	19,766,046,856

22. Income and Other Taxes

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

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

FCDU offshore income (income from non-residents) derived by depository banks under the expanded foreign currency deposit system is exempt from income tax while gross onshore income (income from residents) from other FCDUs and other depository banks under the Expanded Foreign Currency Deposit System, including interest income from foreign currency loans, is subject to 10 per cent final tax. Interest income derived by resident individual or corporation on deposits with other FCDUs and Offshore Banking Units (OBU) are subject to 7.5 per cent final tax.

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

	Group		Parent	
	2015	2014	2015	2014
Current:				
Normal income tax (NIT)	271,844,798	1,001,384,612	171,859,954	913,540,388
Minimum corporate income tax (MCIT)	0	0	0	0
	271,844,798	1,001,384,612	171,859,954	913,540,388
Deferred	0	143,604,184	0	140,770,543
	271,844,798	1,144,988,796	171,859,954	1,054,310,931

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

	Group		Parent	
	2015	2014	2015	2014
Statutory income tax	4,276,866,528	3,980,895,263	4,155,378,106	3,877,796,134
Tax effects of:				
FCDU income	(810,012,347)	(577,675,854)	(810,012,347)	(577,675,854)
Tax exempt & tax paid income	(4,276,356,986)	(4,014,557,198)	(4,266,023,647)	(4,004,024,467)
Other deductible/Non-deductible expense	217,734,897	1,114,152	217,734,897	1,114,152
Non-deductible interest expense	1,570,353,764	1,323,536,693	1,570,353,764	1,323,536,693
Deferred tax asset	(8,581,513)	143,604,184	0	140,770,543
Others	(698,179,545)	288,071,556	(695,570,819)	292,793,730
	271,844,798	1,144,988,796	171,859,954	1,054,310,931

There was no deferred tax asset recognized by the Parent for CY 2015. Subsidiaries recognized deferred tax assets of P72,431,321 and P63,857,317 for CY 2015 and CY2014, respectively.

Below are the temporary differences for which no deferred tax asset is recognized by the Parent since Management believes that it is not probable that future taxable profits will be available against which the asset can be utilized:

	2015	2014
Allowance for credit losses	12,837,793,754	12,999,720,404
	12,837,793,754	12,999,720,404

Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010

Supplementary information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 (and as further amended by RR No. 2-2014 dated January 24, 2014) which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2015, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues	
Services/operations	21,675,475,757
Non-operating and taxable other income:	
Trading and securities gain	1,419,709,815
Service charges, fees and commissions	1,434,544,912
Profit from assets sold	407,756,284
Income from trust operations	158,022,442
Others	845,372,101
	4,265,405,554
Expenses	
Cost of services:	
Compensation and fringe benefits	6,668,597,825
Others	7,533,806,046
	14,202,403,871
Itemized deductions:	
Compensation and fringe benefits	1,252,856,746
Taxes and licenses	2,468,137,845
Security, messengerial and janitorial	568,241,785
Communications, light and water	374,702,977
Information technology expenses	340,343,072
Depreciation and amortization	251,749,720
Bad debts	179,877,259
Repairs and maintenance	168,246,146
Transportation and travel	196,106,345
Management and professional fees	110,371,296
Rent	54,171,608
Representation and entertainment	98,128,893
Others	3,024,271,876
	9,087,205,568

Supplementary information Under RR No. 15-2010

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

I. The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2015 are as follows:

Documents / transactions	DST Paid
Debt instruments, bonds, certificate of time deposits	2,675,303,777
Mortgages, pledges, deed of assignments/trust	67,082,230
Foreign bills of exchange, letters of credit	79,070,040
Acceptance of bills of exchange payable in the Philippines	20,856,784
Bank, checks, drafts and telegraphic transfer/others	7,743,578
	2,850,056,409

II. All other taxes, local and national, paid for 2015:

National	
Percentage taxes (GRT)	2,235,123,724
Fringe benefits tax	8,448,517
National taxes	133,802,633
	2,377,374,874
Local	
Real estate tax	47,482,939
Local business tax	28,687,866
Mayor's Permit/Municipal License/Other Regulatory Fees/License Permit	61,034,197
Other local taxes	16,390,493
	153,595,495
	2,530,970,369

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

Tax on Compensation and benefits	870,818,597
Creditable withholding taxes	153,560,044
Final withholding taxes	1,477,637,207
	2,502,015,848

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

Tax Credits against Income Tax	1,856,866,695
Tax Credits against Gross Receipts Tax	279,759,532
	2,136,626,227

23. Retirement Cost

The Parent has separate funded contributory defined contribution retirement plans covering all its officers and regular employees. Under the retirement plans, all concerned officers and employees are entitled to cash benefit after satisfying certain age and service requirements. Total expenses charged against operations in 2015 and 2014 amounted to P575,487,426 and P560,965,408, respectively.

24. Lease Contracts

Operating lease commitments – as lessee

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

	Parent	
	2015	2014
Within one year	391,464,091	363,752,472
After one year but not more than five years	904,041,335	704,097,836
More than five years	515,070,759	261,817,629
	1,810,576,185	1,329,667,937

Operating lease commitments – as lessor

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

	Parent	
	2015	2014
Within one year	11,290,802	17,552,383
After one year but not more than five years	15,995,898	11,953,710
More than five years	12,779,915	6,691,925
	40,066,615	36,198,018

25. Related Party Transactions

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

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

Total outstanding DOSRI loans of the Parent as of December 31, 2015 amounted to P71,963,439,324 of which P71,680,183,703 are government borrowings covered by BSP Circular No. 547.

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

	2015				2014			
	Key Management Personnel	Subsidiaries	Others (GOCCs, Provident Fund and Rural Banks)	Total	Key Management Personnel	Subsidiaries	Others (GOCCs, Provident Fund and Rural Banks)	Total
Receivables from customers	29,366,825	1,920,835,558	71,934,072,499	73,884,274,882	30,033,183	2,411,293,748	71,673,465,185	74,114,792,116
Deposit liabilities	0	367,542,242	0	367,542,242	0	371,960,801	0	371,960,801
Other liabilities	0	566,170,232	0	566,170,232	0	551,592,869	0	551,592,869
	29,366,825	2,854,548,032	71,934,072,499	74,817,987,356	30,033,183	3,334,847,418	71,673,465,185	75,038,345,786

The following are the significant transactions with subsidiaries:

	2015	2014
Sales/(Purchases)	(27,996,821)	(26,242,391)
Interest income	77,714,114	70,488,378
Interest expense	(156,760,579)	(166,795,234)
Lease expense	(45,236,905)	(44,553,018)
Other income	1,468,308	1,403,726
Other expenses	(344,944,265)	(336,572,587)
	(495,756,148)	(502,271,126)

Transactions with other related parties:

Compensation of key management personnel:

	Group		Parent	
	2015	2014	2015	2014
Short-term employee benefits	149,466,121	133,613,680	129,662,548	115,809,359
Post-employment benefits	35,210,123	32,821,004	31,844,139	27,753,694
Other long-term benefits	53,320,367	45,242,606	53,320,367	45,242,606
	237,996,611	211,677,290	214,827,054	188,805,659

Terms and conditions of transactions with related parties:

The sales to and purchases from related parties are made at normal market prices and settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2015 and 2014, the Group has not made any provision for doubtful accounts relating to amounts owed by related parties. This assessment is undertaken each financial year through examination of the financial position of the related party and the market in which the related party operates.

