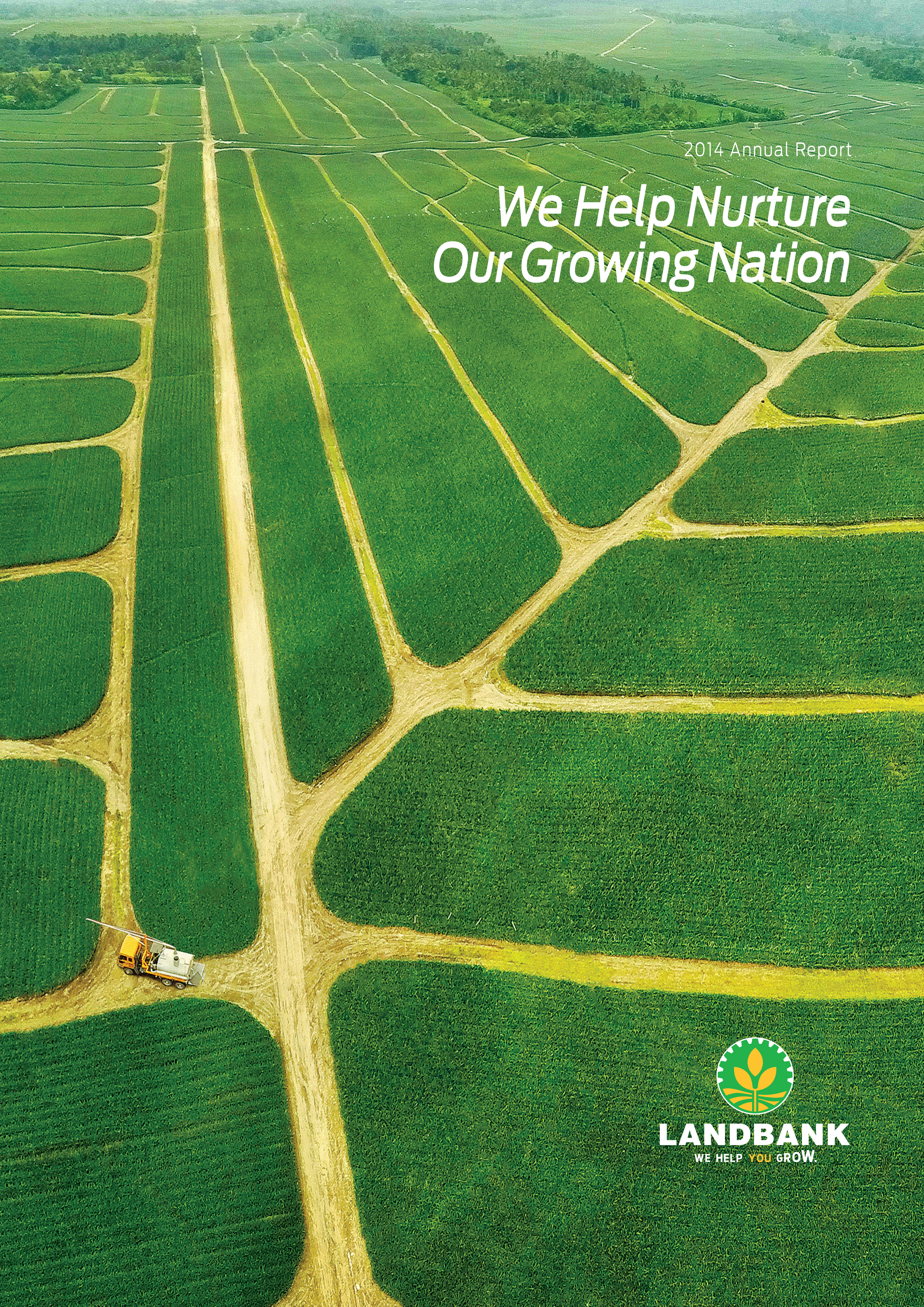
2014 Annual Report

We Help Nurture Our Growing Nation



LANDBANK

WE HELP YOU GROW.

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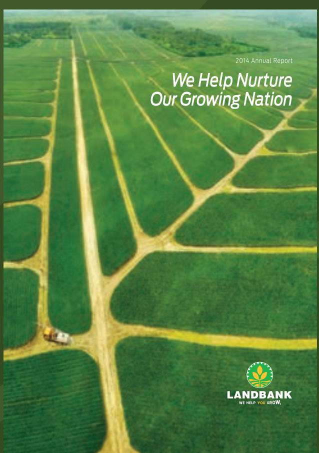

ABOUT THE COVER

Largely situated in the 1st class municipality of Polomolok in South Cotabato, this vast pineapple plantation of Dole Philippines is sprawled against the imposing Mt. Matutum. Greening over 10,000 hectares and cutting across several towns, this pineapple kingdom is where the heart of a people beats strongly with the passion to grow and thrive.

The surrounding communities benefiting from the lifeline of this business belong to the very same sectors for which LANDBANK lives. And here, as in other places, LANDBANK endeavors to bring sustainable growth opportunities to as many Filipinos.

In its thrust to promote inclusive and large-scale development, LANDBANK paves paths just like in this agricultural landscape – clear, straight, diverse yet interconnected. Never losing sight of its vision, and hand-in-hand with the people, LANDBANK helps nurture our growing nation.

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.

LANDBANK

WE HELP YOU GROW.

FINANCIAL HIGHLIGHTS

GROUP (Audited)

(in Billion Pesos)	**2014**	2013	2012	2011	2010
Total Resources	**1,058.6**	849.3	691.5	645.8	570.9
Loans	**475.8**	**335.6**	**330.5**	**334.0**	**247.1**
Treasury Loans	**73.6**	13.2	36.2	56.1	12.4
Regular Loans	**382.4**	300.0	270.0	249.6	205.5
Other Loans and Receivables	**19.8**	22.4	24.3	28.3	29.2
Investments (Net)	**302.0**	223.1	236.1	196.0	201.0
Deposit Liabilities	**912.6**	**703.7**	**543.7**	**507.2**	**433.2**
Demand	**392.0**	348.1	244.4	211.2	162.5
Savings	**469.3**	324.0	267.3	270.1	247.6
Time	**46.3**	26.6	31.4	25.4	22.6
LTNCD	**5.0**	5.0	0.6	0.5	0.5
Capital	**85.0**	82.1	84.0	77.7	68.4
Gross Revenues	**39.2**	42.6	38.1	34.5	34.8
Interest Income on Loans	**19.9**	17.4	16.9	17.1	16.9
Income on Investments	**12.3**	17.7	12.3	12.3	12.8
Net Income (in P M)	**12,643.9**	11,789.9	10,962.8	9,056.2	8,221.7

LANDBANK GROSS LOAN PORTFOLIO (In Billion Pesos)

SECTORS	AMOUNT (P B)	%
PRIORITY SECTOR		
I. Mandated Sector		
• Small farmers including agrarian reform beneficiaries and their associations	33.5	8.7
• Small fisherfolk and their associations	0.2	0.04
Subtotal	**33.7**	**8.7**
II. Support for Agriculture and Fisheries		
• Agri-business	27.5	7.1
• Aqua-business	0.7	0.2
• Agri-aqua related projects of Local Government Units and Government-Owned and-Controlled Corporations	49.7	12.9
Subtotal	**77.9**	**20.2**
III. Support for National Government Priority Programs (including PPP Projects)		
• Micro, small and medium enterprises	51.4	13.3
• Communications	21.4	5.5
• Transportation	22.5	5.8
• Housing (socialized, low-cost or medium-cost)	37.4	9.7
• Education	5.6	1.5
• Health care	5.3	1.4
• Environment-related projects	5.3	1.4
• Tourism	2.0	0.5
• Utilities	52.1	13.5
• Others	16.8	4.4
Subtotal	**219.8**	**57.0**
TOTAL PRIORITY SECTOR LOANS	331.4	85.9
• Local Government Units - Others	11.6	3.0
• Government-Owned and-Controlled Corporations - Others	16.3	4.2
• Others	26.6	6.9
TOTAL OTHER SECTOR LOANS	54.5	14.1
SUM OF LOANS TO ALL SECTORS*	385.9	100.0

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

MESSAGE FROM THE PRESIDENT OF THE PHILIPPINES

My warmest greetings to the management and staff of the LANDBANK on the release of your Annual Report.

These pages bear LANDBANK's commitment to the empowerment of our people. Setting yourselves against the standards of operational excellence and social impact, you appraise your performance and affirm your standing as our government's foremost financial institution.

The numbers you present in this year's report direct us to your wide success: The P6 billion you remitted to our national coffers convey the manifold stories of farmers and fisher folk, our emerging and expanding enterprises, and the everyman contributing to our country's growth. The loans you accorded to priority sectors, amounting to P331.4 billion, represent the vigorous flow of capital to the broader base of our society. Increase in your deposits to P912.6 billion from P703.7 billion truly underscores the fruits of your efforts.

On top of these, the accolades you received for your technology-enhancement and corporate responsibility initiatives attest to the relevance and deepening partnership of your bank with Filipinos. May you further surpass today's achievements: Continue to introduce the principles of development to the farthest reaches of our archipelago, bringing your services within reach of our localities, and ensuring that our countrymen have the wherewithal to sustain our resurgence.

A revitalized Philippines advances with positive momentum on the Daang Matuwid. Driving it are citizens, professionals, and fellow nation-builders such as yourselves, who found purpose and renewed confidence in casting their lots in our collective progress. I rely on your solidarity as we meet the needs of our constituents with greater responsiveness, compassion, and integrity; let us gear our public for the promise that still awaits us on this path.

BENIGNO S. AQUINO III
The President of the Philippines
Manila
September 2015

Gilda E. Pico
President and CEO

Sec. Cesar V. Purisima
Chairman

NURTURING
OUR GROWING NATION

> With the developmental programs and initiatives financed through our strong business operations, we live up to our role as a vital contributor to promoting the country's overall welfare.

The Land Bank of the Philippines (LANDBANK) is well-grounded in fulfilling its social mandate of developing the countryside while remaining financially viable. With the developmental programs and initiatives financed through our strong business operations, we live up to our role as a vital contributor to promoting the country's overall welfare.

In 2014, the country's economic foundations proved solid and stable, with the GDP growing steadily at 6.1 percent. We finally managed to escape the boom-and-bust cycle that has long dogged our economy.

With just a year removed from one of the country's most challenging and hardest times, and still reeling from its effects, 2014 allowed LANDBANK to further rethink and refine its role in the country's overall development agenda.

The year proved very challenging for the Bank – as the industry became increasingly competitive, interest rates dropped. Rebuilding efforts from the calamities in the past year became all the more critical. Faced with these pressures, LANDBANK chose to push further and do better, while spending less through creativity, innovation, technology, teamwork and out-of-the-box thinking.

LANDBANK improved its efficiency, sharpened its tools, reviewed its business processes, cut its costs, and maximized its investments on technology and human resource. The Bank tweaked its operations to not only do more with less but also to do better with less. The emphasis on innovation and resource optimization soon proved beneficial.

It was also the year when the Bank launched its new tagline and Vision and Mission statements. Our new tagline, "We Help You Grow", advocates our commitment to help grow the nation and the Filipino people. We are resolute in our belief that the only way we can truly succeed is by growing together. The Vision and Mission statements were likewise revised to be more responsive and timely. These changes will define the Bank's direction in the years ahead.

In retrospect, the year served as another milestone for the Bank which celebrated its 51st founding anniversary. Our efforts resulted in more record-setting achievements, with the Bank bagging the most prestigious and coveted "Bank of the Year Philippines" award.

More than the sheer numbers, the Bank's growth is now also measured by how we help others grow.

Pursuit of Mandate

LANDBANK remained at the forefront of promoting economic growth in the rural areas with intensified support to our priority sectors. We have remained faithful to our social mandate, devoting most of our resources to the sectors that directly contribute to the country's development.

As we aim for a more inclusive growth, LANDBANK carefully sought to narrow the gap in the finance system by providing banking services to small savers and borrowers alike.

In 2014, LANDBANK's total loans to priority sectors reached P331.4 billion or 85.9 percent of the Bank's total loans to all sectors of P385.9 billion. Loans released to small farmers and fishers amounted to P58.4 billion, directly benefiting 848,053 small farmers and fishers. These funds were channeled through various accredited cooperatives, countryside financial institutions, and irrigators' associations. By the end of the fiscal year, the loans outstanding to these stakeholders have reached P33.7 billion, representing 8.7 percent of the Bank's loans to all sectors.

LANDBANK's outstanding loans to the micro, small and medium enterprises sector reached P51.4 billion or a 13.3 percent share of the Bank's loans to all sectors. Of this amount, P44.9 billion was lent to SMEs and P6.5 billion to microenterprises.

LANDBANK remained as the biggest credit provider to the local government sector, financing various projects in agri-infrastructure, schools and hospitals, farm-to-market roads, housing and livelihood, and other developmental projects. With every project completed, each of these projects directly benefitted the economy.

As of December 31, 2014, LANDBANK lending operations have facilitated, among others, the funding for the construction of 2,948 school buildings with 10,057 classrooms, provision of 7,145 hospital beds, generation of 310,486 kwh electricity, connection of 2,453,618 households with potable water; construction of 1,438 kilometers of farm-to-market roads, and planting of 818 hectares with cacao and 20,204 hectares with oil palm.

On the road to an all-inclusive finance. Lending is indeed more than just a dependable source of income for the Bank. It is a means for us to help transform the lives of our countrymen. We are empowering people to participate in the country's growing economy by providing them access to credit. While doing this, we continued to promote sustainability for enterprises, putting light on environmental due diligence for our financed projects.

Through the Bank's lending activities, inclusive growth becomes more than just a buzzword. It becomes something people can actually believe and participate in: an inclusive and sustainable economic growth participated by the country's equally growing labor force.

The Bank is the proud administrator of various programs that focus on creating an environment conducive to growth such as loans extended to the utilities sector which reached P52.1 billion, socialized, low-cost and medium-cost housing sector at P37.4 billion, transportation sector at P22.5 billion, communications sector at P21.4 billion, education sector at P5.6 billion, health care sector at P5.3 billion, environment-related projects also at P5.3 billion and tourism sector amounting to P2.0 billion.

Other banner programs we delivered and supported this year include the OFW Reintegration Program, the Bangko Sentral ng Pilipinas' Credit Surety Fund, the CARES Program - our calamity and rehabilitation support program, - and the H^{2}OPE Water Program for Everyone, among others.

Continued support to agriculture. Not one to forget its raison d'etre, the Bank continuously poured its resources in the agriculture sector. Support programs such as the Agricultural Credit Support Project of the Japan International Cooperation Agency has already been extended to 346 borrowers in their agriculture and agri-related ventures. Our partnership with the Department of Agriculture's (DA) Sikat Saka has already benefited 7,283 small palay farmers. The Agrarian Production Credit Program, which promote value chain financing in agriculture, also benefited 15,367 agrarian reform beneficiaries.

We also developed specific programs to support dairy farmers (MILK - Masustansyang Inumin para sa Likas na Kalusugan), bamboo production (KAWAYAN - Kalikasang Kabuhayan sa Wastong Pamayanan), fisheries (ISDA - Integrated Support for Development of Aquaculture), and cacao industry (CACAO 100 Financing Program - Credit Assistance for Cacao Agribusiness Entities and other Organizations).

Our extensive programs for agricultural support and agricultural credit expansion ensure that we are addressing the needs of the sector.

Institutional Viability

LANDBANK maintained its position as one of the top universal banks in the country. Our collective efforts have allowed the Bank to break anew its net income record at P12.6 billion, 7.2 percent higher than the previous high of P11.8 billion net income from last year.

The Bank's total assets grew by 24.6 percent and clearly breaking the one-trillion-mark at P1.059 trillion, up from P849.3 billion in 2013. Deposits also increased by 29.7 percent to P912.6 billion from previous year's P703.7 billion. At P475.8 billion, the net loan portfolio increased by 41.8 percent, up from P335.6 billion in 2013. And lastly, the Bank's total capital also grew by 3.5 percent at P85.0 billion.

Our growth as a financial institution has allowed us to remit P6 billion in cash dividends to the National Government. This represents 51 percent of the Bank's total earnings in 2013. LANDBANK remained as the highest remitter of dividends among the GOCCs. For the past five years, we have remitted a total of P23.9 billion in cash dividends to the National Government.

LANDBANK was also named the top Government Securities Eligible Dealer in 2014 by the Bureau of the Treasury. For the second year in a row, our efforts were cited which clearly illustrated the Bank's commitment to the government's fiscal program, which is in turn, tied with our overall economic development agenda.

Customer Service

The Bank continued to expand its physical network, and introduced innovations to provide efficient and convenient service to our customers. With the opening of our 346th branch in Dinagat Islands, LANDBANK became the first universal bank to cover all 81 provinces in the country.

Our continued physical expansion is also in line with our efforts to reach more of the unbanked and underserved, towards greater financial inclusion in the country. We established other banking offices (OBOs) that we call LEAFs (LANDBANK Easy Access Facility) in far flung areas. Six LEAFs were in opened in 2014: Sulop, Davao del Sur; Argao, Cebu; Caba, La Union; Moncada, Tarlac; Pamplona, Cagayan; and Pitogo, Quezon.

We launched the LANDBANK Mobile LoanSaver, the first paperless, fully electronic salary loan application and processing in the country. It is a fast, safe and convenient platform for government and private employees with LANDBANK payroll accounts to apply and avail of loans and to build their savings. The product is offered by LANDBANK in partnership with Smart e-Money.

Also in line with our thrust of improving customer service, three new facilities were rolled out for the added convenience of clients – the Customer Queue System (CQS), which standardized and automated the queue system in all of the Bank's branches and selected extension offices; LANDBANK Express Access Machine (LEAM), an alternative payment channel for taxpayers; and the Cash Deposit Machine (CDM), an alternative channel for cash deposits and fund transfers.

We also helped greatly in streamlining the tedious and costly processing of the government's Modified Disbursement System (MDS) transactions. The development of the Electronic MDS (eMDS), a secure internet facility for the national government agencies, provided banking convenience to perform MDS transactions online.