26. Trust Operations

The Parent is authorized under its Charter to offer trust services and administer trust funds through its Trust Banking Group. The Parent accepts funds entrusted by clients and undertakes as trustee to invest such funds in acceptable securities or other investment outlets. Trust funds or assets under Management of the Parent under its trust operations amounted to P69,250,111,454 and P80,771,451,804 as at December 31, 2015 and 2014, respectively.

Summary of Assets under Management is as follows:

	2015	2014
Special Purpose Trust	1,602,937,108	2,424,236,581
Other Fiduciary Accounts	14,761,771,770	15,691,150,806
Agency	25,585,916,746	22,235,255,282
Trust	27,299,485,830	40,420,809,135
	69,250,111,454	80,771,451,804

In compliance with the requirements of the General Banking Law, government securities with total face value of P850,000,000 in 2015 and P950,000,000 in 2014 are deposited with BSP as security for the Parent's faithful performance of its fiduciary obligation.

27. Derivative Financial Instruments

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

Freestanding Derivatives

Currency Forwards

As of December 31, 2015, the outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P18,952,035,000 with market value of P18,835,932,700.

Over the Counter Interest Rate Option Contract Bought

As of December 31, 2015, the outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P72,519,542 with market value of P87,698,051.

Foreign Exchange (FX) Risk Cover

The foreign exchange risk cover on foreign borrowings is a derivative financial instrument per BSP Monetary Board Resolution No. 1063 dated August 14, 2008 and its fair value changes are reported in the statement of comprehensive income. As of December 31, 2015, the outstanding notional amount of the FX risk cover amounted to JPY7,548,631,599.

Embedded Derivatives

Embedded Credit Derivatives

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

Embedded Optionalities in Debt Investments

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

Embedded Currency Derivatives

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

28. Commitments and Contingent Liabilities

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

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

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

	Parent	
	2015	2014
Trust Department accounts	69,250,111,454	80,771,451,804
Commitments	76,136,294,550	63,655,671,653
Standby/commercial letters of credit	23,186,750,555	15,850,626,079
Derivatives	21,849,619,710	23,208,712,497
Outstanding guarantees	824,682,129	88,520,942
Spot exchange contracts	3,873,156,496	1,207,440,000
Late deposits received	732,085,717	563,481,720
Outward bills for collection	108,308,511	53,336,546
Liability Indemnity Fund	32,775,170	25,000,000
Others	406,550,184	759,704,112
	196,400,334,476	186,183,945,353

29. Financial Performance

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

	2015	2014
Net interest margin ratio	3.26%	3.44%
Return on average assets	1.24%	1.35%
Return on average equity	17.71%	17.20%

30. Capital Funds

As of December 31, 2015, the Parent's authorized capital was P25.0 billion comprised of 2 billion common shares with par value of P10.0 per share and an aggregate par value of P20 billion and 500 million preferred shares with par value of P10 per share, and an aggregate par value of P5.0 billion and P12.0 billion of the Parent's authorized capital had been issued in the form of 1.2 billion fully paid-up common shares.

The Parent complies with the provision of RA No. 7656 on dividend declaration to the National Government (NG) and with the loan and guarantee agreements between the World Bank, the Parent and the Department of Finance (DOF).

On March 31, 2015, the Parent remitted cash dividends to the National Government in the amount of P6.0 billion covering its CY2014 net income.

For CY2015 net income, the Parent remitted P6.6 billion cash dividend on April 6, 2016.

Capital Management

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

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

Regulatory Qualifying Capital

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

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

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

	Group		Parent	
	2015	2014	2015	2014
	(Amounts in Millions)			
Tier 1 Capital	80,004	75,217	80,004	75,217
Tier 2 Capital	15,092	14,703	15,070	14,682
Gross Qualifying Capital	95,096	89,920	95,074	89,899
Less: Required Deductions	28,940	20,368	30,403	22,283
Total Qualifying Capital	66,156	69,552	64,671	67,616
Risk Weighted Assets	513,059	469,533	510,174	466,591
Adjusted Tier 1 Capital ratio	9.95%	11.68%	9.72%	11.35%
Total Capital Adequacy Ratio (CAR)	12.89%	14.81%	12.68%	14.49%

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

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

31. Financial Risk Management

LBP RISK MANAGEMENT PHILOSOPHY AND CULTURE

Risk Management (RM) goes hand-in-hand on co-equal footing with LBP's business strategy. It is an integrative component of good governance which the Board of Directors (BoD) through the Risk Oversight Committee (RiskCom) and Senior Management ensure adequacy of framework, policies, internal controls, RM systems and procedures to manage risks.

The core RM philosophy of the Bank is to balance risk and reward by maximizing business opportunities, operating within the risk threshold and minimizing losses beyond its appetite. RM is embedded in all the business processes of the Bank and it ascertains that risk-taking is commensurate with its risk appetite.

RM at LBP completes the triumvirate of audit and compliance functions which focus at the risk controls of the Bank. Together with internal audit and compliance, the synergy of the three functions provides credence to the role of the Bank's corporate governance in implementing an effective RM framework.

LBP's RM approach is governed by the board-approved Enterprise Risk Management (ERM) anchored on its mission, vision and strategic objectives. The Bank's implementation of ERM system with defined pro-active RM across various operations of the Bank is beyond compliance. ERM is implemented in three levels namely 1. strategic, 2. portfolio and 3. transactional.

At the Strategic Level, the BoD through the RiskCom and Senior Management are actively involved in an organizational-wide RM oversight which involves development and approval of RM policies, framework/structure, internal controls, and risk management system as well as the annual review thereof. The BoD and Senior Management are also involved in an organizational-wide risk monitoring and reporting which are used as basis for decision-making.

At the Portfolio Level, the Groups or Departments oversee the implementation of policies and processes and monitor possible breaches. Risk Management Group (RMG) recommends policies, processes and changes based on risk reports submitted by the risk taking Business Units (BUs) to address risk occurrences that cannot be solved at the level of the risk taking BUs.

At the Transactional Level, the Authorized Risk Takers (ARTs) are involved in the actual implementation of risk policies and procedures. At LBP, the ARTs embrace the continuous management of risk events and immediately escalate the risk occurrences that cannot be solved at their level to the Department or Group level.

RM involves the oversight function covering risk identification, assessment, measurement, control, monitoring and reporting of risks inherent in all activities of the Bank. The RMG as an independent unit performs the oversight function for all major risk areas (credit, market, and liquidity, operational, among others) of the Bank. RMG reports functionally to the RiskCom and administratively to the President & Chief Executive Officer (CEO) of the Bank.

In 2015, the notable accomplishments of RMG include the development of two treasury valuation models and five credit scoring models as part of the Bank's commitments to Governance Commission for GOCCs (GCG) Sector. The completion of bow-tie analysis for LBP-DBP merger risks and the dissemination of ERM Audio Visual Presentation (AVP) were completed as part of the bank-wide implementation of ERM. Also, RMG facilitated the preparation of the Bank's 2015 Internal Capital Adequacy Assessment Process (ICAAP) document which was submitted to Bangko Sentral ng Pilipinas (BSP) before the deadline.

The bank-wide implementation of operational RM tools was strengthened as RMG conducted walkthroughs to Bank's BUs on Risk & Control Self-Assessment (RCSA), Risk Assessment Register (RAR) & Risk Treatment Register (RTR), Business Impact Analysis (BIA), Business Continuity Questionnaire (BCQ) and ICAAP.