Nurturing our Growing Nation

LANDBANK's exponential growth in the last 51 years is the result of hard work and focus. As we continue to expand our scope, diversify our products and services, and evolve our operations, we will remain guided by our social mandate to help grow the agricultural sector and the rural communities we serve.

And with the Bank's revitalized commitment as distilled in our Vision, we are geared towards achieving more. Together with every Filipino we can reach, LANDBANK will only continue to grow and spur the entire country's growth as well.

Sec. Cesar V. Purisima
Chairman

Gilda E. Pico
President and CEO

> "As we continue to expand our scope, diversify our products and services, and evolve our operations, we will remain guided by our social mandate to help grow the agricultural sector and the rural communities we serve."

Farming is rewarding

"More than earning a living, farming is a meaningful pursuit of serving the country."

Florencio G. Sudoy did not plan to become a farmer. He tried his luck as a soldier, and then as a heavy equipment operator in the Middle East. Neither of those careers panned out.

Mr. Sudoy later found himself back in his hometown, in Sto. Domingo, Nueva Ecija, where he worked at the PhilRice Central Experiment Station. This job proved instrumental in his transition to become the successful farmer that he is now.

Starting with just one hectare, Mr. Sudoy, together with his wife, has expanded their farms to 8.5 hectares, with yields that allow their family to live comfortably. As he progresses, Mr. Sudoy helps other farmers in his community and across the province of Nueva Ecija by sharing farming practices and technologies.

He also led the efforts in organizing 31 farmers for the 100-hectare compact farming for hybrid rice in Sto. Domingo during the government's hybrid rice clustering program. This same group would later become the founding members of the Bagong Buhay ng Mabini Multi-Purpose Cooperative.

Mr. Sudoy now has the means to send all his four children through college. However, he believes that while they may eventually pursue other careers, his children will go back to tilling their land. After all, Mr. Sudoy himself can attest that farming is more than earning a living. It is beyond nurturing the land to later enjoy its bounty. It is a meaningful pursuit of serving one's community, while contributing to food production for the country.

LANDBANK LOANS TO MANDATED SECTORS

(January to December 2014)

242,053
small farmers and fishers benefited from credit assistance

P58.4 BILLION
Loans releases to farmers and fishers

CHANNELED
through **793 cooperatives 206 CFIs** and **226** Irrigators' Associations

P33.7 BILLION
outstanding loans to small farmers and fishers

SUPPORTED
- Crop Production
- Poultry and livestock
- Fishery
- Post-harvest facilities
- Irrigation

Florencio G. Sudoy
LANDBANK Gawad PITAK Ulirang Magsasaka 2014

PURSUIT OF MANDATE

PROGRAMS FOR THE PRIORITY SECTORS

Cognizant of its thrust to promote growth and improve the quality of life in the countryside, LANDBANK, in 2014, further accelerated its financial assistance to its mandated and priority sectors. The Bank strengthened its credit support to stir the local economy and create employment. Aside from funding agricultural production through different conduits as the accredited cooperatives and financial institutions, LANDBANK also financed agri-aqua businesses, a key component in the agricultural value chain. Agri-aqua businesses serve as the market of many agricultural produce. LANDBANK, likewise, extended financing to the priority programs of the National Government such as microenterprises and SMEs including livelihood loans, various on and off farm infrastructures including those for communications, transportation, housing, education, health care, environment-related projects, tourism and other utilities, and livelihood loans.

In 2014, LANDBANK's total loans to the priority sectors reached P331.4 billion or 85.9 percent of the Bank's loans to all sectors of P385.9 billion.

P331.4 BILLION

Total loans to priority sectors

Loans to Mandated Sector

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

In 2014, LANDBANK remained committed to its mandate by providing financial and technical support to its mandated sectors – small farmers and fishers and agrarian reform beneficiaries and their associations through qualified conduits – cooperatives, countryside financial institutions and irrigators' associations.

For 2014, loan releases to small farmers and fishers amounting to P58.4 billion were channeled through 793 accredited farmers and fishers cooperatives, 206 countryside financial institutions (rural banks, cooperative banks, thrift banks and financial institutions) and 226 irrigators' associations. Credit assistance for this period benefitted 848,053 small farmers and fishers.

Of the total loans released to small farmers, P18.2 billion was extended for crop production while P3.9 billion supported poultry and livestock projects. Other economic activities financed were fishery, post-harvest facilities, irrigation and marketing including wholesale and retail trading.

As of end-2014, loans outstanding to small farmers and fishers stood at P33.7 billion representing 8.7 percent of the Bank's loans to all sectors. Of this amount, P33.5 billion was lent to small farmers and the remaining P0.2 billion was lent to small fishers.

Loans in Support of Agriculture and Fisheries

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

Aside from credit support to the mandated sectors, LANDBANK also extends credit financing to other sectors that are in support of agriculture and fisheries such as agri- and aqua-related businesses of private enterprises. These loans financed business activities that involved crop production, agri-or marine processing and exporting, manufacturing, packaging, milling, poultry and marketing, among others.

In 2014, outstanding loans to agribusiness amounted to P27.5 billion or a share of 7.1 percent and to aqua-business, P0.7 billion or a share of 0.2 percent of the Bank's loans to all sectors.

> Of the Bank's total loans to all sectors amounting to P385.9 billion, 85.9 percent were directed to the priority sectors

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

LANDBANK also provides credit assistance to the LGUs to finance various agri-aqua related infrastructure projects aimed to improve, among others, the logistics and other support to agricultural production. Projects financed include the construction or repair of farm-to-market roads and bridges, seaports, public markets and transport terminals.

In 2014, the total outstanding LGU loans on agri-aqua-related projects reached P14.6 billion comprising 3.8 percent of the Bank's loans to all sectors.

- *Other Priority Projects of LGUs*

In line with the Bank's mission to promote sustainable development and environmental protection, LANDBANK continues to support other priority projects of the LGUs. These, among others, include loans that address basic societal needs such as housing (socialized, low cost and medium cost), education, health care, water system and sanitation and drainage.

As of end-2014, the total outstanding loans of LGUs for other priority projects amounted to P16.7 billion or 4.3 percent share of the Bank's loans to all sectors.

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

LANDBANK extends financial support to GOCCs that provide key support such as marketing, to the agriculture sector. As of end-2014, loans outstanding to GOCCs amounted to P35.1 billion representing 9.1 percent of the Bank's loans to all sectors.

Loans Supporting National Government Priority Programs

As a policy bank, LANDBANK supports the expanded developmental concerns of the National Government as embodied in the Philippine Development Plan 2011-2016. This is in recognition that for countryside development to happen, the ancillary sectors such as the micro, small and medium enterprises (MSMEs) need to be developed and supported as well. The MSMEs increase commerce and help move the local economy, not to mention the contributions they make to labor generation. LANDBANK also extends financial assistance to key business requirements such as logistics – transport and communication, utilities – water and power, tourism, and other societal needs such as education, hospital and housing.

- *Loans for Microenterprises and Small and Medium Enterprises including Livelihood Loans*

LANDBANK's significant growth in loan portfolio for micro, small and medium enterprises (MSMEs) proved that the sector is performing well and envisioned to expand more in the coming years. LANDBANK channels its microfinance loans through conduits such as cooperatives, rural banks, non-government organizations and microfinance institutions. On the other hand, SME loans are extended through direct lending to SME borrowers, cooperatives and financial institutions.

In 2014, loans outstanding to MSMEs amounted to P51.4 billion or 13.3 percent of the Bank's loans to all sectors. Of this amount, P44.9 billion was lent to SMEs and P6.5 billion to microenterprises.

P16.8

BILLION

Outstanding livelihood loans

LANDBANK also extends financial assistance for livelihood projects and business endeavors of qualified fixed income earners in the government and private sectors. As of end-2014, LANDBANK's outstanding livelihood loans reached P16.8 billion or 4.4 percent of the Bank's loans to all sectors.

OFW Reintegration Program

In August 2011, LANDBANK and the Overseas Workers Welfare Administration (OWWA) forged a partnership to provide Overseas Filipino Workers (OFWs) enterprise or livelihood opportunities on a sustainable basis. An OFW, who is certified and endorsed by OWWA, may avail of financial assistance for their viable projects. Eligible projects are those with confirmed market or Purchase Order that will generate a net monthly income of at least P10,000. Minimum loanable amount is P300,000 or a maximum of P2.0 million with an interest rate of 7.5 percent per annum fixed for the duration of the loan.

In 2014, loan releases under the partnership reached P98.3 million benefiting 176 OFW-borrowers. For the same period, outstanding loans amounted to P527.1 million and generated 5,634 jobs.

Projects financed by LANDBANK are classified into agri and non-agri loans. Agri-loans include grains trading, piggery, poultry, agri-supply, post-harvest facilities, bakery, fruits and vegetable trading, copra trading, and fishery. Non-agri loans, on the other hand, include grocery, apartment, general merchandise, commercial buildings, hardware, private utility vehicle, internet café, restaurant, water station, construction, trucking, auto supply, RTW, motor parts, and gas station, among others.

- *Loans for Utilities*

Among the priority programs of the National Government, the utilities sector took the biggest share in terms of financial assistance from the Bank. Loans to utilities include projects that are involved in power generation and distribution, gas exploration and water. These projects are vital in the operation and expansion of various industries in the country. In 2014, outstanding loans for the utilities sector reached P52.1 billion accounting for 13.5 percent 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. Socialized housing ranges from P400,000 and below per unit; low-cost housing from more than P400,000 to P3,000,000; and medium-cost housing from more than P3,000,000 to P4,000,000.

In 2014, outstanding loans to housing reached P37.3 billion or 9.7 percent of the Bank's loans to all sectors.

- *Loans for Logistics – Transportation and Communications*

The country's archipelagic nature entails the development and or improvement of various modes of transportation needed to facilitate transport of goods and people. These are critical if commerce is to flourish not just in urban areas, but including the island provinces. In 2014, outstanding loans to the transport sector for both land and sea based transport system amounted to P22.5 billion or 5.8 percent of the Bank's loans to all sectors.

On the other hand, LANDBANK's outstanding loans to the communication sector reached P21.4 billion or 5.5 percent of the Bank's loans to all sectors. These funded projects that improve connectivity in the country through the modernization and upgrading of telecommunication systems.

- *Loans for Education*

Investment in education is a catalytic intervention to achieve inclusive development. Thus, LANDBANK extended loans for the construction and maintenance of educational institutions.

In 2014, outstanding loans for education stood at P5.6 billion, or 1.5 percent of the Bank's loans to all sectors.

- *Loans for Health Care*

Consistent with the government's thrust to improve the delivery of health care services, LANDBANK provided loans to finance the construction of hospitals, clinics and other health-related facilities.

In 2014, outstanding loans to health care amounted to P5.3 billion or 1.4 percent of the Bank's loans to all sectors.

- *Loans for Environment-related Projects*

In support of the government's thrust to adapt to and mitigate the effects of global warming, the Bank extends loans that enhance the environment, harness the potential of renewable and alternative energy resources and promote climate change adaptation.

In 2014, outstanding loans for environment-related projects reached P5.3 billion or 1.4 percent of the Bank's loans to all sectors.

- *Loans for Tourism*

In support of the tourism development in the country, LANDBANK provided loans to support the construction of hotels and other facilities.

In 2014, outstanding loans for tourism amounted to P2.0 billion or 0.5 percent of the Bank's loans to all sectors.

SUPPORT PROGRAMS FOR AGRICULTURAL CREDIT

Agricultural Guarantee Fund Pool (AGFP)

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. The AGFP is a pool of funds which is used to guarantee the food production loan portfolio of financial institutions. The AGFP was set up to encourage financial institutions and other credit conduits to lend to small farmers in support of the government's agricultural productivity program.

AGFP consists of pooled contributions from various participating government agencies and private institutions in which LANDBANK is the institutional manager through the Lending Programs Management Group.

As of December 31, 2014, the AGFP has a guarantee portfolio of P4.5 billion. Of the amount, P560 million is for the DA-LANDBANK Sikat Saka Program benefiting 5,269 accounts with 12,828 hectares covered.

Philippine Crop Insurance Corporation (PCIC)

The Philippine Crop Insurance Corporation (PCIC) is a government-owned and -controlled corporation (GOCC) which acts as the implementing agency of the government's agricultural insurance program. PCIC was created by virtue of PD 1467 (June 11, 1978), later on amended by PD 1733 (October 21, 1980) and further amended by RA 8175 (December 29, 1995). It is an attached agency of the DA. The PCIC's principal mandate is to provide insurance protection to farmers against losses arising from natural calamities, plant diseases and pest infestations of their palay and corn crops as well as other crops. The PCIC also provides protection against damage to/loss of non-crop agricultural assets including but not limited to machineries, equipment, transport facilities and other related infrastructures.

LANDBANK, with its mandate to provide financing to small farmers and fishers, forged a tie-up with PCIC to provide insurance coverage to existing clients of the Bank engaged in agricultural production.

As of December 31, 2014, a total of 917,814 farmers have been insured by PCIC with P35.6 billion value of crops nationwide. LANDBANK was able to secure 39,851 farmers with PCIC involving P2.2 billion in amount of coverage.

{ As of December 31, 2014, the AGFP has a guarantee portfolio of P4.5 billion. }

Credit Surety Fund (CSF)

The Credit Surety Fund (CSF) is a program implemented by the Bangko Sentral ng Pilipinas which aims to help the micro, small and medium enterprises (MSMEs) by providing collateral alternatives for and payment assurance on their bank loans. It is a fund pool from the contributors of participating proponents such as cooperatives, LGUs, NGOs, banks and other donors which is executed through a Memorandum of Agreement, by and among the proponents.

The CSF is governed by an oversight committee, which is formed at the provincial level, the members of which are elected by all contributors to the funds.

LANDBANK's participation to the CSF as of December 31, 2014 has the following breakdown:

• Total number of CSFs established	37
• Total borrowers (Co-ops=100, MSMEs=23, NGOs=1)	124
• Total number of SFF beneficiaries	22,115
• Amount of LANDBANK approved loans	P1.095 billion
• Amount of loan releases	P0.757 billion
• Outstanding Balance	P0.361 billion

{ The CSF is governed by an oversight committee, which is formed at the provincial level. }

Agricultural Credit Support Project (ACSP)

The Agricultural Credit Support Project (ACSP) provides credit and non-credit support to proponents engaged in agriculture and agri-related projects that may need additional capital to increase production or expand operations. ACSP adopts the value chain financing approach focusing on anchor firms (processors and buyers).

The program is funded by the Japan International Cooperative Agency (JICA) with total available funds of JPY 14.6 billion (P7.8 billion). As of December 31, 2014, total loan releases reached P3.56 billion which was extended to 346 borrowers. Outstanding loan balance for the same period stood at P243.56 million.

Credit Assistance Program for Program Beneficiaries Development (CAP-PBD)

The CAP-PBD aims to provide a transitory credit window to ARB Organizations in ARC and non-ARC areas to capacitate them in their organizational, operational and marketing skills so that they will be able to graduate to the regular lending window of LANDBANK within two years.

The CAP-PBD is dubbed as the "Little Brother" of the Agrarian Production Credit Program (APCP) whose targeted beneficiaries are also ARBs. They complement each other in terms of providing additional credit funds to ARB Organizations that do not meet specific lending criteria.

As of December 31, 2014, the CAP-PBD released P160 million to 84 ARB Organizations and assisted 4,282 borrowers.

LANDBANK CARES Program (Calamity and Rehabilitation Support Program)

With the increasing number and magnitude of calamities wreaking havoc in the country, LANDBANK deemed it proper to introduce the CaReS Program to readily respond to the financing needs of affected bank clients in declared calamity areas in the country. The Project aims to bring back normal business operations, rebuild the damaged infrastructures and bring hope to the down-spirited people in calamity affected areas.

As of December 31, 2014, the total amount approved under the program reached P2.273 billion, of which P1.526 billion was released to 149 borrowers, complementing funds of conduits and individual borrowers in Northern and Southern Luzon, and the Visayas regions. With the support coming from the LANDBANK CaReS Program, businesses were put back on track, infrastructures rebuilt and lives normalized.

Of the P1.526 billion releases, P1.254 billion or 82 percent was channelled to 117 clients in the Visayas who were affected by Typhoon Yolanda in November 2013 and the Magnitude 7.2 Visayas earthquake of 15 October 2013 that greatly destructed Bohol and Cebu. The other 32 accounts were extended to Northern and Southern Luzon which were heavily damaged by Habagat in 2013 (enhanced by Tropical Storm Maring) and Typhoon Glenda in July 2014.

Based on the type of borrowers, SMEs accounted for the biggest share in terms of assistance amounting to P666 million (44 percent share) representing 92 borrowers. This is followed by cooperatives and LGUs with P330 million (22 percent share) and P230 million (15 percent share) representing 27 and 10 borrowers, respectively.

One of the major accomplishments under the Program is the rehabilitation of the poultry industry in the province of Capiz and cities of Tacloban and Ormoc. Small poultry growers with Contract Growing Arrangements availed of this special loan program to restore normal operations after typhoon Yolanda totally damaged their poultry houses. The rehabilitation program for poultry growers aims to reinstate to normal level the supply of dressed chicken in the island of Panay and the province of Leyte, and provide reliable livelihood opportunities for the affected growers.

As of December 31, 2014 credit assistance for 12 small growers in Capiz were approved and a total amount of P47 million was released to finance the construction of 51 conventional poultry houses with a total capacity of 300,000 birds representing about 26 percent of the total daily requirement of the integrator. For the Tacloban and Ormoc areas, loan releases reached P174 million involving 13 contract growers for the construction of 39 poultry houses with estimated total capacity of 1,057,000 birds or 55 percent of the total volume requirement of the existing integrators in the area.

Photos show LANDBANK activities in Tacloban at the tail-end of 2013; the financing needs of those in declared calamity areas are the focus of LANDBANK CaReS program.