Management of Information Technology (IT) and security risks was intensified as the Information Security & Technology Risk Management Office (ISTRMO) was created to be responsible and accountable for the organization-wide IT and security risk program.

Regular review and revision of risk guidelines and manuals were conducted in accordance with regulators' policies and industry best practices. The shock absorption capabilities of the Bank were ascertained through the regular conduct of credit and treasury risk stress testing. Moreover, regular and special market, credit and operational risk reports were prepared and presented to the RiskCom which substantiate that appropriate RM tools are embedded in the Bank's processes to ensure compliance with regulatory and internal risk control measures.

CREDIT RISK MANAGEMENT

The Bank defines counterparty credit risk on loans as the inability to review and analyze the credit quality of potential and existing borrowers to serve as basis for loan approval and to determine the probability of default on an on-going basis which could lead to economic losses. Credit risk is not limited to the loan portfolio and is found in all Bank activities where success depends on counterparty, issuer, or borrower performance. It arises any time Bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet.

The Bank considers its loan portfolio as the major source of credit risk; however, other sources of credit risk exist throughout the activities of the Bank, including the banking and trading book, and both On- and Off-Balance Sheet.

Maximum Credit Risk Exposure

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

	2015 (In Millions)							
	Net Exposures	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit RWA**
On Balance Sheet Items								
Cash on Hand	26,568	26,568	0	0	0	0	0	0
Checks and Other Cash Items	311	0	311	0	0	0	0	62
Due from Bangko Sentral ng Pilipinas	314,890	314,890	0	0	0	0	0	0
Due from Other Banks	5,801	0	72	5,645	0	84	0	2,921
Available-for-Sale (AFS) Financial Assets	131,219	105,394	0	19,916	0	5,909	0	15,867
Held-to-Maturity (HTM) Financial Assets	123,351	114,223	0	3,964	0	5,164	0	7,146
Unquoted Debt Securities Classified as Loans	12,972	623	0	1,046	0	11,303	0	11,826
Loans and Receivables	378,094	0	1,399	20,321	45,371	308,848	2,155	356,549
1. Interbank Loans Receivables	34,004	0	1,081	16,719	0	16,199	5	24,782
2. Loans & Receivables - Others	0	0	0	0	0	0	0	0
a. LGUs & Public Sector Entities	29,979	0	0	0	0	29,979	0	29,979
b. Government Corporation	770	0	0	0	0	770	0	770
c. Corporates	240,421	0	15	0	0	240,406	0	240,409
d. Micro/Small & Medium Enterprise	45,474	0	103	0	45,371	0	0	34,049
e. Loans to individuals	25,081	0	200	3,602	0	21,279	0	23,120
3. Defaulted Exposures	2,365	0	0	0	0	215	2,150	3,440
Other Loans and Receivables[1]	83,736	83,736	0	0	0	0	0	0
Sales Contract Receivable (SCR)	838	0	0	0	0	394	444	1,060
Real and Other Properties Acquired	4,431	0	0	0	0	0	4,431	6,647
Total Exposures Excluding Other Assets	1,082,211	645,434	1,782	50,892	45,371	331,702	7,030	402,078
Other Assets	12,658	64	0	0	0	12,594	0	12,594
Total On-Balance Sheet Exposures	**1,094,869**	**645,498**	**1,782**	**50,892**	**45,371**	**344,296**	**7,030**	**414,672**

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

	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	Credit RWA
Off-Balance Sheet Items								
A. Direct credit substitutes	4,000	0	0	1	0	3,999	0	4,000
B. Transaction-related contingencies	38,575	0	0	0	0	38,575	0	38,575
C. Trade-related contingencies	2,495	0	0	1,375	0	1,120	0	1,808
Total Off-Balance Sheet Exposures	**45,070**	**0**	**0**	**1,376**	**0**	**43,694**	**0**	**44,383**
Counterparty RWA In The Trading Book								
Derivative Exposures	276	0	92	72	0	112	0	166
Total Exposures	**1,140,215**	**645,498**	**1,874**	**52,340**	**45,371**	**388,102**	**7,030**	**459,221[2]**

[2] Total Credit Risk Weighted Assets (CRWA) inclusive of general loan loss provision of P929 million

Credit Exposures and Credit-Related Commitments

As of December 2015, the Bank's regular On-Balance Sheet Loans & Receivables amounted to P378,094 million, Net of Credit Risk Mitigation which consists mainly of primary collaterals such as deposit holdout, government securities, and sovereign guarantees. The bulk of Net Loans & Receivables went to Corporates at P240,421 million (63.59%), followed by Micro, Small & Medium Enterprises (MSMEs) at P45,474 million (12.03%), interbank loans at P34,004 million (8.99%), and government entities at P30,749 million (8.13%). The Bank also holds substantial receivables arising from repurchase agreements aggregating P83,736 million. For Net Off-Balance Sheet exposures of P45,070 million, the credit equivalent amounts are computed considering their respective Credit Conversion Factors (CCFs). These accounts are composed mainly of general guarantees of indebtedness (e.g., financial standby letters of credit – domestic and foreign), performance bonds and warranties related to particular transactions, and contingencies arising from movement of Goods and Trust transactions. Outstanding derivative exposures are mainly over-the-counter Foreign exchange (Fx) option contracts.

The Bank's Loans & Receivables reflected a Credit Risk Weighted Assets (RWA) of P356,549 million following the Standardized Approach in credit RM. This represents 69.49 percent of the Bank's aggregate RWA of P513,059 million. However, the Bank's total Credit RWA increased by P39,821 million or 9.52 per cent, from P418,471 million in 2014 to P458,292 million in 2015.

Management of Credit Risk

The goal of credit RM is to maximize the Bank's risk-adjusted rate of return by maintaining credit risk exposures within approved parameters. The Bank needs to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. It also considers the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to RM and essential to the long-term success of the Bank.

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

As the middle office for credit risk, the Bank's Credit Policy & Risk Management Department (CPRMD) handles credit risk oversight, policy issuance, risk measurement and risk rating of Bank borrowers.

To effectively monitor and maintain the quality of its loan portfolio, the Bank conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves. As of December 2015, the Bank's net Non-Performing Loan (NPL) stood at P790 million or 0.15 percent: and that only P2,210 million or 1.32 percent of loan accounts (i.e., corporate type of borrower) under its Internal Credit Risk Rating System (ICRRS) are rated below the Acceptable level. In addition, the Bank sets applicable limits on its real estate loans, large exposures, industry concentration and single borrower limit.

Credit Risk Rating

In compliance with BSP requirements, the Bank establishes its ICRRS for the purpose of measuring credit risk for corporate borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information as one of the bases in making credit decision. The ICRRS rating scale consists of ten grades, six of which fall under unclassified accounts, with the remaining four falling under classified accounts in accordance with regulatory provisioning guidelines. The Bank has also sets up similar expert-based credit risk rating on its other loan streams.

Moreover, it undertakes continuing development and implementation of automated credit risk rating models through its Credit Risk Engine System (CRES) Scoring Facility (CSF) to enhance its capability to determine the credit worthiness of its borrowers. In line with this, it has recently approved the implementation of the following automated credit scoring models:

- Application Scoring Model for Individual Home Buyers
- Application Scoring Model for Salary Loan Availers
- Behavioral Scoring Model for Local Government Units (LGUs)
- Behavioral Scoring Model for Small Medium Entrepreneurs (SMEs)
- Behavioral Scoring Model for Corporates

Credit Risk Monitoring

Periodic escalation of credit risk exposures and underlying risk events is being undertaken via a formal reporting system. This enables the Bank through the ILC, RiskCom and the LBP Board to keep tab of major credit issues or concerns that need priority action or resolution.

Collateral and Other Credit Enhancements

The required amount and type of loan collateral depend on borrower type and assessment of the credit risk of the borrower. The Bank's Credit Manual and credit policy issuances provide the guidelines on the acceptability of loan collateral and maximum valuation for each type of collateral.

The following are the primary collaterals accepted by the Bank:

- Holdout on Deposits
- Government Securities
- Real Estate Mortgage
- Chattel Mortgage

The Bank also accepts government guarantees, cross suretyship from corporations and such other eligible guarantees. In the case of agricultural and agriculture-related loans that are vulnerable to the effects of climate and weather disturbances, borrowers are encouraged to avail of crop insurance guarantees and other insurance mechanisms to shield them from these risks.

Credit Stress Testing

The Bank regularly conducts stress testing of its loan portfolio taking into account risk events with high probability of occurrence. Utilizing such scenarios, tests are done to determine the magnitude of their impact on the Bank's loan portfolio, on the Credit RWA, and finally on the Capital Adequacy Ratio (CAR). The stress testing also includes prescribed regulatory tests such as uniform stress test and real estate stress test.

MARKET RISK MANAGEMENT

Market Risk Management Framework

LBP is exposed to market risks in both its trading and non-trading banking activities. The Bank assumes market risk in market making and position taking in Government Securities (GS) and other debt instruments, equity, Fx and other securities, as well as, in derivatives or financial instruments that derive their values from price, price fluctuations and price expectations of an underlying instrument (e.g., share, bond, Fx or index).

LBP's exposure on derivatives is currently limited to currency swaps and currency forwards to manage Fx exposure. Although the Bank is also exposed to derivatives that are embedded in some financial contracts, these are relatively insignificant in volume.

The Bank uses a combination of risk sensitivities, Value-at-Risk (VaR), stress testing, CAR and capital metrics to manage market risks and establish limits. The LBP's BoD, RiskCom and the Asset & Liability Committee (ALCO - Senior Management level) define and set the various market risks limit for each trading portfolio. The Treasury & Investment Banking Sector (TIBS), particularly the Financial Markets Group (FMG) which manages the Bank's trading units as well as the Asset & Liability Management Group (ALMG) which manages the Bank's liquidity and reserve positions, conducts risk-taking activities within limits at all times and ensures that breaches are escalated to Senior Management for appropriate action.

A management alert is activated whenever losses during a specified period equal or exceed specified management alert level. LBP controls and minimizes the losses that may be incurred in daily trading activities through the VaR and Management Action Triggers (MATs).

Positions are monitored on a daily basis to ensure that these are maintained within established position limits to control losses. Position limits are subordinated to MATs and VaR limits. Macaulay and Modified Duration are used to identify the interest rate sensitivity of the Bond Portfolio of the Bank. Moreover, various tools such as Re-pricing Gap, Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to measure interest rate risk in the banking book.

In the same way, certain subsidiaries of the Bank independently quantify and manage their respective market risk exposures by maintaining their respective risk management system and processes in place.

Market Risk Weighted Assets

As of 31 December 2015, the Bank's total Market Risk Weighted Assets (RWA) stood at P5,496 million, broken down as follows:

Particulars	Amount (In Millions)
Interest Rate Exposure	1,627
Equity Exposure	0
Fx Exposure	841
Options	3,028
Total Market RWA	**5,496**

The Total Market RWA represents 1.1 percent of the Bank's aggregate RWA of P513,059 million.

Managing Market Risk Components

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

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

1. Interest Rate Risk Management

a. Traded Market Risk

Market risk in trading arises primarily as a result of market making, application of risk management solutions and participation in syndications. The Bank continues to manage interest rate risk in trading activities through factor sensitivities and the use of an effective and independently validated VaR methodology and stress testing.

b. Interest Rate Risk in the Banking Book

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

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

The Bank manages interest risk based on approved policies and guidelines, established limit setting procedures and interest rate risk limits, application of interest rate risk measurement models and reporting standards such as Re-pricing Gap, EaR and EVE-at-Risk reports.

The two interest rate risk perspectives adopted by LBP in measuring Interest Rate Risk in the Banking Book are as follows:

a. Earnings Perspective: The Bank uses the EaR Model to estimate changes in Net Interest Income (NII) under a variety of rate scenarios over a 12 month horizon.

The following table sets the Re-pricing Gap position of the LBP as of 31 December 2015 and the increase/decline in earnings for upward and downward interest rate shocks in the banking book:

Particulars	**1 to 30 days**	**> 1 month to 3 months**	**> 3 months to 6 months**	**> 6 months to 12 months**
	(In millions)			
Financial Assets				
Due from BSP	125,000	0	0	0
Total Loans	134,841	72,539	51,552	25,106
Total Investments	2,171	532	682	5,807
Sales Contract Receivables	47	15	1	17
	262,059	**73,086**	**52,235**	**30,930**
Financial Liabilities				
Deposits	717,774	164,562	16,426	10,393
Bills Payable	0	704	8,107	0
Others	0	0	0	0
	717,774	**165,266**	**24,533**	**10,393**
Off-Balance Sheet				
Derivatives	(18,824)	0	0	0
Commitments	0	0	0	(34,973)
	(18,824)	**0**	**0**	**(34,973)**
Re-pricing Gap	**(474,539)**	**(92,180)**	**27,702**	**(14,436)**

	Change in Interest Rates (in basis points)							
	(In millions)							
	-300/-15	**-200/-10**	**-100/-5**	**-50/-2.5**	**+50/+2.5**	**+100/+5**	**+200/+10**	**+300/+15**
EaR	14,212	9,474	4,737	2,369	(2,369)	(4,737)	(9,474)	(14,212)

b. Economic Value Perspective: The Bank uses the EVE-at-Risk Model to assess the potential long-term effects of changes in interest rates over the remaining life of the Bank's holdings. This model also measures the change in the Bank's economic value of equity for specified changes in interest rates.

The table below shows the increase (decline) in economic value for upward and downward rate shocks using the EVE-at-Risk Model to measure interest rate risk in the banking book.

	Change in Interest Rates (in basis points)							
	(In millions)							
	-300	**-200**	**-100**	**-50**	**+50**	**+100**	**+200**	**+300**
EVE-at-Risk	8,477	5,607	2,781	1,385	(1,375)	(2,739)	(5,435)	(8,091)

Both viewpoints are assessed to determine the full scope of the Bank's interest rate risk exposure. Moreover, interest risk in the Bank is not managed in isolation. Interest risk measurement systems are integrated into the Bank's general risk measurement system and the results from models used are interpreted in relation with other risk exposures.

The interest rate risk exposures of the Bank are measured and reported to the ALCO and RiskCom at least on a monthly basis under the earnings perspective through EaR Model and quarterly for the economic value perspective using EVE-at-Risk Model.