P11.5
BILLION
Cumulative FSCP releases since October 2010

AGRICULTURAL CREDIT EXPANSION PROGRAM

Food Supply Chain Program (FSCP)

The Food Supply Chain Program (FSCP) is a synergy program which aims to provide financial assistance to all key players in the food system to ensure that each link in the value chain is efficient and strong. FSCP also strengthens the market linkages between agricultural producers and processors through the signing and execution of a Production, Technical and Marketing Agreement (PTMA) between the participating farmer's organizations and the processor or anchor firm.

In 2014, the Program released an additional P11.5 billon in loans which benefitted 54,885 small farmers and fishers (SFFs). Since Program implementation in October 2010, LANDBANK released a total of P38 billion in loans for 140 projects involving 140 tie-ups with anchor firms that benefitted 149,354 SFFs.

Sikat Saka Program (SSP)

The Sikat Saka Program (SSP) recognizes the significant and critical role of individual palay farmers as a major player in supporting the Food Staples Sufficiency Program of the Government. LANDBANK forged a partnership with the DA in the implementation of the SSP to address the financing needs of small palay farmers (SPFs) for palay production in irrigated lands.

Under the Program, LANDBANK provides direct financial assistance to the SPFs. It also provides an integrated support package through the attached agencies of the DA. The beneficiaries under the SSP are given DA Sikat Saka ATM Cards where the loan proceeds are credited and loan payments are debited, among others.

As of December 31, 2014, the SSP released P1.2 billion which benefitted 7,283 SPFs. Loan releases in 2014 reached P882 million, higher by 146 percent than the loan released in 2013.

Agrarian Production Credit Program (APCP)

The Agrarian Production Credit Program (APCP) aims to provide credit and non-credit support to promote value chain financing in agriculture. The Program is jointly implemented by LANDBANK, DA and DAR based on the provisions of the 2012 Memorandum of Agreement among these agencies.

The APCP caters to unbankable Agrarian Reform Beneficiary Organizations (ARBOs). It banks on the principle of "cohesiveness" wherein the mandate, expertise, and resources of the implementing agencies are pooled together to provide a holistic support to the ARBs through the ARBOs. Each agency has a vital role to play which, collectively, provides arable lands, credit, technical assistance, and other support services to ensure that the projects are viable and sustainable.

As of December 31, 2014, the APCP released P874 million to 335 ARBOs with 15,367 ARBs/beneficiaries.

Masustansyang Inumin para sa Likas na Kalusugan (MILK)

The MILK program was launched by LANDBANK and the National Dairy Authority on December 13, 2013. MILK aims to provide credit assistance to qualified dairy small farmers, cooperatives, and federations to support dairy production, processing, marketing and other dairy-based economic activities. Likewise, the Program aims to increase domestic milk production, improve farm productivity, generate employment and increase household income.

As of December 31, 2014, a total of P36.83 million in dairy-related loans was financed.

Kalikasang Kabuhayan sa Wastong Pamayanan (KAWAYAN)

The KAlikasang Kabuhayan para sa WAstong PamaYANan (KAWAYAN) was developed to provide credit assistance to support bamboo production, processing and marketing. This is in recognition of the vast market potential of what is known to be as the tallest grass. Bamboo has an estimated trade value of US$12 billion worldwide.

Launched on December 13, 2013, the KAWAYAN Program provides credit assistance to qualified borrowers like small farmers, cooperatives, federations, SMEs, Agri-Business Enterprises (ABEs), Countryside Financial Institutions (CFIs) and Local Government Units (LGUs) to support bamboo production, processing, marketing, e-bamboo and other bamboo-based products.

In 2014, LANDBANK collaborated with the Philippine Bamboo Foundation, Inc. and the Axent Resources Corporation in the promotion and marketing of the KAWAYAN Program through roadshows and investment fora. Axent Resources Corporation supplies bamboo houses (initial 35 units) made of engineered bamboo for the Diocese of Cagayan de Oro for their housing project intended for the victims of Typhoon Sendong in Region X. As of December 31, 2014, total approved line for bamboo amounted to P30 million.

Integrated Support for Development of Aquaculture (ISDA)

The Integrated Support for the Development of Aquaculture (ISDA) was introduced in September 2013. ISDA is a growership program for the fisheries sector anchored on the institutional buyers or processors linked with small fishers, individuals and small and medium enterprise growers. ISDA promotes market-focus and value-adding activities, adopts demand–driven financing and increases growers' competitiveness.

As of December 31, 2014, total releases under the ISDA program amounted to P112.6 million.

Bringing Inclusive Growth in Every Household through National Electrification Support Services (BRIGHTNESS)

In line with the objectives under the Philippine Development Plan to energize 100 percent of the barangays all over the country by 2015 and 90 percent of households by 2017, LANDBANK forged a partnership with the National Electrification Administration (NEA) on March 19, 2014.

The inter-agency cooperation operates under a co-financing scheme where loan requirements of Electric Cooperatives (ECs) shall be separately funded by NEA and LANDBANK on their own individually approved terms and conditions.

Cognizant of the need to energize barangays as a means to generate employment and promote socio-economic growth especially in the countryside, LANDBANK implemented a credit program dubbed as Bringing Inclusive Growth in every Household through National Electrification Support Services (BRIGHTNESS) under the partnership. Through the BRIGHTNESS Program, the use of renewable energy in the country shall be encouraged and the Bank's support for developmental projects of rural cooperatives shall be further intensified specifically to boost the power sector and help reduce the cost of electricity in the rural areas.

As of December 31, 2014, LANDBANK was able to finance the needs of 22 Electric Cooperatives and four Private Utilities with a total approved loan P4.84 million and P4.16 million, respectively. Electrical connections through the Bank's financing reached 3,157,117 households as of December 31, 2014.

Through the BRIGHTNESS Program, the use of renewable energy in the country shall be encouraged and the Bank's support for developmental projects of rural cooperatives shall be further intensified specifically to boost the power sector and help reduce the cost of electricity in the rural areas.

99,662

HOUSEHOLDS

benefited from new potable water connections

H2OPE (Water Program for Everyone)

To make available the basic need for piped, clean, and safe water 24/7 to at least 85 percent of more than 100 million (est.) Filipinos, LANDBANK implemented the H2OPE (Water for Everyone) Program. 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, 2014, the H2OPE Program has P3.756 billion in approved loans, P1.847 billion in loan releases and P1.753 billion in outstanding balance. There were an estimated 3,200 jobs generated based on total releases. New potable water connections in 2014 resulting from the loans extended by the Bank benefited 99,662 households.

Credit Support Fund (CreSF) Program

To complement the National Government's Reconstruction Assistance on Yolanda (RAY), the Bureau of the Treasury (BTr) and LANDBANK entered into a Memorandum of Agreement in May 2014 to facilitate the implementation of the Credit Support Fund (CreSF) Program.

CreSF Program intends to jumpstart economic activities in fourteen Yolanda-affected provinces covered by RAY by providing eligible Microfinance Institutions (MFIs) loans and applicable insurance coverage to micro entrepreneurs/enterprises for their livelihood programs and projects.

The National Government allotted P2.0 billion fund for the Program, P1.60 billion of which is for the credit fund and the remaining P0.40 billion as loan administration fund for participating MFIs. The Bank approved on June 17, 2014 the loan applications of four MFIs totaling P1.24 million.

Bringing Urbanization and Innovation through LANDBANK's Diverse Engineering Resource Support (BUILDERS)

In recognition of the potential contribution of the construction sector in building the required infrastructure necessary for development to happen, LANDBANK launched the BUILDERS (Bringing Urbanization and Innovations through LANDBANK's Diverse Engineering Resource Support) Program on August 15, 2014. LANDBANK's BUILDERS program extends financial assistance to duly licensed contractors (by the DTI-Philippine Contractors Accreditation Board) who support the government's Public-Private Partnership Program.

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, 2014, approved loans already reached P4.822 billion with total releases amounting to P3.652 billion which generated about 6,400 jobs. The outstanding balance of this Program is at P3.422 billion.

Credit Assistance for Cacao Agribusiness Entities and other Organizations (CACAO 100 Financing Program)

Taking on the challenge to revitalize the cacao industry in the Philippines, the Bank offered its Credit Assistance for Cacao Agri-Business and Other Organizations (CACAO 100) Program. The Program intends to increase agricultural productivity through intercropping of cacao in coconut areas or planting in idle lands.

As of December 31, 2014, CACAO 100 Program has P531.99 million approved loans, P199.69 million loan releases and P109.21 outstanding balance.

LANDBANK-SMC Corn and Cassava Assemblers/ Consolidators Financing Program

The Program was launched 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 that will allow engagement of small farmers in the production of cassava and corn through the assemblers. The SMFI enters into a supply and purchase agreement with assemblers stipulating, among others, automatic loan payments to LANDBANK.

As of December 31, 2014, the Program has P17.50 million approved loans, P17.17 million loan releases and P15.67 million outstanding balance involving four SMEs and three cooperatives.

Agricultural and Fisheries Financing Program (AFFP)

Pursuant to the General Appropriations ACT (GAA) of 2013, the AFFP was jointly launched by and among the DA, Agricultural and Credit Policy Council (ACPC) and LANDBANK. The AFFP provides credit to small farmers and fishers registered in the Registry System for Basic Sectors in Agriculture (RSBSA).

The AFFP design was similar to SSP which also caters to small farmers adopting the direct lending approach. The AFFP covers other types of agricultural sectors such as fishers and farmworkers, as well as other projects such as agricultural trading, processing and services. It covers 75 RSBSA-registered provinces, 14 of which are being covered by LANDBANK while the remaining provinces are being covered by PCFC.

As of December 31, 2014, the AFFP released P18 million to 222 farmers and fishers.

Renewable Energy Lending Program

The Renewable Energy Lending Program is one of LANDBANK's programs supporting the government's call to promote the development, utilization and commercialization of renewable energy. The Program provides financing support to renewable energy (RE) projects such as biomass, geothermal, hydropower, ocean, solar, wind, biofuel and other renewable energy projects.

The Program also aims to provide financial packages to sole proprietorships, partnerships, corporations, cooperatives/ associations, LGUs, financial institutions, GOCCs, NGAs, NGOs for working/ permanent capital expenditures and project preparations.

As of December 31, 2014, LANDBANK was able to finance 15 RE projects with total approved loans amounting to P4.38 billion.

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DEVELOPMENT ASSISTANCE PROGRAMS

AWARDS AND RECOGNITIONS

LANDBANK annually confers awards to its outstanding development partners to recognize their excellence in terms of operational performance and significant contributions to uplift the lives of 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 partner rural banks which helped expand the Bank's financial assistance in the rural areas; and (4) the Gawad KAAGAPAY for corporate clients who contributed to income and employment generation and growth of local businesses.

1. *2014 GAWAD SA PINAKATANGING KOOPERATIBA (Gawad PITAK) WINNERS*

MAJOR AWARDS:

<u>GININTUANG GAWAD PITAK – AGRI-BASED COOPERATIVES CATEGORY</u>

- Baug CARP Beneficiaries MPC Magallanes, Agusan del Norte

<u>OUTSTANDING AGRI-BASED COOPERATIVES</u>

- 1st Place – Nagkakaisang Magsasaka Agricultural MPC, *Llanera, Nueva Ecija*
- 2nd Place – Luntian MPC, *Tiaong, Quezon*
- 3rd Place – Talabutab Norte Primary MPC, *General M. Natividad, Nueva Ecija*
- 4th Place – Sindangan FACOMA Community MPC, *Sindangan, Zamboanga del Norte*
- 5th Place – Buenavista Development Cooperative, *Buenavista, Guimaras*

<u>GININTUANG GAWAD PITAK – NON-AGRI-BASED COOPERATIVES CATEGORY</u>

- Sta. Cruz Savings and Development Cooperative, Sta. Cruz, Ilocos Sur

<u>OUTSTANDING NON-AGRI-BASED COOPERATIVES</u>

- 1st Place – Iwahori MPC *Mariveles, Bataan*
- 2nd Place – Watchlife Workers MPC *Mariveles, Bataan*
- 3rd Place – Socorro Empowered People's Cooperative, *Socorro, Surigao del Norte*
- 4th Place – NIA-Region IV Employees MPC, *Pila, Laguna*
- 5th Place – Golden Group Gabay Puhunan Brotherhood MPC *San Fernando, Pampanga*

HALL OF FAME – AGRI-BASED CATEGORY

- Bagumbayan Primary MPC
  Llanera, Nueva Ecija

HALL OF FAME – NON-AGRI-BASED CATEGORY

- Barbaza MPC Cubay, Barbaza, Antique

SPECIAL AWARDS – ULIRANG MAGSASAKA

- Ulirang Magsasaka, Florencio G. Sudoy
  Bagong Buhay ng Mabini Cooperative
  Sto. Domingo, Nueva Ecija
- First Runner-up, Ruben M. Ragas Baug
  CARP Beneficiaries MPC
  Magallanes, Agusan del Norte
- Second Runner-up, Ernesto C. Garcia
  Ligas Kooperatiba ng Bayan sa
  Pagpapaunlad, *San Miguel, Bulacan*

2. *2014 GAWAD ENTREPRENEUR WINNERS*

NATIONAL WINNERS

ENTREPRENEUR OF THE YEAR

- L. Angeles Machineries Corporation (LAMACO) *Bacoor City, Cavite*

OUTSTANDING AGRI-BASED ENTREPRENEUR

- Nature's Legacy Eximport, Inc. *Compostela, Cebu*

OUTSTANDING NON-AGRI-BASED ENTREPRENEUR

- Southern Mindanao Institute of Technology (SMIT)
  Tacurong City, Sultan Kudarat

REGIONAL WINNERS

AGRI-BASED ENTREPRENEUR

- Sps. Sandra and Joel de Guzman
  San Carlos City, Pangasinan
- Sps. Macaria and Guido Bagsic
  Calapan, Oriental Mindoro

NON-AGRI-BASED ENTREPRENEUR

- Sps. Annelene and Winefred Sescar
  Roxas, Oriental Mindoro
- Margarita V. Remollo
  Talomo, Davao del Sur

3. *2014 CFI WINNERS*

MAJOR AWARDS

NATIONAL LEVEL – RURAL BANKS

1st Place-Rural Bank of Goa, Inc.
Goa, Camarines Sur

2nd Place-Rural Bank of Cauayan, Inc.
Cauayan, Isabela

3rd Place-Cantilan Bank (A Rural Bank), Inc.
Cantilan, Surigao del Sur

4th Place-Rural Bank of San Jose, Inc.
San Jose, Camarines Sur

5th Place-Cabanatuan City Rural Bank, Inc.,
Cabanatuan, Nueva Ecija

NATIONAL LEVEL–COOPERATIVE BANKS

1st Place-Cooperative Bank of Cotabato
Kidapawan, North Cotabato

2nd Place-Cooperative Bank of Nueva Vizcaya, *Solano, Nueva Vizcaya*

SPECIAL AWARDS

Best CFI Availer (All Loans)
- Gateway Rural Bank, Inc.
  Balagtas, Bulacan

Best CFI Availer (Microfinance Loans)
- Rural Bank of Goa, Inc.
  Goa, Camarines Sur

Best CFI Availer (Agri-Agra Loans)
- Bank of Makati (A Rural Bank), Inc.
  Makati City

Best CFI Intermediary (with lowest pass-on rate)
- Cantilan Bank (A Rural Bank), Inc.
  Cantilan, Surigao del Sur

REGIONAL AWARDS

Bank of Makati (A Rural Bank), Inc.
Makati City, NCR

Gateway Rural Bank, Inc.
Balagtas, *Bulacan, Region III*

Bangko Kabayan (A Rural Bank), Inc.
Ibaan, *Batangas, Region IV-A*

Rural Bank of Camalig, Inc.
Legazpi City, Albay, Region V

4. 2014 GAWAD SA KORPORASYON NA KAAGAPAY SA ATING GANAP NA TAGUMPAY (Gawad KAAGAPAY) WINNERS

NATIONAL WINNERS

OUTSTANDING LARGE AGRI-BASED CORPORATION
- SL Agritech Corporation
  Makati City, Metro Manila

OUTSTANDING LARGE NON-AGRI-BASED CORPORATION
- Asian Marine Transport Corporation
  Cebu City, Cebu

OUTSTANDING MID-SIZED AGRI-BASED CORPORATION
- Agri-Component Corporation
  Cauayan City, Isabela

OUTSTANDING MID-SIZED NON-AGRI-BASED CORPORATION
- St. Elizabeth Hospital, Inc.
  General Santos City, South Cotabato

REGIONAL WINNERS

LARGE AGRI-BASED CORPORATION
- All Asian Countertrade, Inc.
  Makati City, Metro Manila

LARGE NON-AGRI-BASED CORPORATION
- Maynilad Water Services, Inc.
  Quezon City, Metro Manila

MID-SIZED AGRI-BASED CORPORATION
- Ana's Breeders Farms, Inc.
  Davao City, Davao

500
FAMILIES
trained under the Gawad Kabuhayan Program

LANDBANK Gawad Kabuhayan Program

The LANDBANK Gawad Kabuhayan is a livelihood program for the survivors of Typhoon Sendong in the relocation site of Habitat for Humanity in Cagayan de Oro City. A total of 500 families were given trainings on concrete hollow block making; preparation of jams and spread; baking; running a transportation business; and other livelihood activities. Values formation seminar, financial management and orientation in forming a cooperative also formed part of the livelihood training.

Instantly, the program beneficiaries earned from selling what they produce as they continue to train and master their enterprises. By the last quarter of 2014, the program beneficiaries were able to form two cooperatives namely the United Food Processors and Producers Cooperative and the Habitat Homeowners Transport Cooperative.

Gawad PATNUBAY Program

The Gawad PATNUBAY (Gawad Pag-aaral Tungo sa Maunlad na Bayan) Scholarship Program primarily aims to help poor and deserving students who will specialize in the fields of agriculture and fisheries. LANDBANK has partnered with the International Rice Research Institute (IRRI) for the formal education (four years) and with the Federation of Family Farm and Rural Schools (PHILFEFFARS) for the informal education (two years). Of the 28 scholars enrolled in various state universities under the management of IRRI, 12 are set to graduate by April 2015. Meanwhile, 11 of the 18 scholars at the Farm Business Institute in Jala-jala, Rizal under the PHILFEFFARS are expected to graduate by October 2015.

Survivors of Typhoon Sendong in the relocation site of Habitat for Humanity in Cagayan de Oro City participate in the LANDBANK Gawad Kabuhayan, a livelihood program.

Gawad E-Dukasyon Program (AgriCOOLture Educational Video Series)

Gawad e-dukasyon Program is one of the Bank's CSR programs that support agriculture education in the Philippines. This is 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. It sends across the Bank's message of promoting agriculture and agriculture studies among the youth to encourage them to pursue agriculture-related courses in college.

Gawad e-Dukasyon Program's primary objective is to produce three videos: Crop Production and Harvest, Poultry Raising, and Aquaculture and Fisheries. These videos are aired over Knowledge Channel, and the e-modules are made available on the internet. The videos are also shown over all Knowledge Channel-connected public schools nationwide as supplement for the students' Agriculture subject in the curriculum.

Officially launched in March 2014, the Educational Video Series, entitled "AgriCOOLture," introduces agriculture studies with interviews from experts in the field of agriculture. Apart from the interviews, the videos also feature information on various entrepreneurial possibilities including how to set up an agricultural livelihood project.

In 2014, a total of 3,330 schools and 4,007,943 students were reached by the AgriCOOLture educational video series. Focus group discussions were conducted, and the results showed success of the video series in promoting and increasing awareness among students about various opportunities in agriculture. The students were also able to appreciate the economic and societal importance of agriculture and its opportunities for professional and/or entrepreneurial development.

This complements the Bank's Gawad PATNUBAY Scholarship Program, as both Programs bring forward the message that agriculture is a good career path and a possible source of income and business.

Adopt-A-Watershed Program Phase II

The Adopt-A-Watershed Phase II is a renewal of agreement between LANDBANK and the Department of Environment and Natural Resources (DENR) made in 2012. Taking off from the Phase I agreement signed in 2006 and completed in 2010, LANDBANK continued the Program to help preserve and protect the country's critical watersheds and help ensure a steady supply of clean and safe drinking water and also prevent floods, landslides, and run-offs in the future.

This initiative protects and rehabilitates denuded portions surrounding six identified watersheds in the country by nursing and planting tree seedlings in the said watersheds from 2012 to 2015. LANDBANK participates in this project through the Bayanihan Bayan Program as a volunteer organization which has been mobilized to share responsibility in the protection of watersheds.

The program formally kicked-off last June 30, 2012 through the signing of a memorandum of agreement between the DENR, led by Secretary Ramon Paje and LANDBANK President and CEO Gilda Pico.

Under the agreement, LANDBANK shall take care of six watersheds covering a total area of 40 hectares nationwide. LANDBANK started in Balagbag, San Jose del Monte, Bulacan where LANDBANK employees planted fruit-bearing (langka, kasoy, avocado) and hardwood (narra, magium, mahogany) seedlings covering 10 hectares of land on November 12, 2012. The program also involved the participation of the Samahan ng Magsasaka ng Karahume at Balagbag (SAMAKABA), the People's Organization (PO)/Farmers Association (FA) in the area, the field partner which is the beneficiary of the program.

Similar activities were held in the other five Bank-adopted watersheds, to wit:

Watershed	Adopted Area	People's Organization
Bugallon, Pangasinan	10 has.	Cayanga Bugallon Upland Farmers Association Inc. (CBUFAI)
Negros Occidental	5 has.	Don Salvador Benedicto Farmers Association (DSBFA)
Sapang Dako, Cebu City	5 has.	Sto. Niño Farmers Association (SNFA)
Tigatto, Davao City	5 has.	Barangay Council of Tigato
Polomolok, South Cotabato	5 has.	Barangay Council of Olympog

LANDBANK employees participated in tree planting activities of the Bank's Adopt-a-Watershed Program. The Program aims to preserve and protect the country's critical watersheds.

LANDBANK follows a schedule for the monitoring, protection and maintenance of the adopted area for three years. After three years, LANDBANK will turn-over the sites to the POs.

In 2013, LANDBANK and the POs prepared the site by brushing and clearing the trails and planting areas. Landbankers also procured the seedlings and then planted them.

Over 300 LANDBANK employees have volunteered in planting 50,000 trees.

The following year, 2014, work focused on the maintenance and protection of the adopted site by weeding, replacing, planting, fertilizing and establishing firelines.

"We Help You Grow"

LANDBANK adopted "We Help You Grow" as its new tagline which conveys what LANDBANK does for its clients, partners and stakeholders. It speaks of progress and empowerment, and reflects LANDBANK's mission of helping the nation and the Filipino people grow.

"We Help You Grow" embodies the Bank's priorities, which are not merely profits, but more of promoting sustainable development and preserving the environment, empowering the countryside and the sectors that contribute to the economy. It reflects the Bank's belief that success will be truly achieved by growing together with our people and country.

SUPPORT TO THE COMPREHENSIVE AGRARIAN REFORM PROGRAM

As provided in the LANDBANK Charter, the Bank serves as the financial intermediary of the Comprehensive Agrarian Reform Program (CARP). As such, LANDBANK extends 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 19,778 hectares for January to December 2014. The 19,778 hectares have a land value of P2.4 billion.

Landowners Compensation and Assistance

As a financial intermediary of CARP, LANDBANK paid a total of P5.9 billion for landowners' compensation of CARP-covered private agricultural lands for the period January-December 2014. Of the P5.9 billion, P816 million was paid in cash while the remaining P5.1 billion was in the form of CARP bonds (P4.0 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 2014, total CARP bonds sold amounted to P454.3 million involving 869 landowners and bondholders which generated an income of P8.8 million.

Land Amortization and Loan Collections from CARP Farmer-Beneficiaries

In 2014, total land amortization collections from Agrarian Reform farmer-beneficiaries amounted to P676.1 million, whereas, total loan collections from Agrarian Reform farmer-beneficiaries for loans funded by ARF amounted to P12.5 million.

LANDBANK-Administered Agrarian Reform Fund for CARP

The fund balance of the LANDBANK-administered Agrarian Reform Fund amounted to P6.3 billion in 2014. For the same period, LANDBANK received P4.4 billion from the Bureau of the Treasury for the bond servicing requirements of the 10-year CARP bonds under the automatic appropriation of the National Government.

Raul J. Gerada
Chairperson, Polo SN MPC

Better Service Delivery and Management through Innovation

Situated in what is considered pineapple country, the Polo Samahang Nayon Multi-Purpose Cooperative (Polo SM MPC) has been making its mark as a proponent of the agri industry in Polomolok, South Cotabato since 1991.

Its extensive dealings with Dole Philippines (Dolefil) for pineapple contract growing began in 1995 with only 33 hectares. Almost two decades in, the cooperative now navigates about 564.49 hectares as of 2014, covering Polomolok and neighboring T'boli for its pineapple crops.

And sharing the rewards of having reliable partnerships for better services, such as savings and credit facilities, loans for livelihood projects and providential needs, agri equipment services, and merchandising among others, the cooperative has tied-up with LANDBANK for its members to avail of the LANDBANK Mobile LoanSaver in 2014. Sharing the rewards of having reliable partnerships for better services, the cooperative is helping engage members toward better financial and time management through innovation.

LANDBANK CUSTOMER SERVICE BY THE NUMBERS IN 2014

MOST EXTENSIVE Branch Network covering 81 or all of the PH provinces

1,338 TOTAL Number of LANDBANK ATMs

USD 1.12 BILLION in Remittance facilitated

8.8 MILLION LANDBANK cardholder base

P2.6 Billion amount of iAccess transactions

6 LEAFS established

P5.4 BILLION Investments portfolio in equity and other financial instruments

> "The cooperative is helping engage members toward better financial and time management through innovation."

CUSTOMER SERVICE

EXPANSION AND WIDENING OF DELIVERY CHANNELS

Consistent with its thrust to extend financial services in all provinces, cities and municipalities, LANDBANK, in 2014, opened new servicing units and installed new facilities for the convenience and continued access of bank clients.

- New Branches

  In 2014, LANDBANK opened 10 new branches and extension offices in the following areas: Pasay City at the GSIS Complex, Carmen Rosales (Pangasinan), Carigara (Leyte), Dapitan (Zamboanga del Norte), Dinagat Island, Sto. Tomas (Batangas), Daraga (Albay), Alabang Business Center, Guagua (Pampanga) and Araneta Center. The opening of these units expanded the Bank's branch network to 351. In addition, LANDBANK has six tellering booths and six foreign exchange booths to provide additional banking services to customers.

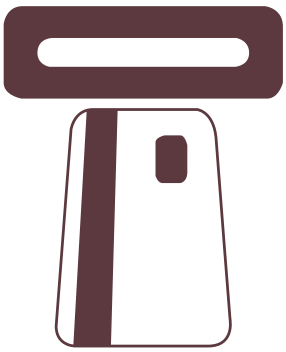
  The opening of Dinagat Island Branch in October 2014 made the LANDBANK's branch network the most extensive among that of universal banks in the Philippines. It is also the only bank with presence in all of the country's 81 provinces.

10

NEW BRANCHES & EXTENSION OFFICES

Opened in 2014

From top left: Carmen Branch, Araneta Center E.O., Dapitan Branch, GSIS Branch, Alabang Business Center, Carigara Branch, Daraga Branch



125

NEW ATMs INSTALLED

- **Automated Tellering Machines (ATMs)**

In 2014, LANDBANK installed 125 new ATMs bringing the total ATM network to 1,338. This made LANDBANK as the fourth largest Bank in terms of ATM network in the country. These ATMs are strategically located across the country, with 325 units (24 percent) in the National Capital Region, 267 units (20 percent) in North and Central Luzon, 238 units (18 percent) in Southern Luzon, 215 units (16 percent) in the Visayas and 293 units (22 percent) in Mindanao.

To remain competitive and to support its 8.8 million cardholder base, LANDBANK installed ATMs in strategic locations such as government facilities/offices, commercial centers and other high-traffic areas such as malls and train stations.

LANDBANK introduced the Interbank Fund Transfer (IBFT) facility, an enhanced feature of the ATM, which enables real-time interbank transfer of funds from one account to another using the ATM. From its initial implementation in 2013 with 20,116 transactions, the IBFT posted a significant utilization growth of 126 percent in 2014 with 45,430 transactions.

- **Mobile ATMs**

LANDBANK likewise deployed mobile ATMs to provide banking convenience and bring LANDBANK services closer to the ground. The mobile ATMs are used to support the distribution of cash grants to the beneficiaries of the government's Conditional Cash Transfer Program in far flung areas; and are also deployed to complement operations of a LANDBANK branch. The mobile ATMs also proved useful as part of a disaster recovery support in calamity-stricken areas.

In 2014, LANDBANK deployed eight mobile ATMs with utilization significantly improving to 194,936 transactions amounting to P500 million, from 17,987 transactions amounting to P191.18 million in 2013.

- **Lending Units**

To complement its deposit taking operations, the Bank maintains lending units both at the Head Office and provinces. The lending units originate and process loan applications from different clients such as small farmers and fishers, cooperatives, financial institutions such as rural banks, cooperative banks and thrift banks, small and medium enterprises, local government units, and corporations.

As of December 31, 2014, LANDBANK has 38 provincial Lending Centers and eight Head Office-based lending units.

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

- **Development Conduits**

In order to further expand its reach and facilitate the delivery of financial assistance and basic banking services in the countryside, LANDBANK taps various development conduits such as cooperatives, rural banks and thrift banks. LANDBANK extends rediscounting facilities, among others, to these conduits so said conduits can expand their portfolio particularly to the small farmers and fishers.

In 2014, LANDBANK has partnered with 248 accredited countryside financial institutions and 1,546 cooperatives nationwide.

- **LANDBANK Easy Access Facility (LEAF)**

To promote financial inclusion, LANDBANK, in 2014, opened six LEAFs in municipalities where the Bank has no deposit taking conduits. The LEAFs are Other Banking Offices (OBOs) which engage in non-transactional banking-related services such as deposit, withdrawal and bills payment through machines. As such, the LEAF hosts the ATM, Cash Deposit Machine and LANDBANK Express Access Machine.

The LEAFs are Other Banking Offices (OBOs) which engage in non-transactional banking-related services such as deposit, withdrawal and bills payment through machines. As such, the LEAF hosts the ATM, Cash Deposit Machine and LANDBANK Express Access Machine.

These newly established LEAFs are located in Sulop, Davao del Sur; Argao, Cebu; Caba, La Union; Moncada, Tarlac; Pamplona, Cagayan; and Pitogo, Quezon.

- ## Remittance Tie-ups/ Partnerships

In support to the country's Overseas Filipino Workers (OFWs), LANDBANK continued to strengthen its overseas network by maintaining strong correspondent relationship with 790 foreign banks and establishing partnerships with 155 foreign and local remittance companies. The Bank also forged partnerships with large local and global money transfer companies such as MoneyGram and Xoom.

The Bank forged partnerships with large local and global money transfer companies such as MoneyGram and Xoom.

During the first quarter of 2014, the Bank launched its new settlement mode, cash pick-up at any LANDBANK branch. Before the end of the year, cash pick-up at partner agents such as Palawan Pawnshop and M Lhuillier, was also implemented.

As of year-end 2014, LANDBANK generated USD1.12 billion in remittances through its foreign correspondent and depository banks and remittance partners in the Asia-Pacific, Middle East, USA, Canada and Europe.

1.4

MILLION
IAccessENROLMENT

CONVENIENCE AND ACCESS TO BANKING SERVICES

- ### Retail Internet Banking

The LANDBANK iAccess is an 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 iAccess facility reduces the cost of transacting business as clients no longer have to go to the Bank.

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 end of 2014, the total iAccess enrollment reached 1.4 million registering a growth rate of 27 percent from 1.1 million as of 2013. The iAccess transactions, on the other hand, also showed 28 percent growth rate from 13.8 million in 2013 to 17.6 million in 2014 amounting to P2.6 billion.

- ### 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. These weAccess online banking services include 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 46 percent from 9,443 in 2013 to 13,753 in 2014. The weAccess online monetary and non-monetary transactions grew by eight percent from 3.8 million in 2013 to 4.1 million in 2014 with transaction value amounting to P63.4 billion.

To address specific requirements of corporate clients, the Bank also introduced the wePay Access facility. This is a variant of the weAccess with customized features addressing specific needs of clients.

The internet banking facilities of the Bank adopt security features compliant with the Bangko Sentral ng Pilipinas regulation on Consumer Protection for Electronic Banking. The iAccess facility has a Verisign-Secure Seal that guarantees website visitors of its site authenticity and transaction security while the weAccess employs two-factor authentication process utilizing user ID and password, plus the Virtual Token, an application stored in a device (mobile phone or USB).

- ### Phonebanking

The LANDBANK Phone Access is an alternative delivery channel that is secure and convenient, and allows ATM and current account holders to do self-service banking transactions. These include fund transfer, bills payment, bank statement request, checkbook reorder, check status and balance inquiry. Through the phone banking system, account holders can likewise inquire, or report concerns such as lost or stolen cards, to a phone banking associate.

As of year-end 2014, the LANDBANK Phone Access has registered a total of 3,308,810 million enrolled accounts representing 99.5 percent of the total number of eligible accounts. The phonebanking transactions processed during the year reached 1,996,925 million or an average of 5,471 per day. These include fund transfer and bills payment transactions amounting to P306.09 million and P16.87 million, respectively.

- Mobile Banking

LANDBANK also introduced an alternative mobile banking facility through short-messaging service (SMS). Through the use of any type of mobile phone, a depositor can send SMS to inquire on his or her account's available and outstanding balances in real time. To avail of the mobile banking service, the depositor is required to register his or her account's mobile number and deposit accounts via the LANDBANK Phone Access.

Another banking innovation launched in 2015, the LANDBANK Mobile Banking App which can be downloaded in mobile phones from Apple App Store and Google Play Store. Through the Mobile Banking App, a depositor will be able to view his 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.

Through the use of any type of mobile phone, a depositor can send SMS to inquire on his or her account's available and outstanding balances in real time.

{Another banking innovation launched in 2015, the LANDBANK Mobile Banking App which can be downloaded in mobile phones from Apple App Store and Google Play Store.}

50

LEAM UNITS DEPLOYED

- ## LANDBANK Express Access Machine (LEAM)

Launched in May 2014, LEAM is a touch-screen financial kiosk machine designed to accept payments/collections for national government agencies. It aims to provide a faster and more cost-effective solution in servicing over-the-counter payment transactions of clients. Initially, this is available to BIR taxpayers but will be expanded to accept payments for other government agencies as well.

For the initial implementation of LEAM, 50 units were deployed in selected branches.

- ## Cash Deposit Machine (CDM)

The CDM is a lobby-type machine with self-service, real-time cash deposit functionality. It allows the customer to make cash deposits to a LANDBANK ATM peso deposit account and provides information on the outstanding balance and withdrawable balance on a real-time basis. Initially, 12 CDMs were deployed in selected branches during the year.

- ## LANDBANK Visa Debit Card

In February 2014, the Bank launched the LANDBANK Visa Debit Card, in partnership with Visa Worldwide, the global leader in Card Payment System.

The LANDBANK Visa Debit Card enables cardholders to transact in around two million ATMs worldwide and do cashless purchase in over 30 million Visa merchants and retail stores worldwide.

LANDBANK was awarded by Visa with the Best New Product Launch in the Philippines in July 2014. The Bank bested all Philippine issuers of card products by having the most number of Visa debit cards issued and the highest activation rate. In 2014, Visa Network has recorded the issuances of 394,013 LANDBANK Visa debit cards with 203,628 transactions in the amount of P360.19 million.

- ## Point-of-Sale Services

Point-of-sale (POS) is a complete payment system that facilitates the authentication of a cardholder's purchase or payment using the LANDBANK ATM or debit card. This is a facility which LANDBANK does in partnership with BPI and BancNet.