2. Equity Price Risk Management

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

Particular	Position Limit (In Millions)	Management Alert Trigger
Equity	1,000	YTD Gain Erosion Income Target

3. Foreign Exchange Risk Management

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

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

Particular	Position Limit (In Millions)	Management Alert Trigger
Foreign Currency Trading	$50	YTD Gain Erosion
Foreign Securities	$20	Income Target

LBP had the following significant exposures denominated in foreign currencies as of 31 December 2015:

	US$	Others	Total
		(In Philippine Pesos)	
Foreign Currency & Coins on Hand /Cash & other cash items	809,779,691	25,167,455	834,947,146
Due from banks	4,769,604,731	947,048,243	5,716,652,974
Held for trading	87,698,051	0	87,698,051
Available for sale investments	26,849,371,175	509,714,285	27,359,085,460
Held to maturity	24,213,512,908	0	24,213,512,908
Interbank loans receivable	17,718,090,000	81,786,515	17,799,876,515
Loans and receivables	11,774,563,231	3,279,580,068	15,054,143,299
Investment in subsidiaries	0	66,425,983	66,425,983
Other assets	14,024	0	14,024
Total Assets	**86,222,633,811**	**4,909,722,549**	**91,132,356,360**
Liabilities			
Deposit liabilities	52,804,726,959	1,132,441,359	53,937,168,318
Bills payable	3,080,204,824	0	3,080,204,824
Others	10,517,092,139	15,870,306,966	26,387,399,105
Total Liabilities	**66,402,023,922**	**17,002,748,325**	**83,404,772,247**

Market Risk Measurement and Validation Models

1. VaR Analysis

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

LANDBANK uses internally developed Historical Simulation Model in computing VaR of Equities, Fx Net Open Position, Government Securities (GS) and Foreign Securities (FS) trading portfolios. The Bank continuously pursues initiatives to improve processes in preparation for the Bank's migration towards an Internal Model Approach for capital charging. The VaR disclosure is intended for external disclosure and for regulatory purposes. The Bank monitors VaR both at portfolio and across portfolio level.

Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management. The over-all VaR limit for the LANDBANK Treasury's trading activities was set at P321 million throughout 2015.

2. Back-Testing

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

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

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

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

3. **Stress-Testing**

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

Stress-test is a risk management tool used to determine the impact on earnings of market movements considered "extreme", i.e., beyond "normal" occurrence. Stress-tests are LBP's measures of risks to estimate possible losses which the VaR does not capture.

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

Results of PSA are also simulated in the CAR computation to be able to assess its impact on the CAR compliance set at 10.0 percent and the CET 1 ratio of at least 8.5 percent set by BSP with conservation buffers.

LIQUIDITY RISK MANAGEMENT

Liquidity Risk Management Framework

LANDBANK's liquidity risk management process is consistent with the general risk management framework of the Bank covering risk identification, measurement and analysis, monitoring and control. The policies that govern liquidity risk management are reviewed and approved on a regular basis by ALCO and RiskCom. The Bank's liquidity policy is to maintain fund availability at all times and hence, to be in a position to meet all of its obligations, in normal course of business.

The Bank considers liquidity risk based on Market and Funding Liquidity Risk perspectives. Trading or Market liquidity risk refers to inability to unwind positions created from market, exchanges and counterparties due to temporary or permanent factors. The Bank cannot easily eliminate or offset a particular position because of inadequate liquidity in the market. This may be associated with large transactions having significant effect on market prices that lack sufficient depth, or with structured or complex investments having small potential buyers. This liquidity risk perspective is captured through stress testing or scenario analysis.

Funding liquidity risk refers to current and prospective risk arising from the inability to meet investment and funding requirements arising from cash flow mismatches without incurring unacceptable losses. It occurs from the mismatch of asset, liability, exchange contract and contingent commitment maturities. Funding liquidity risk is being monitored and controlled through the classification of maturities of assets and liabilities over time bands and across functional currencies as reflected in the Liquidity Gap Report (LGR).

The LBP's BoD exercises oversight through RiskCom and delegated the responsibility of managing the overall liquidity of the Bank to the ALCO. The ALCO and the TIBS are responsible for the daily implementation and monitoring of relevant variables affecting LBP's liquidity position. The ALCO reviews the Bank's assets and liabilities position on a regular basis and, in coordination with the TIBS, recommends measures to promote diversification of its liabilities according to source, instrument and currency to minimize liquidity risks resulting from concentration in funding sources. The ALCO meets twice a month or more frequently as required by prevailing situations. The Risk Management Group (RMG), through the Treasury Risk Management Department (TRMD) is responsible for the oversight monitoring of the Bank's liquidity risk positions and ensures that reports on the Bank's current risk are prepared and provided to ALCO and RiskCom in a timely manner.

Although the Bank pursues what it believes to be a prudent policy in managing liquidity risk, a maturity gap does, from time to time, exists between the Bank's assets and liabilities. In part, this comes about as a result of the Bank's policy to seek higher yielding assets, a policy which will generally lead to the average maturity of its financial assets exceeding that of its liabilities.

LBP performs a comprehensive liquidity risk measurement and control using as tool the Consolidated Liquidity Gap Report (LGR) covering the bank-wide balance sheet. Risk models used in liquidity RM are subjected to independent model validation as conducted by the Internal Audit Group (IAG).

Liquidity Risk Measurement Models

LBP manages the liquidity risk using the following tools:

1. **Liquidity Gap Report**

The Bank performs liquidity gap analysis using the LGR which is a risk measurement tool used in identifying the current liquidity position to determine the ability to meet future funding needs. It breaks down balance sheet items according to estimated maturities of assets and liabilities in order to determine any future structural imbalances such as long-term assets growing faster than long term liabilities. The RMG, through TRMD assists ALCO in its function by preparing Peso, Fx Regular, FCDU and Consolidated LGR on a monthly basis.

	PARENT					
	In Thousands					
	2015			2014		
Particulars	Due within one year	Due more than one year	Total	Due within one year	Due more than one year	Total
Assets						
Cash & Other Cash Items	26,889,156	0	26,889,156	24,247,689	0	24,247,689
Due from BSP	314,934,580	0	314,934,580	229,351,507	0	229,351,507
Due from Other Banks	5,781,050	1,685	5,782,735	6,284,410	975	6,285,385
Interbank Loan Receivable	17,799,877	0	17,799,877	17,243,602	0	17,243,602
Security Purchased Under Agreement to Resell	83,654,000	0	83,654,000	56,390,000	0	56,390,000
Loans & Receivables	155,403,886	293,642,674	449,046,560	132,153,291	269,111,938	401,265,229
Investments	30,652,845	254,175,401	284,828,246	36,225,870	265,439,491	301,665,361
Other Assets	2,106,127	18,026,935	20,133,062	2,770,327	17,387,787	20,158,114
Total Assets	**637,221,521**	**565,846,695**	**1,203,068,216**	**504,666,696**	**551,940,191**	**1,056,606,887**
Liabilities						
Deposits						
Demand	474,739,429	0	474,739,429	392,226,721	0	392,226,721
Savings	533,308,804	0	533,308,804	469,423,769	40	469,423,809
Time	26,735,535	444,090	27,179,625	46,276,487	24,619	46,301,106
LTNCD	0	11,000,000	11,000,000	0	5,000,000	5,000,000
Bills Payable	1,882,262	19,467,669	21,349,931	2,182,814	18,058,314	20,241,128
Unsecure Subordinated Debt	0	10,500,000	10,500,000	0	10,500,000	10,500,000
Due to BTr, BSP, & MCs/PCIC	2,240,728	163,469	2,404,197	1,755,387	117,078	1,872,465
Due to Local Banks	16,758	0	16,758	8,621	0	8,621
Other Liabilities & Payable	336,966	35,988,549	36,325,515	8,329,210	20,022,669	28,351,879
Total Liabilities	**1,039,260,482**	**77,563,777**	**1,116,824,259**	**920,203,009**	**53,722,720**	**973,925,729**

- **Core Deposit**

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

- **Non-maturing deposits**

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

The following table sets forth the asset-liability gap position over the detailed time period for the Parent at carrying amounts in million pesos as of 31 December 2015 based on contractual repayment arrangements which take into account the effective maturities as indicated by LBP's deposit retention history.