In 2014, the number of POS terminals installed through BancNet increased remarkably to 105 from 24 in 2013, while POS transactions grew from 24,174 in 2013 to 109,348 in 2014. The growth in POS billings was attributed to the installation of POS terminals in airports for the convenience of domestic and international passengers in paying terminal fees.

The LEAM is a touchscreen financial kiosk machine designed to accept payments or collections for national government agencies.

Launched in May 2014, the LEAM was initially available to BIR taxpayers but will be expanded to accept payments for other government agencies as well.

With the accelerated growth in number of POS terminals and transactions, LANDBANK was recognized and conferred with the Golden POS Award by the Bank of the Philippine Islands.

- LANDBANK Remittance System (LBRS)

LBRS is a web-based remittance system with front office and back office modules capable of real-time processing of remittances. It offers remittance delivery modes such as credit to account with LANDBANK/other banks or cash pay-out/pick-up at any LANDBANK branch or partner paying agent.

Other notable features of the system are online remittance status inquiry, SMS notification and real-time feedback.

CUSTOMER-CENTRIC BANK PRODUCTS AND SERVICES

Bank Products

- *Deposits*

LANDBANK offers a wide array of deposit products with varying features to suit the specific financial needs and requirements of its customers. These products are available in all branches nationwide and include savings, current and time deposit accounts available in Peso, US Dollar and third currencies, such as Euro, Japanese Yen and Chinese Yuan.

Funds generated from deposits are used by the Bank to finance its lending operations to the mandated clients and priority sectors.

- *Loans*

Consistent with its mandate to spur countryside development, LANDBANK offers loan products that help increase agricultural productivity, support business and generate employment. These include short-term loans for working capital requirements, term loans for fixed asset needs and trade facilities for clients involved in export and import activities. The Bank also offers rediscounting facilities to development partners and conduits to allow then to expand portfolio to small farmers and fishers, among others. LANDBANK also offers mortgage loans in support to the national housing agenda of the government.

- *LANDBANK Mobile LoanSaver (LMLS)*

  In August 2014, the Bank launched the LMLS, a mobile-based, savings-linked salary loan product which is considered the first paperless and fully electronic salary loan facility in the country. This facility, which was done in partnership with Smart eMoney, Inc. is offered to employees of government agencies and private companies with payroll accounts in LANDBANK.

  With LMLS, borrowers incur lower transaction cost in as much as loan application and approval are done electronically through mobile phones. The LMLS also offers a quick turnaround time of three banking days.

  As of year-end 2014, a total of 4,207 borrowers have already availed with outstanding balance amounting to P598 million.

- *Investments*

  In 2014, the Bank's Investment Banking Group took an active stance in investment banking transactions for both government agencies and private corporations. LANDBANK acted as the Global Coordinator and Lead Deal Manager for the P140.39 billion Liability Management Program of the Bureau of the Treasury. The Bank also served as the financial advisor for the P20.2 billion 2x135 MW coal-fired power plant project of the FDC Misamis Power Corporation. The Bank's involvement in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MOBILE


LANDBANK
MOBILE

From rank 12 in 2013, LANDBANK's trust business climbed five notches to rank seven in the industry in 2014.

P5.41
BILLION

Investments portfolio in equity and other financial instruments as of December 31, 2014

investment banking transactions for other private corporations included Alsons Consolidated Resources, Inc., National Grid Corporation of the Philippines, All Asian Countertrade Inc., First Philippine Holdings and EDC Burgos Wind Power Corporation.

The Bank also participated in the underwriting of corporate bond issuances for Aboitiz Power Corporation, SM Prime Holdings, Manila North Tollways Corp., PLDT, JG Summit, ABS-CBN and SM Investments Corporation.

The Investment Banking Group likewise handled the Bank's investments in Countryside Financial Institutions (CFIs). As of year-end 2014, the Bank's total outstanding investments in 61 GFIs under the unsecured subordinated debt facility and equity investments amounted to P475.85 million.

The Bank's investments portfolio in equity and other financial instruments totaled P5.41 billion as of December 31, 2014.

- *Trust*

Prior to its 40th year in the industry, the Bank's Trust Banking Group posted a total of P80.85 billion Assets Under Management (AUM), representing 141 percent growth from 2013. This remarkable achievement elevated the Bank's ranking five notches up in the Trust Business Industry, from rank 12 in 2013 to rank seven in 2014 among 25 trust entities.

In pursuit of its mandate of being "Stewards for Growth and Good Governance", the Trust Banking Group ventured as partner in mobilizing OFWs and their families to save and invest for a successful reintegration in the country. In financial literacy campaigns conducted locally and abroad, OFWs and their families and beneficiaries were provided with personal fund management services and other trust solutions. These were done in active partnership with private and government organizations, OFW groups and Filipino migrant organizations.

Services

- Customer Queue System

In line with the Bank's thrust of providing quality customer service, the Customer Queue System (CQS) in branches was rolled out in 2014. The CQS is an electronic and computerized queue system for effective branch lobby management. In this system, over-the-counter transactions in the branch are assigned with specific queue number series based on the nature of transaction or type of customer, namely: new accounts; special lane (for senior citizens, pregnant women, persons with disability); simple transactions (up to two transactions); and multiple/complex transactions (three or more transactions).

As of year-end 2014, the Customer Queue System is already being implemented in 216 branches nationwide.

- *Customer Care Center*

  The LANDBANK Customer Care Center provides 24/7 customer assistance, and 24/5 iAccess and weAccess helpdesk.

  In 2014, a total of 212,599 transactions were handled by the Customer Care Center which included telephone and email requests and iAccess and weAccess transactions.

- *Financial Literacy for OFWs*

  LANDBANK extends regular financial literacy seminars and campaigns for Overseas Filipinos, in coordination with the Bangko Sentral ng Pilipinas, Department of Foreign Affairs, Department of Labor and Employment, Overseas Workers Welfare Administration, Philippine Overseas Employment Administration and Commission on Filipinos Overseas. The Bank also works closely with Philippine embassies and other government agencies concerned, to help ensure the financial welfare of Overseas Filipinos.

- *Cash Distribution in Calamity Areas*

  In 2014, the Bank played a significant role as financial intermediary in recovery programs for calamity victims in the country.

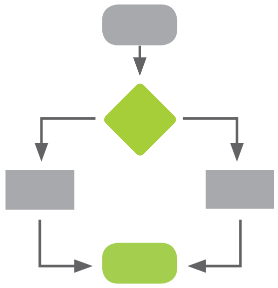
LANDBANK, Smart Communications and the United Nations Development Programme (UNDP) partnered for the Cash for Work Program, a special relief intervention mechanism for the victims of super typhoon Yolanda. Under the program, selected beneficiaries were tasked to clear debris and clean up public infrastructure and facilities destroyed in their respective barangays. Through its Mobile Cash Transfer System, LANDBANK distributed the wages to the beneficiaries electronically by issuing cash cards to the beneficiaries and deploying mobile ATMs in the areas. Total cash disbursements of the Bank under the Program amounted to P16.07 million benefiting 4,544 households.

LANDBANK, in partnership with Smart Communications, accredited rural banks and cooperatives, also handled the cash distribution to the beneficiaries of Cash for Asset Program of the United Nations World Food Programme. The Program is for food and nutrition support to the displaced residents in conflict-affected areas of Central Mindanao and disaster-affected communities in the country. A total of P224.75 million cash grants were distributed to 75,378 households under the Program.

P224.75
MILLION

Cash grants distributed to 75,378 households under the Cash for Asset Program

> LANDBANK, Smart Communications and the United Nations Development Programme (UNDP) partnered for the Cash for Work Program, a special relief intervention mechanism for the victims of super typhoon Yolanda.



32,370

eMDS

Processed for 633 enrolled government agencies

CASH MANAGEMENT SERVICES FOR THE NATIONAL GOVERNMENT

- ### Modified Disbursement Scheme

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

For the year 2014, the Bank processed 83.66 percent of the government's total disbursements in the amount of P1.3 trillion involving 4.52 million transactions of 37 government agencies. These disbursements included payments and fund releases of the government for development projects, operating expenses and salaries/benefits of government personnel.

- ### Electronic Modified Disbursement System (eMDS)

The eMDS is a web-based system developed by LANDBANK that allows enrolled government agencies to perform selected MDS transactions online. Its functionalities include account information, transmission of Advice of Checks Issued and Cancelled, transfer of fund allocation, processing of payment to creditors and requisition of checkbook.

In 2014, a total of 32,370 eMDS transactions amounting to P69.6 billion were processed for 633 enrolled government agencies.

- ### Continuous Form Checks (CFCs)

In 2014, LANDBANK handled 20 accounts maintained by seven government agencies and processed 700,000 CFCs encashment amounting to P5.7 billion for the payment of its employees' salaries and benefits.

- ### Revenue Collection Services

LANDBANK performs an important role in revenue generation for the government through the collection of taxes from private individuals and corporations. In 2014, the tax collection of the Bank for the national government totaled P127.5 billion. Of this amount, P122.7 billion involving 5.4 million transactions were for the Bureau of Internal Revenue, while P4.8 billion involving 40,811 transactions were for tariffs and duties for the Bureau of Customs.

- ### Government Collection Services

Government entities use LANDBANK's network of branches nationwide in the collection of fees for various government transactions. In 2014, P89.2 billion involving 867,688 transactions were remitted by the Bank to the Bureau of the Treasury.

LANDBANK also collected a total P2.15 billion in 2014 for the Philippine Health Insurance Corporation, Social Security System, Home Development Mutual Fund, National Home Mortgage and Finance Corporation, Social Housing Finance Corporation, Department of Budget and Management-Procurement Service, Clark Development Corporation, Davao City Water District, National Telecommunications Commission and the Philippine Overseas Employment Administration.

> {LANDBANK performs an important role in revenue generation for the government through the collection of taxes from private individuals and corporations.}

- ### Conditional Cash Transfer

  LANDBANK serves as the distribution arm of the Department of Social Welfare and Development (DSWD) for the Conditional Cash Transfer (CCT) Program. In 2014, the Bank distributed cash grants amounting to P38.65 billion to 4.45 million households under the Program.

  To facilitate the cash distribution, LANDBANK issued cash cards to the beneficiaries where the monthly proceeds of cash grants are credited and can be withdrawn in any LANDBANK ATM or mobile ATM or other banks' ATMs. The Bank also partnered with Philippine Postal Corporation, Globe Xchange, Inc., 43 accredited rural banks and 6 cooperatives to serve as conduits in cash distribution, particularly in far-flung areas.

ROADMAP TO DEVELOPING WORLD CLASS OPERATIONS

In its pursuit towards developing world class operations in the medium term, LANDBANK intensifies its position as a truly customer-centric organization. In May 2014, the LANDBANK Management Committee approved the Quality Management System Roadmap which is focused on business process improvement and delivering consistent best in class experience to its customers.

Two main approaches in developing world class operations were identified:

1. Bank-wide implementation of the quality management system; and
2. Application to the Philippine Quality Award.

Bank-Wide Implementation of the Quality Management System

The ISO 9001 standards for QMS is a globally-recognized standard adopted by all types of organizations and has proven to be an effective approach in ensuring quality and efficient customer service. The bank-wide implementation of QMS is a strategic means of realizing a holistic approach to performance excellence. This was done through the replication of best practices by phases within the medium term. Some of the QMS best practices being adopted are quality workplace/5S standards, proper documents/records organization and customer feedback management. The Quality Circles Program, also a part of the QMS roadmap, will serve as a tool to facilitate control and improvement of all operational processes that will further intensify its strategic focus on the transformation of its human resources, processes and policies.

Meanwhile, the branches and Extension Offices under the North and South NCR Branches Groups have managed to maintain their ISO 9001:2008 certification by successfully passing the surveillance audit in March 2014. Improvements in response time as well as better control of operations were evident results of the QMS implementation.

Application to the Philippine Quality Award

The adoption of the Philippine Quality Award framework will prove to be a pivotal undertaking of LANDBANK. The Philippine Quality Award (PQA) Program is a global competitiveness template that encourages and engages organizations to strive for and attain performance excellence. The PQA sets a standard of excellence to achieve world-class performance that is comparable with the prestigious Malcolm Baldrige National Quality Award of the United States of America and those in Australia, Europe and Asia.

Proven to be truly world-class, application to the PQA will help LANDBANK in promoting standards in organizational performance that is considered at par with those leading organizations abroad, pursuant to the country's effort to be globally competitive. The feedback report by the team of quality experts will provide an objective assessment of the Bank's quality and productivity performance and will also guide the Bank in its business process improvement initiatives. Applying for the PQA will help LANDBANK promote involvement of its people and will encourage discipline within the organization in anticipating and responding to rapid changes in the business and customer environments.

LANDBANK strongly believes that constantly and continuously enhancing its current operations will ensure the delivery of the best customer experience to its clients.

INFORMATION TECHNOLOGY SUPPORT AND BANK PROCESSES AUTOMATION

Consistent with the Bank's mission to use best technology solutions to deliver responsive financial and support services to its clients, the Bank completed in 2014, 11 major IT projects. These projects are designed to: 1) respond to specific client requests; 2) make banking more convenient to bank clients; and 3) make backroom operations more efficient.

11
MAJOR IT PROJECTS COMPLETED

A. *Projects in response to specific client requests*

1. **Treasury Single Account Reporting and Monitoring System (TRAMS)**

   TRAMS provides the Bureau of Treasury a consolidated view of its cash position at the start of each banking day and a module for its disbursements.

2. **Bureau of Internal Revenue (BIR) interactive filing thru iAccess**

   The interface of LANDBANK's iAccess with the Interactive Forms (IAF) System of BIR provides tax payers, who are also LANDBANK depositors, an alternative delivery channel for tax payment.

3. **Livelihood Loans System (LLS) Enhancement for the Department of Education (DepEd)**

   The LLS Enhancement will facilitate the Bank's extension of livelihood loans to qualified DepEd employees.

B. *Projects designed to make banking more convenient*

1. **Cash Deposit Machine (CDM)**

   CDM is a self-service machine with cash deposit functionality. This automated deposit solution credits the clients' accounts in real time. Initially, the CDMs are available inside the branches' lobby but will also be deployed at offsite locations in the future. The deployment of CDM is part of LANDBANK's continuing effort to further improve services to Bank clients by automating Over-the-Counter (OTC) transactions.

2. **LANDBANK Express Access Machine (LEAM)**

   LEAM provides a convenient alternative payment channel by eliminating the need to queue up to a bank teller for tax payments. The machine is designed to allow dropping of payments and tax returns through an envelope chute or drop box.

   LEAM is expected to help manage customer traffic in LANDBANK branches. In the future, it may also accept PhilHealth contributions and other bills payment.

3. **Mobile Banking Application (MBA) Phase I**

   The LANDBANK Mobile Application System is an internet based mobile banking solution wherein clients can securely manage their banking needs, including account balance, fund transfer and making payments, from their mobile devices (IOS and Android) at any time and place.

C. *Projects in support to backroom operations*

1. **LANDBANK Remittance System (LBRS) Project Phase II**

   LBRS provides real time feedback on the status of remittance transactions to remittance partners and allows remittance transactions to be settled through courier/door-to-door delivery and bills-payment and issuance of Manager's Check for foreign exchange conversion. The system handles the processing of remittance transactions from SWIFT and EUROGIRO and branch transactions such as Demand Drafts, Wire Transfers, and Checks for Clearing.

2. **LANDBANK International Debit Card (LIDC) Phase II**

   The OCM24 RECON SYSTEM is a PC-based system that will perform reconciliation matching, tracking and reporting of VISA transactions using the VISA raw file and OCM24 transaction log file.

3. **Credit Card Application System**

   The Credit Card Application System is an automated data entry system, designed for encoding, from receipt of application, to evaluation, up to its approval or denial, which will generate report of the status of application per branch, cluster and group.

4. **Human Resource Information System (HRIS) Enhancement - Time and Attendance Project**

   The HRIS Enhancement Project customizes the standard Systems, Applications and Products (SAP) Time and Attendance module for LANDBANK's requirements on time evaluation, leave accruals, payroll, and the development of interface program to upload time data from biometric devices to HRIS.

5. **Loans MIS (Data Warehouse Module 2)**

   Loans MIS Project is the second module of the Bank's Data Warehouse (DWH) Project. It is intended to be the Bank's central source of accurate and timely loan reports and information for decision support to the management.

   The Loans MIS module was designed to generate standard reports on a regular basis. It also has analytics feature, thus capable of generating analytics and ad hoc reports on demand basis.

IT Infrastructure Initiatives Implemented in 2014

Also, in 2014, the Bank initiated improvements and upgrades in major IT infrastructures. These include the following:

A. *Outsourcing of Bank Statement Printing*

   The outsourcing is intended to efficiently and consistently produce bank statements within the mandated three banking days, and be ready with related future requirements (e.g., image attachments). Eventually, this should lessen the resource allocation (administrative costs, maintenance, electricity, storage space, etc.) for bank statement printing.

B. *IT Infrastructure Upgrade*

1. **Mainframe Systems Upgrade** – to align the capacity of the mainframe of the Disaster Recovery site with the Production site.

2. **Midrange and Blade Servers Upgrade** - Midrange is a computer class that stands in between mainframe and microcomputer classes. A blade server is a compact, self- contained server consisting of core processing components which collectively fits into an enclosure with other blade servers. The server upgrade provides more powerful processors and faster processing time.

3. **Continuous Implementation of Security Devices and Solutions** - to prevent and mitigate risks against security and critical or malicious attacks to the Bank's IT systems.

4. **Disk Storage and Back-up Solutions**

   a. High-speed network of storage devices that connects to servers.

   b. The new LTO tape drives at Head Office and backup site address the Bank's growing need for back-up requirement. The improved tape drives significantly reduced the backup and recovery time, and cost efficiency is achieved through a higher cartridge capacity.

   In 2014, the Bank also has 14 IT projects that are expected to be completed in the coming years.

{ Major IT projects completed in 2014 are designed to: 1) respond to specific client requests; 2) make banking more convenient to bank clients; and 3) make backroom operations more efficient. }

Partner in Charting a New Course

The Asian Marine Transport Corporation (AMTC) is the largest roll-on/roll-off (RORO) owner and operator in the Philippines in terms of tonnage capacity. This once fledgling company - a very small shipping ferry operator, says its President and CEO Paul Rodriguez - has transformed itself to become one of the country's most reliable and efficient shippers.

The Philippines is an archipelago, where the shipping transport industry is a vital cog of development. This industry, however and despite the already large number of players, still has a big potential market.

AMTC saw the opportunity and the possibility to thrive in the domestic shipping front. Understanding that the industry is capital intensive, finding a reliable bank was very important for AMTC to succeed. LANDBANK would assume this role and became AMTC's biggest creditor since 2003, initially through its subsidiary, the LANDBANK Leasing Corporation. This would hit the ground running for the ATMC's eventual growth.

In just over a decade, the company's vision materialized. AMTC expanded from a single vessel to an impressive fleet of 27 vessels, comprised of their Super Shuttle Ferry, Super Shuttle Roro, and Shuttle Fast Ferry vessels. The fleet serves the most number of ports around the country, docking in 32 ports of call out of the total 46.

At the onset, AMTC saw to it that its operations uplift the Philippine economy. It pioneered the development of the Strong Republic Nautical Highway (SRNH) Program, and, to this day, continue to maximize the use of the Batangas Port. Its visions to make Batangas a hub and a gateway for vessels going to and from the southern Philippines paid off, and is now patronized by major multinational companies.

Today, the company is composed of 1,300 land and sea-based workforce with Cebu as its principal place of business. It currently holds a 35 percent nationwide market share. AMTC continues to expand and improve its operations by developing new routes, upgrading its current fleet, and acquiring prime movers, containers and container yards.

Along with its vision of becoming the country's leading total logistics RORO shipping company, AMTC made it its mission to help spur socio-economic development in the countryside, wherever its vessels reach.

"AMTC made it its mission to help spur socio-economic development in the countryside, wherever its vessels reach."

LANDBANK FINANCIAL HIGHLIGHTS 2014

P1.06
TRILLION
Total Assets

P12.64
BILLION
Consolidated Net Income

14.81% CAPITAL ADEQUACY RATIO

P385.9
BILLION
Total Loans to all Sectors

P302 BILLION INVESTMENTS

P912.6
BILLION
Deposits

P69.6 BILLION processed in eMDS

Paul Rodriguez
President and CEO, Asian Marine Transport Corporation

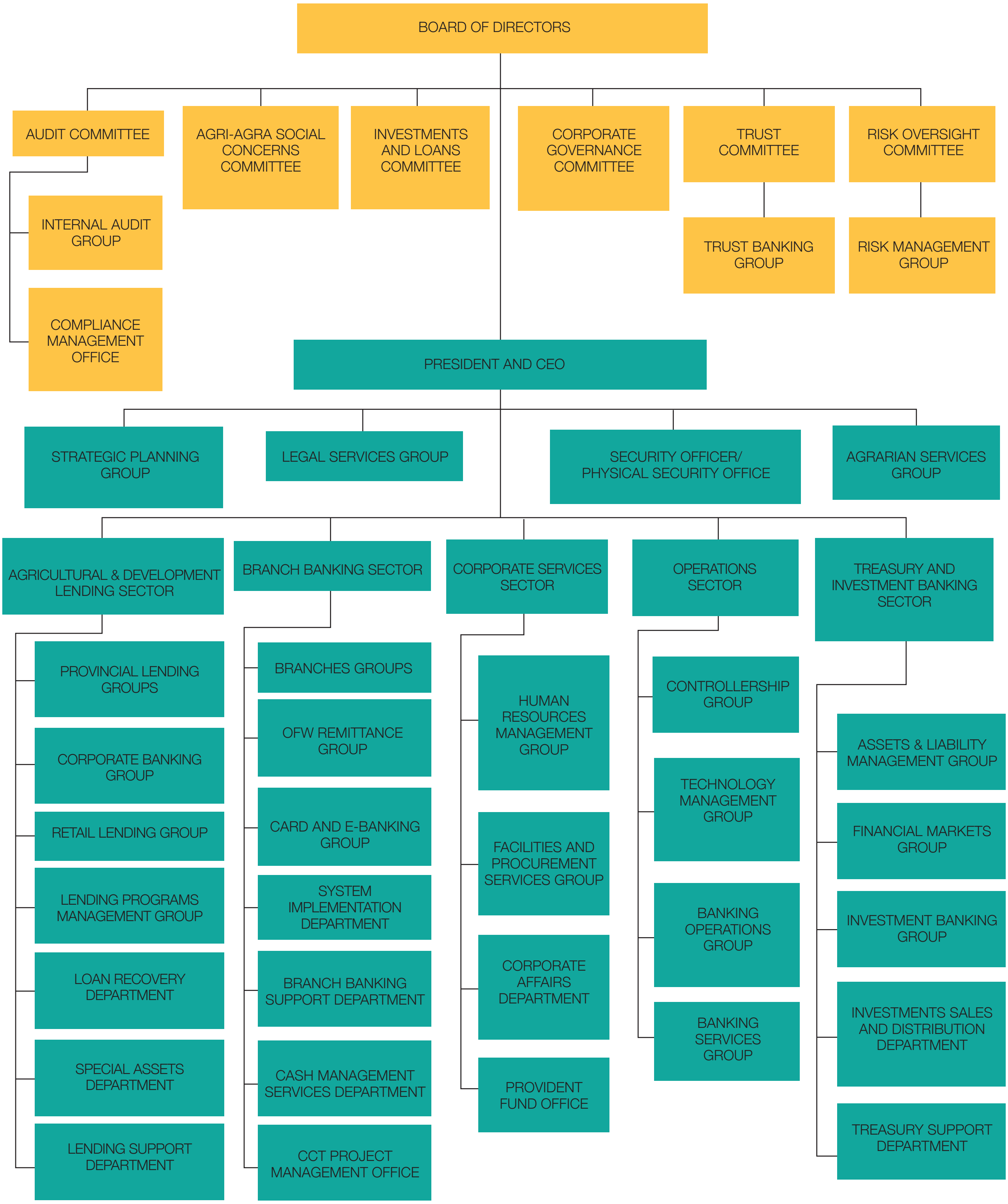
INSTITUTIONAL VIABILITY

EMBRACING GOOD GOVERNANCE AS A CORPORATE WAY OF LIFE

Organizational Structure

LANDBANK is governed by the Board of Directors and headed by the President and CEO (Figure 1). The President supervises four bank units that directly report to her office and five sectors of the Bank. The five sectors of the Bank are as follows: 1) Agricultural and Development Lending Sector; 2) Branch Banking Sector; 3) Treasury and Investment Banking Sector; 4) Corporate Services Sector; and 5) Operations Sector. The Bank units reporting directly to the Board of Directors are also administratively supervised by the President and CEO.

{ LANDBANK improved its efficiency, sharpened its tools, reviewed its business processes, cut its costs, and maximized its investments on technology and human resource. The Bank shifted gears to not only do more with less but also to do better with less. The emphasis on innovation and resource optimization soon proved beneficial. }


BOARD OF DIRECTORS
AUDIT COMMITTEE
AGRI-AGRA SOCIAL CONCERNS COMMITTEE
INVESTMENTS AND LOANS COMMITTEE
CORPORATE GOVERNANCE COMMITTEE
TRUST COMMITTEE
RISK OVERSIGHT COMMITTEE
INTERNAL AUDIT GROUP
COMPLIANCE MANAGEMENT OFFICE
TRUST BANKING GROUP
RISK MANAGEMENT GROUP
PRESIDENT AND CEO
STRATEGIC PLANNING GROUP
LEGAL SERVICES GROUP
SECURITY OFFICER/ PHYSICAL SECURITY OFFICE
AGRARIAN SERVICES GROUP
AGRICULTURAL & DEVELOPMENT LENDING SECTOR
BRANCH BANKING SECTOR
CORPORATE SERVICES SECTOR
OPERATIONS SECTOR
TREASURY AND INVESTMENT BANKING SECTOR
PROVINCIAL LENDING GROUPS
CORPORATE BANKING GROUP
RETAIL LENDING GROUP
LENDING PROGRAMS MANAGEMENT GROUP
LOAN RECOVERY DEPARTMENT
SPECIAL ASSETS DEPARTMENT
LENDING SUPPORT DEPARTMENT
BRANCHES GROUPS
OFW REMITTANCE GROUP
CARD AND E-BANKING GROUP
SYSTEM IMPLEMENTATION DEPARTMENT
BRANCH BANKING SUPPORT DEPARTMENT
CASH MANAGEMENT SERVICES DEPARTMENT
CCT PROJECT MANAGEMENT OFFICE
HUMAN RESOURCES MANAGEMENT GROUP
FACILITIES AND PROCUREMENT SERVICES GROUP
CORPORATE AFFAIRS DEPARTMENT
PROVIDENT FUND OFFICE
CONTROLLERSHIP GROUP
TECHNOLOGY MANAGEMENT GROUP
BANKING OPERATIONS GROUP
BANKING SERVICES GROUP
ASSETS & LIABILITY MANAGEMENT GROUP
FINANCIAL MARKETS GROUP
INVESTMENT BANKING GROUP
INVESTMENTS SALES AND DISTRIBUTION DEPARTMENT
TREASURY SUPPORT DEPARTMENT

Corporate Governance Structure

Board Composition

LANDBANK is wholly owned by the Philippine National Government and is governed by a nine-member Board of Directors (BOD). All the members of the LANDBANK BOD are appointed by the President of the Philippines. For 2014, the LANDBANK BOD was comprised of the following:

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

Functions of the LANDBANK BOD

The LANDBANK BOD sets the overall policies and strategic directions which guide the management and the operating units of the Bank. Moreover, the LANDBANK BOD provides the oversight and champions good corporate governance by strong adherence to ethical standards and strict compliance with legal, institutional and regulatory requirements. The Bank also ensures that the Bank remains accountable to its various stakeholders.

Board Performance and Attendance

The LANDBANK BOD and four Board-level committees undergo performance evaluation yearly. Performance rating sheets developed by the Institute of Corporate Directors are disseminated to all members at the beginning of every year to evaluate the Board level committees and the performance of the Board as a collegial body as well as individually.

In addition, the Governance Commission for Government-Owned or -Controlled Corporations (GCG) developed an internet-based performance evaluation tool for the directors of GOCCs. Since the questionnaire is accomplished online, this performance evaluation has an increased level of confidentiality and security in the information being given by the directors. Each director performance review form was answered and submitted by every director directly to the GCG through the Performance Evaluation for Directors System (iPED) (at URL http://iped.gcg.gov.ph/) in compliance with GCG Memorandum-Circular No. 2014-03 (Re-Issued) which mandates all ex-officios, their duly designated alternates, and appointive directors to encode their self and peer ratings, comments, and assessments in the iPED.

Allowances and incentives of the members of the LANDBANK BOD are determined by the GCG using as a reference, among others, Executive Order No. 24 dated 10 February 2011.

Twenty-four regular Board Meetings were held in 2014. Average attendance was recorded at 85.65 percent. And in accordance with GCG's directive, the Board's Vice Chairperson and the four private sector representatives received honoraria for every meeting of the Board or the Board-level committees they attend. The EO stipulated annual and monthly maximum amounts of honoraria.

Units under the Board

Internal Audit Group (IAG)

The Internal Audit Group is functionally under the supervision of the Audit and Compliance Committee under the Board of Directors, and administratively under the Office of the President of the Bank. IAG's 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 2014, the IAG rendered assurance services to Bank units, including special reports, and IT Systems audit as follows:

KRA	Actual	Target	% Accomplishment
Conduct of Assurance Services			
1. AUDITABLE UNITS			
Regular Audit	278	276	108%
Special Audit	31	-	--
Sub-total	**309**	**276**	**112%**
2. IT SYSTEMS AUDIT			
Application Audit	8	8	100%
Post Implementation Review	6	6	100%
Sub-total	**14**	**14**	**100%**
TOTAL	**323**	**290**	**111%**

Aside from the assurance services, IAG also provided inputs to 15 IT System Development Projects with four issued Audit Reports for newly implemented systems.

In 2014, IAG also reviewed specific loan accounts where the Bank has large exposures. Likewise, as part of its function to improve control systems, the IAG audited the Bank's 2014 Internal Capital Adequacy Assessment Process as well as the Business Continuity Management Plan. IAG also acted as the Lead Auditor during the internal audit of LANDBANK's Environmental Management System (EMS) which is the pre-activity to the Bank's successful re-certification to the ISO 14001:2004 on EMS.

In recognition of the systems and practices it has put in place, the IAG in 2014, was conferred an award by the Association of Government Internal Auditors on its search for Government Offices with Innovations and/or Best practices in Internal Auditing in 2013. Further, IAG obtained a "Generally Conforms" rating during the annual Internal Quality Assessment (IQA) of the IAG's operations. This IQA covered the processes/ activities involved from engagement planning up to monitoring of audit results and the competency development of the staff.

Moreover, as part of the IAG's Competency Building Program, two Auditors passed the Certified Fraud Examiner examinations and another two Auditors passed the Certified Information Systems Auditor examination. Moreover, 10 personnel obtained the Masters in Business Administration degree.

Trust Banking Group

In its 39th year in the industry, the Trust Banking Group (TBG) posted a total of P80.85 billion Assets Under Management (AUM), representing 141 percent growth from 2013. This achievement elevated TBG's ranking five notches up in the trust business industry, from rank no. 12 in 2013 to no. 7 in 2014 among 25 trust entities.

In keeping with its thrust of being "Stewards for Growth and Good Governance", TBG conducted various activities such as forums and seminars locally and abroad. These were done in active partnership with private and government organizations, OFW Groups, Filipino Migrant Organizations, with the primary objective of providing financial literacy to the OFWs, their families, and beneficiaries.

TBG is a partner in mobilizing OFWs and their families to save and invest for a successful reintegration in the country. During financial literacy campaigns, TBG provides personal fund management services and other trust solutions such as Investment Management Account, Living Trust Account and the Unit Investment Trust Funds (UITF).

In 2014, TBG acquired a new Trust Banking System (TBS), which will automate operations and make the delivery of trust services more efficient. The new TBS provides a "client portal" for real-time viewing of client's portfolio for managed funds and prospectively, for UITF clients to make investments and redemptions online. Also, with the new system, new services will be offered such as the 3rd Party Securities Custodianship and Registry and Provident Fund Administration Service with loan feature.

Risk Management Group (RMG)

The Risk Management Group serves as the oversight on risk management policies and is responsible for the institutionalization of risk culture across the Bank. Highlights of the RMG's accomplishments are contained in the section on C.2 (Fortifying Risk Management Systems and Measures to Strengthen Governance).

Compliance Management Office

The Compliance Management Office was established in accordance with BSP Circular No. 429 (series of 2004). It is independent from the business activities of the Bank and is under the direct supervision of the Audit and Compliance Committee.

The CMO, headed by the Bank's Compliance Officer, oversees the implementation of the Bank's compliance management system by ensuring that all applicable laws and regulations are effectively being complied with by the Bank. Major activities include the identification, assessment and dissemination of regulatory issuances and directives to the various units of the Bank. To strengthen the Bank's compliance function, the CMO establishes close coordination and exercises supervision over the designated compliance coordinators at the business unit level in order to closely monitor their compliance with the reportorial requirements of regulatory and oversight bodies such as the Bangko Sentral ng Pilipinas, the Commission on Audit, the Philippine Deposit Insurance Corporation, the Securities and Exchange Commission, and the Civil Service Commission. Reporting of the Bank's compliance activities to the Audit and Compliance Committee and other regulatory bodies is also being spearheaded by the CMO.

Office of the President and CEO

Four Bank units are directly supervised by the LANDBANK President and the CEO. 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 is handled by the Agricultural and Development Lending Sector (ADLS) and 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 2014, there are 34 Lending Centers based in key provinces and eight Lending Units at the Head Office catering to retail and mortgage banking, and corporate accounts. These Lending Units are clustered by major island groupings for management and control. These are the North and Central Luzon, Southern Luzon, Visayas and Mindanao Lending Groups. Administrative support for the Sector is provided by the Lending Support Department while program development, monitoring and sourcing of foreign and domestic funds are led by the Lending Programs Management Group. 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 clienteles of the Bank are led by the Branch Banking Sector (BBS) which is headed by EVP Jocelyn dG. Cabreza. As of end-December 2014, the Bank had a total of 309 branches, 41 extension offices and one servicing unit. For purposes of branch management and control, these units are grouped by geographical locations 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. The Branch Banking Support Department provides administrative support to the various units of the Sector. The Systems Implementation Department, on the other hand, provides technical support to all system users in the Branches.

The implementation requirements of the National Government's Conditional Cash Transfer (CCT) Program is handled by the CCT Program Management Office (CCT-PMO). 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) which is headed by EVP Rabboni Francis B. Arjonillo. The TIBS is comprised of three groups, to wit: 1) Financial Markets Group (FMG); 2) Asset and Liability Management Group (ALMG); and 3) Investment Banking Group (IBG).

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 ALMG, on the other hand, manages LANDBANK's balance sheet and liquidity and reserve positions.

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), headed by EVP Andres C. Sarmiento, 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 (4) Groups with the following corresponding functions:

1) The Banking Services Group supervises central cash vault servicing such as cash withdrawals from the Bangko Sentral ng Pilipinas , 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, as well as the allocation and reimbursement of the National Government's Modified Disbursement Scheme (MDS).

2) The Banking Operations Group is charged with overseeing international trade and non-trade transactions, foreign currency transactions, maintenance of loans subsidiary ledgers, and billing and collection functions pertinent to lending as well as foreign and domestic inward and outward remittance processing.

3) The Controllership Group is in charge of the supervision of 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.