	In Millions					
Particulars	Due within 3 months	Due more than 3 months to 6 months	Due more than 6 months to 1 year	Due more than 1 year to 5 years	Due more than 5 years	Total
Financial Assets						
Cash & Due from Banks	300,140	0	47,465	0	2	347,607
Total Loans	171,752	61,919	23,187	96,116	197,526	550,500
Total Investments	9,954	588	20,111	70,258	183,917	284,828
Other Assets	1,392	0	714	0	18,027	20,133
Total Assets	**483,238**	**62,507**	**91,477**	**166,374**	**399,472**	**1,203,068**
Financial Liabilities						
Deposits	35,779	1,237	2,140	651	1,006,421	1,046,228
Borrowings	442	481	959	6,515	12,953	21,350
Other Liabilities & Unsecured Subordinated Debt	2,257	0	337	0	46,652	49,246
Total Capital	0	0	0	0	86,244	86,244
Total Liabilities & Capital	**38,478**	**1,718**	**3,436**	**7,166**	**1,152,270**	**1,203,068**
Asset & Liabilities Gap Position	**444,760**	**60,789**	**88,041**	**159,208**	**(752,798)**	

As of 31 December 2015, the Bank has in its possession a comfortable level of highly liquid assets to cover for liquidity risk that may arise in the earlier tenor buckets. Most assets (particularly loans and investments) have long term maturities. Cumulative gap after contingent accounts is positive in all buckets except in the 'more than 5 years' bucket. Maximum Cumulative Outflow (MCO) limit was not breached in the entire time bucket within the one year horizon.

LBP has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk, consistent with the nature and complexity of its business activities, overall level of risk and its risk appetite. The MCO limit set by the BoD is one of the tools used to manage and control the liquidity risk in the gap report of the Bank. It is a measure of the liquidity gap between maturing assets and liabilities. MCO limits put a cap on the total amount of negative gaps in the '1 day to 1 year' time buckets.

2. **Financial Ratio Analysis**

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

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

3. **Liquidity Stress Test**

	In Millions except when expressed in percentage			
	31 December			
Particulars	**2015** (Unaudited)	**2014** (Audited)	**2013** (Audited)	**2012** (Audited)
Liquid Assets (*)	722,850	625,897	502,535	313,078
Financial Ratios:				
Liquid Assets to Total Assets	60.08%	50.23%	59.33%	48.67%
Liquid Assets to Total Deposits	69.09%	68.55%	71.38%	61.70%

*Note: Liquid Assets include the following:
1. Cash and other Cash Items
2. Interbank Loans
3. Government Securities
4. Tradable non-Government securities and commercial paper

The Bank complements liquidity management and contingency planning through the use of stress testing and scenario analysis. Stress testing for liquidity risk is done to supplement the LGR/MCO Model as it makes provisions for varied but plausible situations through scenario analysis with the single goal of preparing the Bank for potential liquidity problems. This could serve as input for making appropriate liquidity management decisions and come up with mitigating measures to ensure that the Bank will be able to withstand such events. The scenarios are based on historic events, case studies of liquidity crisis and models using hypothetical events.

Result of stress-test analysis helps the Bank focus on the level of liquidity that could be reasonably built within a specified period to meet different situations. This also serves as guide for the Bank in the limit setting process for the MCO and various financial ratios.

4. **Liquidity Coverage Ratio**

LBP determines the Liquidity Coverage Ratio (LCR) every quarter to ensure that it maintains an adequate level of unencumbered High Quality Liquid Assets (HQLA) to meet liquidity needs for a 30 calendar day liquidity stress scenario.

The Bank computes the LCR using the BSP prescribed formula:

$$\text{LCR} = \frac{\text{Stock of HQLA}}{\text{Total Net Cash Outflow Over the Next 30 Calendar Days}}$$

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

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

As of 31 December 2015, the Bank's simulation using the BSP's LCR template as indicated in the BSP Circular 905 Series of 2016 resulted to LCR higher than the 90 percent minimum requirement for the CY 2018 and maximum LCR trigger alert of 100 percent targeted for the CY 2019.

5. **Liquidity Contingency Plan (LCP)**

The Bank formulated the LCP using extreme scenarios of adverse conditions to ensure that the Bank has sufficient liquidity at all times. The LCP evaluates the Bank's ability to withstand the extreme scenarios. The contingency plan focuses on the Bank's strategy for coordinating managerial action during a crisis and includes procedures for making up cash flow shortfalls in adverse situations.

In the event of a liquidity crisis, the Bank activates the contingency plan based on the recommendation of the ALCO which has the over-all responsibility for the management and execution of the plan, unless otherwise elevated to the Crisis Management Committee (CMC).

Although deposit liabilities remain to be the major source of fund, the Bank identifies the different alternative funding sources like cash from operations, stock of marketable assets, government and retail deposit sources, and various credit lines from Banks, among others which are available within 1 day to 6 months. In 2015, the Bank's LCP was enhanced to include the procedures in conducting the liquidity testing.

OPERATIONAL RISK MANAGEMENT

In 2015, LBP continued to strengthen its operational performance to attain its financial target. With reference to the business excellence theme for 2015, the Bank pursued operational alignment during the year. The Bank attained its overall strategic objectives through operational alignment where all BUs, support units and employees were made to understand how each individual performance is tied to the attainment of Bank's goal. The alignment of operations with that of organizational goals translated to solid financial gains and operational excellence.

Similarly, LBP focused on enhancing internal business processes and continued its initiatives on International Organization for Standardization [ISO] (i.e., Environmental Management System [EMS] and Quality Management System [QMS]). Moreover, the Bank took on a major challenge by applying for the Philippine Quality Award (PQA) Program as part of its thrust to continually improve business processes and develop world class operations.

A significant achievement of the Bank in 2015 in the area of Operational Risk Management (ORM) was the implementation and embedding of RM at the BU level. ORM across the institution was becoming a way of life, with the BUs becoming aware of the specific operational risks they confronted, taking a proactive stance in managing these and escalating breaches as soon as they occur. BUs conduct self-assessment using various RM tools such as RCSA, RAR & RTR, BIA, BCQ, heat maps, and hazard maps to quantify potential operational losses which serve as their daily dashboard in monitoring operational risk. RMG regularly monitors and escalate to RiskCom and Management Committee (ManCom) the actual losses versus estimated losses.

Operational Risk Exposure

LBP uses the Basic Indicator Approach for calculating the capital charge for operations risk under Pillar 1. The Bank used the average Gross Revenues of the Bank for the last three years to calculate the Operational RWA. In compliance with BSP Circular #900 dated 18 January 2016, the scope of the Operational Risk was expanded to include event and legal risks.