4) The Technology Management Group oversees information technology (IT) management functions, particularly 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, as well as provision of technical evaluation or advice for end-user selection of application software and hardware.

Corporate Services Sector

The Corporate Services Sector, headed by EVP Julio D. Climaco, Jr., handles the overall supervision of 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) as well as the management and administration of LANDBANK's media and external communication programs (through the Corporate Affairs Department).

The LANDBANK Incentive Structure

LANDBANK continues to implement an incentive structure that is comparable with that of the private sector. It is 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 is internally equitable, externally competitive, and which rewards good performance. This policy enables the Bank to attract and retain its pool of quality and competent employees.

The Board-Level Committees

To aid in complying with the principles of corporate governance, the following Board level Committees are constituted:

The Corporate Governance Committee

The Corporate Governance Committee has the duty to oversee the organizational structure, organizational and procedural controls and independent audit mechanisms and human resources-related policies as well as the periodic performance evaluation of the Board and the Board-level committees and executive management of LANDBANK.

Composition of the LANDBANK Corporate Governance Committee includes Directors Tomas T. de Leon, Jr. and Victor Gerardo J. Bulatao as Chairman and Vice Chairman, respectively, and the LANDBANK President and CEO Gilda E. Pico, Director Domingo I. Diaz, and the Secretaries of Finance, and Labor and Employment or his alternate as members.

The CG Committee registered an average attendance rate of 92.86 percent in 2014.

The Trust Committee

The Trust Committee exercises functional oversight and supervision over the Trust Banking Group, and is responsible for formulating the Group's strategic direction towards the goal of optimizing its trust and fiduciary business.

The Trust Committee oversees and supervises the proper administration of the Trust Banking Group's trust and fiduciary business, investment activities, risk management activities and provides strategic direction towards growing its trust and fiduciary business.

The Trust Committee is composed of five members and is currently headed by DAR Secretary Virgilio R. de Los Reyes (with Undersecretary Anthony N. Paruñgao as his alternate), DOF Secretary Cesar V. Purisima as Vice-Chairman (with Undersecretary Jeremias N. Paul, Jr. as his alternate). The members of the Trust Committee are DOLE Sec. Rosalinda D. Baldoz (alternate, Undersecretary Reydeluz D. Conferido), LANDBANK President and CEO Gilda E. Pico, and TBG Head/Trust Officer FVP Josephine G. Cervero.

In line with BSP Circular No. 766 of 2012, among the major functions of the Committee are to : (i) ensure that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices; (ii) ensure that policies and procedures that translate the LANBANK BOD objectives and risk tolerance into prudent operating standards are in place and continue to be relevant, comprehensive and effective; (iii) oversee the implementation of the risk management framework and ensure that internal controls are in place relative to the fiduciary activities; (iv) adopt an appropriate organizational structure/staffing pattern and operating budgets that shall enable the Trust Department to effectively carry out its functions; (v) oversee and evaluate performance of the Trust officer; (vi) conduct regular meetings at least once every quarter or more frequently as necessary, depending on the size and complexity of the fiduciary business, and; (vii) report regularly to the LANDBANK BOD on matters arising from fiduciary activities.

For 2014, the Trust Committee approved various guidelines and policies to aid in the conduct of proper administration of trust business. These include among others, the following:

1. Enhanced Account Review Guidelines
2. Amended Investment Philosophy and Processes
3. Revised Guidelines on Acceptance and Investment Policies of Managed Trust Accounts as Participants to the LANDBANK UITF
4. Counterparty Selection
5. Allocation of Investment Assets
6. Supplement to Client Profiling-Client Suitability Assessment

In 2014 the Trust Committee held eight meetings with an average attendance of 88 percent.

Audit and Compliance Committee (ACC)

In January 2014, the LANDBANK BOD approved the proposed renaming of the Audit Committee to the Audit and Compliance Committee.

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

In 2014, the ACC approved 13 major initiatives and proposals of the Internal Audit Group and Compliance Management Office, to wit:

1. CMO's Plans and Programs for CY 2014
2. CMO's Compliance Testing Plan for CY 2014
3. IAG Audit Plan and Major Programs for CY 2014
4. CMO's Compliance Testing Plan for Regulatory Issuances issued in the 1st Quarter of 2014
5. Revision of the Audit and Compliance Committee Charter
6. CMO's AML Compliance Testing Plan for CY 2014
7. Criteria in Assessing the Long Outstanding Findings to be Reported to the Audit and Compliance Committee
8. CMO's Compliance Testing Plan
9. Conduct of Information Security Review by a Third Party Service Provider
10. Revision of the Internal Audit Group Charter
11. Amendment of HOSTAD's 2014 Target
12. Realignment of the Audit Services Team's 2014 Target
13. Change in the Coverage of the Number of Closed Private Deposit Accounts for Confirmation

To encourage the other Bank units to work towards "Exemplary" performance and emulate best practices in the years ahead, 17 units that attained "Exemplary" rating in 2013 were invited by the ACC during its regular meeting and the Bank's monthly flag ceremony for recognition. These units that obtained "Exemplary" rating were also given monetary incentive.

Also, to ensure that the findings of units that failed the audit will be addressed appropriately and to encourage them to perform better, all units that failed the audit were required to present before the ACC their action plans and actions taken to address the audit findings.

The Committee is composed of five members chaired by Director Victor Gerardo J. Bulatao, with Director Tomas T. de Leon, Jr. as the vice chair. The other members are Director Crispino T. Aguelo, Director Domingo I. Diaz, and DA Usec. Antonio A. Fleta (vice DA Secretary Proceso J. Alcala). The Audit and Compliance Committee held 16 meetings in 2014 with an average attendance of 98.75 percent.

Agri-Agra Social Concerns Committee (AASCC)

The Agri-Agra Social Concerns Committee (AASCC) is a Board-level committee that is focused on strengthening the implementation of the Comprehensive Agrarian Reform Program (CARP) of the government. Its specific functions are: (i) to formulate non-credit policies to improve the delivery of services on CARP and other agri-agra matters; (ii) to act as clearing house for

LANDBANK's CARP-related non-credit programs; and (iii) to monitor the status of implementation of the Bank's various non-credit and social concerns programs.

The Committee is chaired by Director Victor Gerardo J. Bulatao with LANDBANK President and CEO Gilda E. Pico as vice chairperson. The members are the Secretaries of the Department of Agrarian Reform (DAR) and Department of Agriculture (DA) and Director Crispino T. Aguelo.

In 2014, the Committee deliberated on the following matters, among others:

- reimbursement by the Bureau of Treasury of the amounts paid by LANDBANK for Documentary Stamp Tax (DST) on AR bonds
- proposal by the DAR to outsource from LANDBANK the generation of the Land Distribution and Information Sheet (LDIS) and Land Amortization Schedule (LAS)
- moratorium on the payment of land amortizations for victims of Typhoons Pablo and Yolanda
- automation of land amortization collection via the Portable Agrarian Reform Collection System (PARCS)
- simplification of claimfolder documentation and processing under DAR Administrative Order No. 4, series of 2014
- proposal on the condonation of interest on land amortizations
- Farmers' Advance Remittance (FAR) Trust Fund Account with the Trust Banking Group in favor of 339,950 ARBs
- turn-over of RA 3844 properties to the DAR

The Committee's average attendance was recorded at 70 percent for its six meetings in 2014.

Risk Oversight Committee (RiskCom)

The Risk Oversight Committee (RiskCom) serves as the LANDBANK BOD oversight in overall risk management of the Bank. Among others, the RiskCom undertakes the evaluation of the Bank's risk management framework and ensures the alignment of the risk management policies and procedures with the Bank's strategies, objectives and risk appetite. Also, the RiskCom evaluates the Bank's risk exposures and the implementation of established risk-mitigating measures.

In addition, the RiskCom exercises oversight functions on all matters pertinent to risk management including the development of risk strategies, policies, guidelines, procedures and systems as well as the system of authority limits delegated by the LANDBANK BOD to management.

The RiskCom also established the system for reporting and disclosure of risk information to the LANDBANK BOD which approved, among others, various guidelines and procedures on risk measurement and validation, business continuity monitoring, liquidity risk approving authorities, risk appetite statement, and risk dictionary.

In 2014, RiskCom approved the renaming of the Risk Management Committee to Risk Oversight Committee. Also, the Committee deliberated on and approved seven major initiatives and enhanced eight existing guidelines which included amendments and new practices in risk management covering risk limits, other risk-related policies and implementation of the third phase of ERM. A total of 221 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 RiskCom has five members and is chaired by Director Tomas T. de Leon, Jr.. The Finance Secretary sits as vice chair while the rest of the Committee members are Director Domingo I. Diaz, Director Crispino T. Aguelo, and the Agriculture Secretary (with Usec. Antonio A. Fleta as alternate). The RiskCom convenes twice monthly in order to allow timely risk reporting specifically those pertaining to market, liquidity, and interest rate risks. The RiskCom held 16 meetings in 2014 with an average attendance of 76 percent.

The Investments and Loans Committee (ILC)

The Investments and Loans Committee (ILC) provides support to the LANDBANK BOD in reviewing and monitoring the performance of the loan and investment portfolios of the Bank. Part of ILC's functions are – (i) the evaluation, approval or recommendation to the LANDBANK BOD (for its consideration and approval) the proposals for loans and investments in accordance with the Bank's Codified Approving/Signing Authority (CA/SA) and the Investment Policy Guidelines and Strategy, respectively; and (ii) the review and recommendation to the LANDBANK BOD of credit and investment policies and guidelines that will govern the Bank's credit and investments portfolio.

LANDBANK's ILC is composed of the Bank's President and CEO, two private sector representatives and two farmer sector representatives. In 2014, the ILC is chaired by LANDBANK President and CEO Gilda E. Pico while Director Domingo I. Diaz served as the Committee Vice-Chairman.

ILC held 48 meetings in 2014 with an average attendance of 96 percent.

Fortifying Risk Management Systems and Measures to Strengthen Governance

LANDBANK remained focused in pursuing various risk initiatives during the year that further strengthened its risk management systems. The implementation of enhanced risk policies, guidelines, and measurement tools helped establish a stronger risk management program for the Bank. On top of complying with the regulatory requisites of Basel III and other requirements, LANDBANK continued with its risk management programs and measures that enforced its risk management capabilities and risk controls to better mitigate the Bank's various risks in 2014.

Risk Management and Good Governance

Risk management is an integrative component of good governance which endeavors to ensure adequacy of policies, systems and procedures to manage risks. `Risk management at LANDBANK completes the triumvirate that takes a close look at the 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 control framework.

Oversight on all risk-related functions is a responsibility of the LANDBANK BOD. This responsibility is rendered by the LANDBANK BOD through the Risk Oversight Committee (RiskCom) which evaluates and approves the Bank's risk management framework, policies and effectiveness of controls.

Risk Management Philosophy

LANDBANK is a financial institution involved in providing banking products and services that expose it to a plethora of risks. While it recognizes all risks inherent in a financial institution, it manages closely those that have significant bearing on its balance sheet accounts. Risk management is found in all the business processes of the Bank and is designed, to ensure among others, that risk-taking by business units is aligned with the risk appetite of the Bank. The management of risks is embedded in the Bank's organizational structure, Information Technology (IT) infrastructure, control and communication processes, among others. The Bank's approach to risk management is as follows:

- The Bank adopts an enterprise-wide approach in managing risks. Enterprise Risk Management (ERM) views the group-wide risks of the Bank from the top and analyzes and addresses identified risks together with the authorized risk taking units. Through the ERM, risk analysis is strengthened as it takes a cross-functional perspective that reveals the interdependencies of the risks and facilitates risk treatment at the source.
- The LANDBANK BOD, through the RiskCom, exercises oversight on all risk-related functions and activities of the Bank based on a top-down structure; and
- The Risk Management Group (RMG) – a unit under the Board of Directors, performs the oversight function for all major risk areas (credit, market, and liquidity, operational, and other bank-wide risks). RMG reports functionally to the RiskCom and administratively to the President and Chief Executive Officer (CEO) of the Bank.

Risk Exposures and Assessment

LANDBANK recognizes the following risk exposures which are the same exposures articulated in its 2014 Internal Capital Adequacy Assessment Process (ICAAP) Document.

RISK	DESCRIPTION
1. Credit Risk	A considerable percentage of the Bank's funds are deployed to credit, being its core business. Credit risk arises from the failure of a counterparty to meet the terms or perform within the bounds of its contract with the Bank. Credit risk to LANDBANK takes the form of Counterparty Credit Risk-Loans and Counterparty Credit Risk-Investments.
2 Market	LANDBANK treasury activities generally deal with Government Securities (GS) and Foreign Securities, Equities, and Foreign Currencies that are classified as Held For Trading (HFT) or as Available For Sale (AFS). The values of these assets are subject to Mark-To-Market (MTM) or daily valuation to align with prevailing market prices and rates. These adjustments could result in a gain or loss for the Bank. It is the risk of loss, immediate or over time, due to adverse fluctuations in price or market value of instruments, products, and transactions in the Bank's overall trading and investment portfolio. Failure to anticipate and manage fluctuations in the values of the Bank's investments could lead to economic losses.
3. Operational Risks	
a. People Risk	Under the Bank's ERM, People Risk consists of three risk components, particularly defined as follows: 1. Recruitment and Retention Risk - Difficulty of the Bank to attract and retain competent employees that may lead to organizational dysfunction and low morale; 2. People Development and Performance Risk - Difficulty to develop and enhance employee skills and provide a sound employee performance management system that may reduce employee motivation and may adversely impact the achievement of desired performance and conduct; and, 3. Succession Planning Risk - Failure to create and implement a feasible continuance plan for key Bank positions and employees that may adversely affect the stability of organizational leadership and business continuity.
b. Process Risk	Basel Committee defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems. Process Risk, as one of the sources of Operational Risk, is the risk of loss caused by, but not limited to, inadequate or failed execution of the Bank's business processes, human error or negligence, fraud and malice.
c. System or MIS Risk	IT Risk refers to the business risk associated with the use, ownership, operation, involvement and adoption of IT within the Bank. The following are the categories of IT Risk: **1. IT Management** - Failure to effectively adopt identified IT initiatives and administer IT resources may lead to lost business and hinder the achievement of the Bank's goals and objectives.

	2. **IT Confidentiality** - Failure of information system to adequately protect both IT data and IT infrastructure leads to or allows unauthorized access, or leads to destruction of information and information systems of the Bank. 3. **IT Availability or Continuity** - Failure to ensure uninterrupted operations and immediate recovery from systems and implementation failures lead to losses for the Bank. 4. **IT Integrity** - Failure of information system to provide accurate, reliable and timely financial and non-financial information when needed leads to operational inefficiencies or lost business opportunities. 5. **Technology Implementation** - Failure to adopt and implement the appropriate approved 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. Strategic Risk	Risk arising from the current and prospective impact on earnings or capital due to adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals, and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes (BSP Circular No. 510, Series of 2006).
5. Concentration and Contagion Risk	The Concentration and Contagion Risks which are considered by the Bank as Pillar 2 risks are hereby defined as follows: 1. Credit Concentration Risk - Arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. 2. Contagion Risk - An adverse condition that may affect companies within a holding or parent company, resulting in an adverse effect on the financial performance of the parent company itself, or to its other subsidiaries and affiliates. It could also affect a portion, or an entire portfolio of a bank creditor, or at worse, the entire industry from which that particular distressed company belongs to.
6. Liquidity Risk	Failure to properly manage the Bank's cash flows that could affect its ability to settle its obligations as they become due and could lead to insolvency and regulatory sanctions.
7. Interest Rate Risk	Inability to appropriately plan for and react to fluctuations in interest rates which leads to market value losses on investment securities or cash flow shortfalls resulting from re-pricing of loans or obligations. It is the risk that the Bank will experience deterioration in its financial position as interest rate moves over time. These losses impact on the earnings and economic value of capital.

8. **Counterparty Risk**	Counterparty risk refers to a class of credit risks that occurs from transactions where reciprocal obligations are made between the Bank and counterparties or customers. It is the risk associated with the grant of facilities, either by way of actual financing with outlay of funds or by actual engagement in a commitment by a borrower to fulfil an actual or contingent obligation to the Bank. Based on the above definition, credit risk is inherent in banking activities either for loans or investments, including activities in the banking book and in the trading book, and both for on-balance and off-balance sheet. Thus, LANDBANK classifies Counterparty Credit Risk as pertaining to both Loans and Investments. The Bank defines Counterparty Credit Risk on loans as the inability to review and analyze the credit quality of potential or existing borrowers to serve as basis for loan approval (at application) and to determine the probability of default (on an on-going basis) that could lead to economic losses. Other than loans, LANDBANK is facing credit risk (counterparty risk) on various financial instruments, and is virtually an element of every product and service that the Bank provides such as acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. Thus, Counterparty Credit Risk on investment is referred to by the Bank as the failure to anticipate and manage the risk of counterparty default (for investment securities and derivatives) that may lead to severe financial and economic losses for the Bank. Counterparty Risk on loans for the ICAAP, except for Interbank Loans, is captured under the Credit Risk Category of the LANDBANK ICAAP Document. Thus, discussions of credit risk under this section shall refer to counterparty and the concentration risk exposure related to trading or investments. Further, counterparty would refer to an entity with which the Bank engages in trading or treasury related activities, typically, but not necessarily always with other financial institution.
9. **Compliance Risk**	Compliance Risk is defined as the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules and regulations, prescribed practices, internal policies and procedures or ethical standards. (BSP Circular No. 510, Series of 2006). Compliance risk also arises in situations where the laws or rules governing certain Bank products or activities of the Bank clients may be ambiguous or untested. This risk exposes LANDBANK to fines, payment of damages and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and lack of contract enforceability. Recently, the compliance framework has been redefined with the issuance of BSP Circular No. 747, Series 2012 which mandates the establishment of a strong, responsive and appropriate bank-wide Compliance System designed to focus on the mitigation of business risk. The Circular defines business risks as "conditions which may be detrimental to the Bank's business model and its ability to generate returns from operations, which in turn erode its franchise value."