As of 31 December 2015, the Bank's RWA for Operational Risk using the Basic Indicator Approach was P49,271 million or 9.6 percent of the Bank's aggregate RWA of P513,059 million. Cognizant that Gross Revenues (BSP proxy data) is but a shadow indicator of operational risks in the Basic Indicator Approach calculation, LBP conducted a simulation of the computation of the 2015 estimated losses using actual historical losses of the Bank and estimated probability of occurrence in 2016 to determine the variance from the Basic Indicator Approach model.

Self-risk assessment of operations showed that the total estimated loss was way below the Operational RWA under the Basic Indicator Approach.

While the banking industry perceives system risk as high risks among the operational risk, LBP has conducted a forward-looking risk assessment and put the following controls in place to avoid/mitigate the estimated losses from system risk.

- Enhancement and implementation of the Bank's IT Risk Management System
- Creation of the IT-Quality Management Office
- Strengthen the function of the ISTRMO under the RMG
- Upgrading of Automated Teller Machines (ATMs)
- Compliance with Europay Mastercard VISA (EMV)
- Continued upgrading of IT infrastructure
- Conduct of full cycle testing
- Implementation of IT governance
- Enhancement of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) for IT
- Enhancement of IT standards
- Observance of strict procurement process and monitoring of the performance of service providers
- Full compliance to information security policies
- Insurance coverage for fixed assets and electronic crimes, and
- Monitoring and oversight of the Senior Management, ITCom and RiskCom.

Equally important, LBP has started to embark on other initiatives to mitigate system risk such as implementation of the Enterprise Fraud Risk Management System, upgrading of Security & Network Infrastructure and delivery channels such as internet and phone banking.

ENTERPRISE RISK MANAGEMENT

Risk Categories

As the Bank recognizes all risks inherent to its mandate and its various business activities, it embarks on an Enterprise Risk Management (ERM) approach to capture all risk events categorized under BSP Circular No. 510 dated 03 February 2006 (re: Guidelines on Supervision by Risk): 1. credit risks, 2. market risks, 3. compliance risks, 4. liquidity risks, 5. interest rate risks, 6. operations risks, 7. reputation risks and 8. strategic risks. The 52 risks that comprise the Bank's Risk Universe and falling under the above eight categories are defined, customized and given substance in the LBP Risk Dictionary developed under the ERM initiative.

Through the Risk Self-Assessment (RSA) process under the ERM, Senior Management prioritized critical risks in terms of inherent impact and effectiveness of RM practices. This resulted in the prioritization of 26 critical risks, from which the top five risks of the Bank were selected, as follows:

1. Market Risk: The failure to anticipate and manage fluctuations in the values of the Bank's investments; could lead to economic losses.

2. Counterparty Credit Risk-Loans: The inability to review and analyze the credit quality of potential/existing borrowers to serve as basis for loan approval (at application) and to determine the probability of default (on an ongoing basis); could lead to economic losses.

3. IT Management Risk: The failure to effectively prioritize IT initiatives and administer IT resources may lead to lost business and hinder the achievement of the Bank's goals and objectives.

4. People Risks:
    - People Development and Performance Risk: The inability to develop and enhance employee skills and provide a sound employee performance management system may reduce employee motivation and may adversely impact the achievement of desired performance and conduct.

    - Recruiting and Retention Risk: The inability of the Bank to attract, retain and develop competent employees might lead to organizational dysfunction and low morale.

    - Succession Planning Risk: The failure to create and implement a feasible continuance plan for key bank positions and employees might adversely affect the stability of organizational leadership and business continuity.

5. Client Relationship Management Risk: The inability to effectively identify and address the customers' needs will negatively affect the Bank's reputation and relationship with customers.

The risk profile of the Bank is subjected to regular review and the RSA yielded the following seven risks (part of the 26 critical risks) that needed to be immediately addressed.

1. Strategic Planning Risk: The failure to develop, implement and monitor institutional strategies and direction will threaten the Bank's overall viability and growth prospects.

2. Socio-Political Risk: The failure to understand, address and anticipate political mandates and social & cultural developments will affect the Bank's overall operations.

3. Technology Identification Risk: The failure to identify and prioritize the appropriate system and technology to support business processes or major initiatives may lead to costly investments and work inefficiencies and may compromise product or service delivery.

4. Measuring & Monitoring of Major Initiatives Risk: The failure to identify appropriate performance metrics and standards to monitor attainment of objectives and targets may prevent the achievement of desired output and performance.

5. Lending Capacity Risk: The failure to maximize loanable funds might lead to loss of business opportunities for the Bank.

6. Liquidity Risk: The failure to properly manage the Bank's cash flows and have sufficient available alternative fund sources at reasonable cost could affect the Bank's ability to meet its obligation as they fall due.

7. Banking Regulations Risk: The failure to comply with the circulars, memoranda, advisories and other issuances of regulatory bodies as applicable to the banking industry, may result in loss of business, administrative/criminal penalties/sanctions and loss to reputations. It is also the failure to set the stage for higher capital requirement in order to strategically align economic capital with regulatory requirements like Basel III, Anti-Money Laundering Act (AMLA) amendments, etc.

In light of the impending merger and consolidation of LBP and DBP, a re-assessment of the Bank's risk profile was conducted and six emerging risks were identified in 2015:

1. People Risk: Failure to retain and motivate key personnel due to the changes brought about by the merger will lead to organizational dysfunction and low morale.

2. IT Identification & Implementation: Failure to identify and implement the appropriate system and technology to support business processes or major initiatives of the merged bank may lead to costly investments and work inefficiencies, and may compromise product or service delivery.

3. Asset Quality & Valuation: Failure to establish the appropriate valuation of assets and liabilities of DBP and its subsidiaries that will be absorbed by the Bank, including commitments and contingencies on unrecorded assets and liabilities, might cause financial losses.

4. Capital Reserve: Failure to maintain capital surplus (on top of the increased minimum regulatory requirements) to serve as a reserve from unforeseen losses arising from the merger and to support planned expansion may lead to regulatory sanctions and bank insolvency.

5. Socio-Political: Failure to understand, address and anticipate policy mandates, as defined in the law and Executive Order, will affect the Bank's plan in its execution of the merger.

6. Tone at the Top and Vision & Direction: Inability of the BoD and Senior Management to establish a culture of accountability, integrity, professionalism and competency may result in an unfavorable working environment and lack of integrity in the way the merged Bank will conduct business. Failure to establish, align and communicate the merged Bank's vision and direction to the employees and customers, including its major initiatives, services, products and programs, may hamper the achievement of its objectives and strategies.

Formulation of risk management strategies to mitigate the risk and its root causes were performed by risk teams from various risk-taking BUs using Bow-Tie Analysis. The Bow-Tie Analysis map clearly displays the links between the potential causes, preventative and mitigating controls and consequences of the risks related to merger.

The Bank's Risk Universe also was revisited and from a total of 52 risks, the Risk Universe increased to 62 risks and these were defined and included in the Bank's Risk Dictionary.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

For 2015, the Bank's conducted a thorough and comprehensive Internal Capital Adequacy Assessment Process (ICAAP) process to determine the quality and adequacy of the Bank's capital, given the existing risks exposure as well as future risks arising from growth, new markets and expansion of the product portfolio. The BoD and the Senior Management performed collaborative governance and provided directions to enhance the RM process and strengthen the capital position of the Bank.

ICAAP's primary purpose is to inform the BoD and Senior Management of the ongoing self-assessment of the bank's risk profile, how the Bank intends to mitigate significant risks and how much additional future capital is necessary having considered other mitigating factors.

Enhancement of Risk Assessment

To align with the local and global best practices, the Bank has strengthened and enhanced its ICAAP development process with the following major revisions:

- Linking the Bank's ERM Framework with ICAAP Model by relating the forward-looking risk assessment with the Risk Driver Maps containing the corresponding strategies
- Adopting the enterprise-wide view of risk, cross risk analysis & identification and management of emerging risk across the institution.
- Linking the RCSA process in determining risk drivers and potential losses
- Institutionalizing the ICAAP Communication Process
- Implementation of the "ICAAP Quarterly Monitoring Report"
- Defining the primary risk owners and secondary risk owners

ICAAP Culture

The ICAAP is embedded in the Bank's operating philosophy and has been cascaded down to the BUs level, forming an integral part of LBP's RM process. This process enables its BoD and Senior Management Team to assess, on a continuing basis, the risks that are inherent in the daily activities of the BUs.

All BUs of the Bank use ICAAP in the day-to-day operations and they are aware of the corresponding capital charge for every single transaction or business they will generate and implement. In monitoring the efficient performance of the BUs across the organization in the area of RM and utilization of capital, the Bank adopts a rigorous escalation and thorough monitoring process via regular reports.

Strengthening Capital Planning

For 2015, the Bank has sufficient and strong capital to deliver its mandated services and to cover the risk inherent in its operations. Under the most probable scenario, LBP estimated the 2015 year-end Capital Adequacy Ratio (CAR) at 12.8 percent vs. 10 percent required CAR. The actual CAR recorded as of 31 December 2015 was 12.9 percent implying a very objective risk assessment and capital planning. Similarly the actual Common Equity Tier 1 (CET 1) ratio of 9.9 percent as of 31 December 2015 was not too far from the 9.7 percent projected CET 1 ratio. The actual CAR and CET 1 ratios of the Bank were more than the BSP minimum requirements of 10 percent CAR and 8.5 percent CET 1 ratio and were compliant with Basel III requirements.

The projected ICAAP ratios of CAR and CET 1 being very near the actual values of these ratios at the end of December 2015 indicate that the ICAAP process has been conducted diligently and appropriately.

As a policy, the Bank maintains a strong capital base at all times to boost customer confidence, enhance competitiveness, ensure stability, and sustain long-term growth and viability. As such, the Bank continues to adhere to BSP's policies, rules and more specifically, comply with regulatory requirements on capital structure, as well as capital adequacy and leverage ratios.

The Bank shall likewise continue to vigorously preserve real capital to sustain developmental pursuit and service its mandated clients while maintaining acceptable Return on Equity (RoE) of at least equal to the average RoE of the commercial banking industry.

The Bank's General Policy on Capital Planning was enhanced to establish capital levels that will adequately support the Bank's business plans; and ensure continued compliance with the evolving capital and capital ratio requirements of the BSP. Given the fact that internal capital generation through earnings remains the principal source of LBP's capital accumulation, the primary thrust of the Bank's capital planning activities was maximizing its profitability (and consequently, high retained earnings) in the foreseeable future.

To address capital concerns on a more permanent basis, the Bank requested the National Government for P20 billion additional equity infusions for LBP in the 2016 General Appropriations Act (GAA). This will give the Bank enough capital buffer to support the national development programs and expand loans to the mandated and priority sectors.

RISK OVERSIGHT COMMITTEE

The Risk Oversight Committee (RiskCom) is primarily responsible for the Bank's risk management framework, policies and guidelines and ensures the alignment of risk management objectives with the Bank's overall business strategies and performance goals.

The RiskCom oversees the risk management program of the Bank ensuring that risk management systems are in place, limits and tolerances are observed, system of limits remain effective and immediate corrective actions are taken whenever there are breaches.

The RiskCom is chaired by Director Tomas T. de Leon, Jr. with the Finance Secretary represented by Usec Jeremias N. Paul, Jr. as Vice-Chairman. Directors Domingo I. Diaz and Crispino T. Aguelo, and the Agriculture Secretary represented by Usec Antonio A. Fleta (later replaced by Usec Allan Q. Umali) complete the Committee members.

For 2015, the RiskCom held 18 meetings with an average attendance of 83 percent wherein 310 regular and special credit, treasury, operational and enterprise-wide risk reports were discussed, including stress testing reports on the Bank's loan and investment exposures. The Committee deliberated on and approved 11 major initiatives as well as 17 new/enhanced guidelines, the Legal Risk Manual and the Bank's action plan to comply with the provisions of BSP Circular No. 855 dated 29 October 2014 (re: Guidelines on Sound Credit Risk Management Practices).

The Committee also approved the valuation models for Investments in Non-Marketable Securities (INMES) and Unquoted Debt Securities Classified as Loans (UDSCL), which are part of the Bank's commitments to the GCG Sector for 2015. The Committee also approved the medium term plan of the RMG as expressed in the document "Journey to Advanced Approach in Calculating Risk Weighted Assets."

Under the direction of the RiskCom, the ERM Phase III which analyzed the risk drivers, risk management strategies (preventive and mitigating) and the impact of the LBP-DBP merger was conducted and completed with SGV consultants. Another major initiative was the completion of the ERM - AVP which was distributed to all BUs.

In the Performance Evaluation conducted by the RiskCom members, the Committee was rated "Superior"/"Exemplary."

INVESTMENT AND LOAN COMMITTEE

The Investment & Loan Committee (ILC) provides support to the LBP BoD in the evaluation and approval of loan and investment proposals, in accordance with the Bank's Codified Approving/Signing Authority (CASA).

The ILC also evaluates and approves credit policies and guidelines including, but not limited to limits on the Bank's total lending exposures to different industries/sectors, terms and conditions for each type of credit accommodation, remedial measures such as restructuring and foreclosures, dacion en pago and other settlement options. In addition, the ILC reviews and recommends to the LBP Board approval of investment policies and guidelines that define the structure, eligible investments and management of investment portfolios.

The ILC is composed of LBP President & CEO Gilda E. Pico as Chairperson with Director Domingo I. Diaz served as the Vice Chairperson, and Directors Crispino T. Aguelo, Victor Gerardo J. Bulatao and Tomas T. De Leon, Jr. as members. The Committee meets weekly and held a total of 47 meetings in 2015 with an average attendance of 83 percent.

The ILC approved 378 loan accounts and endorsed 235 accounts to the LBP Board for approval or confirmation. A total of 36 credit-related policies and programs were deliberated and approved for implementation. It likewise evaluated 53 investment accounts which were endorsed for approval of LBP Board.

The ILC approved five automated credit scorecards developed by the Credit Policy & Risk Management Department (CPRMD) which includes credit scorecards for 1. Local Government Units (LGUs), 2. Corporate Accounts, 3. Small & Medium Enterprises (SMEs), 4. Livelihood Loan and 5. Easy Home Loan (EHL) Availers. These five scorecards were part of the commitments of the Bank to the GCG Sector.

All Board level Committees, including the ILC, submitted Performance Rating Scorecards with parameters on Composition, Processes and Tasks. The overall rating of the ILC was Exemplary.

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LANDBANK Plaza 1598 M.H. del Pilar corner
Dr. J. Quintos Streets, Malate, Manila, Philippines
Tel. Nos.: (02) 405-7000; 1-800-10-405-7000 (PLDT Domestic Toll-Free)

www.landbank.com