	Providing delineation between the risk program and the compliance program, BSP Circular No. 747, Series of 2012 refers to the risk program as covering "financial risks that arise from the balance sheet exposures of the institution." On the other hand, compliance program will deal with business risks which shall include, but not limited to the following: 1. Reputation risk resulting from internal decisions that may harm the Bank's market standing 2. Reputation risk resulting from internal decisions or practices that will eventually have an impact on the public's trust 3. Legal risks insofar as changes in the interpretation or provisions of the regulations will unswervingly affect the Bank's business goals 4. Compliance risks resulting from bank activities that: • contradict existing regulations and identified best practices • reveal weaknesses in the implementation of codes of conduct and standards of good practice The categories of Compliance Risk are: • Regulatory Compliance Risk Imposition of the appropriate sanction shall be based on the assessment of the strength and responsiveness of the whole compliance system to address business risks. A compliance system which shall be found to be significantly insufficient shall be considered as unsafe and unsound banking practice. • Anti-Money Laundering (AML) Compliance Risk Enforcement of actions shall be imposed on the basis of the over-all assessment of the Bank's AML risk management system. Whenever a Bank's AML compliance system is found to be grossly inadequate, this may be considered as unsafe and unsound banking practice that may warrant initiation of prompt corrective action.
10. Reputation Risk	Failure to establish and maintain an image of integrity and competence in doing business may result in the loss of customers and even key employees. In assessing the risk, the following factors were considered: • level of inherent risk (high, moderate or low) • adequacy of risk management (strong, acceptable or weak) • trend or direction of risk (decreasing, stable or increasing) The impact of scenarios in Reputation Risk occurs through various degrees of loss of business, particularly in the loss of clients (depositors and borrowers) as well as the ability to generate new business and to raise needed capital. The impact can also be on the cost of doing business.
11. Event Risk	Loss resulting from damages due to natural calamities such as typhoon, earthquake, flood and other weather disturbances and manmade risk events such as fire, vandalism and tampering of Automated Teller Machine (ATM), terrorism and holdup or robbery.
12. Legal Risk	Unenforceable contracts or defective contracts, lawsuits and adverse judgments that may lead to financial losses to the Bank. The three categories of Legal Risk are:

	1. Contract – an agreement between two or more persons which creates an obligation to do or not to do a particular thing. A contract entered into by the Bank becomes a risk if it is contrary to law, if it has technical defects and/or if parties entering into the contract lack legal capacity to do so. 2. Lawsuit – a process in law instituted by one party to compel another to do him justice. The following situations present in a lawsuit may eventually lead to an adverse judgment and could become a legal risk: • varying interpretations • loss of evidence • delaying tactics of litigants • late or non-submission of required pleadings • failure to appear in proceedings • unexpected adverse consequences from legal proceedings 3. Adverse Judgment - unfavourable judgments against the Bank. The term may also include judgments, though favourable to the Bank, cannot be enforced or executed due to the following reasons: • enforcement subject to potential difficulties • failure or refusal of judgment obligor to honour obligations • judgment award not capable of satisfaction or execution
13. Trust Operations Risk	Covers a wide array of potential risks that may arise from a trustee's fiduciary duties predicated on the principle of exercising utmost care and prudence in handling the business affairs of other people (trustors). A trust entity does not own the assets which its clients assign for proper management. Contracts clearly state that trust arrangements are not covered by the Philippine Depository Insurance Corporation (PDIC) and except for wilful fraud, gross negligence and evident bad faith, all losses with regard to the trust entity's investments are for the account of its clients. All arrangements in Trust are contractual in nature and therefore, the Trust Banking Group's operation is exposed to legal risk per client. In addition, due to the trustee's fiduciary duties, numerous rules and regulations have been imposed by the BSP to improve controls and set basic standards in fiduciary practices. Further, the continuing additional and evolving rules, regulations, and circulars from regulators such as, the BSP, the Securities Exchange Commission (SEC), the Insurance Commission (IC) and the Bureau of Internal Revenue (BIR), expose the Bank's trust operations to compliance and strategic risks. Because a trust entity's operations are similar to a bank, all areas of risk associated with commercial banking operations in terms of operational and investment risks are also applicable to trust banking.
14. Subsidiaries Risk	This is risk on earnings and assets of LANDBANK (direct impact) arising from reduced or decline in net income of the Bank's subsidiaries (sub-group basis).

Credit Risk Management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial losses. Overall credit risk management oversight is a function of the Board-level RiskCom.

Credit Risk Assessment

Credit risk assessment is a function of the Bank's lending sector and is guided by established policies and procedures which are regularly reviewed and enhanced. In close coordination with the lending units, RMG issued 25 credit policies, bulletins and executive orders in 2014 to complement, update, and enhance existing credit policies and guidelines.

Consistent with good corporate governance, LANDBANK manages credit risk by setting limits for individual borrowers and group of borrowers and industry segments. The Bank also monitors credit exposures, and continually assesses the credit quality of counterparties. Assessment of credit quality considers credit ratings of counterparties given by external credit assessment institutions such as Moody's, Fitch, Standard & Poor's and PhilRatings. The use of external credit ratings adheres to the BSP guidelines on the "Implementation of the Revised Risk-Based Capital Adequacy Framework." For foreign and financial institution accounts, the Bank downloads available extra credit ratings from Bloomberg.

For all client types, credit risk management is supplemented by credit rating systems which were developed for corporations, small and medium enterprises (SMEs), financial institutions, cooperatives and local government units (LGUs). The ratings of clients are being used, among others, as a basis for determining the credit worthiness of loan clients and for independent review of the ratings after approval is done by RMG, to support the Internal Credit Risk Rating System (ICRRS) ratings as required by BSP. For 2014, RMG completed the post-validation of 565 ICRRS ratings of corporate clients.

Implementation of the Credit Risk Engine System (CRES)

As part of its overall risk management plans, the Bank approved the recalibration of the credit rating scorecard for corporate clients. The credit rating scorecard will be deployed upon approval of the proposed implementing guidelines currently under review by lending units. The Bank is also conducting recalibration of the LGU credit rating scorecard to ensure its predictive capability following some changes in set parameters.

In 2014, the Bank also continued the scoring of new and automated livelihood accounts; and the recalibration of the existing Livelihood Loans to address parameter changes for the livelihood loans of the Department of Education.

Credit Risk Exposure and Credit-related Commitments

Credit risk with respect to derivative financial instruments is limited to those instruments with positive fair values, which are included under "Other Assets". LANDBANK also makes available to its customers guarantees which may require the Bank to make payments on behalf of these clients. Such payments are collected from customers based on the terms of the Letter of Credit. These guarantees expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies. As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting arrangements, is limited to the amounts on the balance sheet plus commitments to costumers.

The table shows the Bank's maximum exposure to credit risk for On- and Off-Balance Sheet accounts, including derivatives. On-Balance Sheet credit risk exposures are shown net of credit risk mitigation, mainly through the use of primary collaterals such as cash holdout, government securities, real estate properties, including legally enforceable netting arrangements. The bulk of net Loans and Receivables are largely to Corporates at P97,266 million (59.02 percent), followed by government entities at P35,089 million (10.53 percent) and MSMEs at P33,597 million (10.08 percent). The Bank also holds substantial receivables arising from repurchase agreements aggregating P56,404 million.

For Off-Balance Sheet exposures, 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 mainly represent over-the-counter foreign exchange option contracts.

On Balance Sheet Items	2014 (In Php Millions)									
	Gross Exposures	Credit Risk Mitigants	Net Exposures	0%	20%	50%	75%	100%	150%	CRWA
Cash on Hand	23,991	-	23,991	23,991						-
Checks and Other Cash Items	249	-	249		249					50
Due from Bangko Sentral ng Pilipinas	229,302	-	229,302	229,302						-
Due from Other Banks	6,313	-	6,313		59	6,182		72		3,175
Available-for-Sale (AFS) Financial Assets	172,662	4,672	167,990	142,970		19,176		6,538		16,126
Held-to-Maturity (HTM) Financial Assets	96,334	-	96,334	84,731		4,168		5,004		7,088
Unquoted Debt Securities Classified as Loans	13,284	362	12,922	2,150				11,134		11,134
Loans and Receivables	397,083	63,846	333,237	63,605	949	19,364	33,597	276,296	3,271	316,273
1. Interbank Loans Receivables	43,083	181	42,902	181	708	16,537		25,548	110	34,123
2. Loans & Receivables - Others										-
a. LGUs & Public Sector Entities	30,398	285	30,114	285				30,114		30,114
b. Government Corporation	49,013	44,038	4,975	44,038				4,975		4,975
c. Corporates	215,813	18,547	197,266	18,523	24			197,266		197,271
d. Microfinance/Small & Medium Enterprise	33,804	207	33,597	204	3		33,597			25,199
e. Loans to individuals	21,564	589	20,975	376	213	2,828		18,148		19,604
3. Defaulted Exposures	3,407	-	3,407					246	3,161	4,988
Other Loans and Receivables[1/]	56,404	-	56,404	56,404						
Sales Contract Receivable (SCR)	1,009	-	1,009					491	518	1,268
Real and Other Properties Acquired	4,836	-	4,836						4,836	7,254
Total Exposures Excluding Other Assets	1,001,469	68,880	932,589							-
Other Assets	20,680	112	20,567	112				20,567		20,567
Total On-Balance Sheet Exposures	1,022,148	68,992	953,156	603,266	1,257	48,890	33,597	320,104	8,625	382,935
Off-Balance Sheet Items	Notional Principal Amount	CCF	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	CRWA
A. Direct credit substitutes	3,203	100%	3,203			3		3,200		3,202
B. Transaction-related contingencies	65,278	50%	32,639					32,639		32,639
C. Trade-related contingencies	10,803	20%	2,161			1,555		605		1,383
D. Other commitments	106,670	0%	-							-
Total Off-Balance Sheet Exposures	185,955		38,003	-	-	1,559	-	36,445	-	37,224
Counterparty RWA In The Trading Book	Notional Principal Amount	Potential Future Credit Exposure	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	CRWA
Derivative Exposures	19,695	196.95	235		18	68		149		186
TOTAL	1,208,103		991,160	603,266	1,274	50,517	33,597	356,697	8,625	420,346[2/]

1/ Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions

2/ Total Credit Risk Weighted Assets (CRWA) inclusive of general loan loss provision of Php1,873 million

Consistent with its credit risk management measures, the Bank conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves as well as prudential reporting in conformity with Philippine Financial Reporting Standards (PFRS). The Bank's annual Internal Capital Adequacy Assessment Process (ICAAP) makes sure that the Bank maintains adequate capital at all times to cushion the impact of credit risk and its other major risks, specifically market and operational risks. In addition, the Bank sets applicable limits on its large exposures, industry concentration and other major portfolio concentration.

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on the type of borrower and assessment of the credit risk of the borrower. The Bank's revised Credit Manual provides the guidelines on the acceptability of collateral and maximum valuation for each type of collateral.

The following are the main collaterals accepted by the Bank:

- For commercial lending – cash or government securities, real estate properties, inventory, chattel; and
- For retail lending – mortgages over residential properties.

The Bank also accepts Republic of the Philippines (RoP) guarantees (mostly for government accounts), cross suretyship from corporations and other guarantee corporations. In the case of agricultural and agri-related loans that are vulnerable to the effects of climate and weather disturbances, borrowers are encouraged to avail of guarantee and insurance mechanisms to shield them, as well as, the Bank from risk events.

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of the foreclosed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy foreclosed properties for business use. The Bank also makes use of netting agreements with counterparties.

Credit Stress Testing

The Bank regularly conducts stress testing of its large exposures covering various scenarios arising from risk events with high probability of occurrence. Utilizing such scenarios, tests were done to determine the magnitude of impact of the large exposures on the Bank's loan portfolio quality, the credit risk weighted assets (CRWA) and ultimately, the Capital Adequacy Ratio (CAR). The results of the stress tests enabled the Bank to visualize and create courses of actions to mitigate the resulting risk.

Credit Risk-Weighted Assets (CRWA)

Total CRWA for Loans and Receivables totalled P316,273 million. CRWA represents 89.12 percent of the total Risk-Weighted Assets (RWA) of P469,533 million. With the expansion in loan portfolio, CRWA increased to P418,471 million from P336,053 million last year or by P82,417 million or 24.53 percent.

Market Risk Management

Market risk is the risk of financial loss arising from exposure to adverse changes in values of financial instruments caused by changes in market prices or rates, including interest rates, foreign exchange rates, or stock prices that can change the value of financial products held by the Bank.

Risk exposures differ depending on whether the exposures are calculated for financial accounting or under International Financial Reporting Standards (IFRS). The standardized approach is used in the calculation of capital charge for all risk exposures. The Basel II Pillar 3 disclosures are generally based on the measures of risk exposure used to calculate the regulatory capital required.

The table below provides a breakdown of Market Risk Weighted Assets (MRWA) for market risk portfolio exposures calculated using the standardized approach mandated by the BSP.

Market Risk Weighted Assets (MRWA)

As of December 31, 2014, the MRWA of the Bank stood at P6,043.368 million, broken down as follows:

(In Millions)

Nature of item	AMOUNT
Interest Rate Exposure	P1,778.538
Equity Exposure	83.300
Fx Exposure	647.167
Options	3,534.363
TOTAL	P6,043.368

The total MRWA represents 1.30 percent of the aggregate RWA of P466,591.145 million.

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 GS and other debt instruments, equity, forex 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, forex or index). The Bank's exposure on derivatives is currently limited to currency swaps and currency forwards to manage forex exposure. Although the Bank is also exposed to derivatives that are embedded in some financial contracts, these are considered insignificant in volume.

The Bank uses a combination of risk sensitivities, Value-at-Risk (VaR), stress testing, capital adequacy ratio and capital metrics to manage market risks and establish limits. The LANDBANK BOD, RiskCom and the Asset and Liability Committee (ALCO) define and set the various market risk limits for each trading portfolio. The Treasury and Investment Banking Sector (TIBS), particularly the Financial Markets Group (FMG) manages the Bank's trading units, while the Asset and Liability Management Group (ALMG) manages the Bank's liquidity and reserve positions. The FMG and ALMG conduct risk-taking activities within limits at all times and ensure that breaches are escalated to senior management for appropriate action.

A management loss alert is activated whenever losses during a specified period equal or exceed specified management loss alert level. LANDBANK controls and minimizes the losses that may be incurred in daily trading activities through the VaR and stop loss limits.

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

Managing Market Risk Components

The following discusses the key market risk components along with respective risk mitigation techniques:

1. Forex Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in forex rates. LANDBANK views the Philippine Peso as its functional currency. Positions are monitored daily to ensure that these are within established limits. The following limits are set for foreign-currency related transactions:

FOREIGN CURRENCY TRANSACTION	(In Millions) Position Limit	Monthly Management Loss Alert	Stop Loss Limit
Fx Trading	$50	$320,000	$430,000
Foreign Securities	$20	$298,000	$398,000

LANDBANK had the following significant exposures denominated in foreign currencies as of December 31, 2014:

(In Thousands)

BALANCE SHEET	USD	JPY	EUR	OTHERS	TOTAL
ASSETS					
Foreign Currency Notes & Coins on Hand	$13,933	$274	$445	$6	$14,658
Due from banks	128,407	5,854	3,113	2,055	139,429
HFT	10,807	-	-	-	10,807
AFS Investments	565,280	-	12,393	-	577,673
IBODI	506,399	-	-	-	506,399
Interbank loans receivable	366,000	-	11,764	-	377,764
Loans & receivables	232,080	75,922	-	-	308,001
Investment in subsidiaries	923	-	306	-	1,230
Other assets	19,351	1,023	595	-	20,969
TOTAL ASSETS	$1,843,181	$83,072	$28,616	$2,062	$1,956,931
LIABILITIES					
Deposit liabilities	$1,226,565	$693	$20,141	$6	$1,247,405
Bills payable	79,511	328,658	32,020	-	440,189
Others	210,429	3,496	535	-	214,460
TOTAL LIABILITIES	$1,516,504	$332,847	$52,696	$6	$1,902,054

2. Equity Price Risk Management

The Bank is exposed to equity price risk as a consequence of value fluctuations of equity securities. Equity price risk results 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 MTM and controlled through risk limits such as position, VaR, Management Alert and Stop Loss.

3. Interest Rate Risk in the Banking Book

The Bank continues to manage interest rate risk in trading activities through the use of an effective and independently validated VaR methodology. 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.

For any given period, the pricing structure is matched when equal amounts of such assets or liabilities mature or re-price in that period. Any mismatch of interest earning assets and interest bearing liabilities is known as a gap position. A positive gap normally means that an increase in interest rates would have a positive effect on net interest income, while a negative gap normally means that a decrease in interest rates would have a negative effect on net interest income.

The Bank establishes initial rates of interest for most of its loans based on a spread over its internal base rate that reflects the Bank's average cost of funds which is generally reset at the beginning of every week. The spread charged for particular loans varies depending on a number of factors, such as the type of customer, credit worthiness of the borrower, type and maturity of the loan, type of security offered, if any, amount of the borrower's deposits with the Bank, potential fee-based business from the customer, and competitive considerations.

Interest rates on floating rate loans are typically reset every 30 to 90 days. For deposits, regular savings account rates are set by reference to prevailing market rates, while rates on time deposits are usually priced below rates applicable to Philippine Treasury Bills with similar maturities.

The Bank manages interest rate 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 reports. The assumptions employed include deposit and loan pricing volatilities and reasonability of asset prepayment. It also includes determining functional life of non-maturing deposit accounts which is necessary for comparing the accounts with alternative funding sources of the same duration to determine their relative value. Other assumptions include non-maturing deposits price sensitivity and decay rates, and the key rate drivers for each interest rate shock scenario. Cash flows from floaters are bucketed according to their next re-pricing, if fixed rate, these shall be bucketed according to residual maturity. Non-maturing deposit accounts are classified in the '1 to 30 days' bin. 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 one year horizon. Interest related assets, liabilities and off-balance sheet items are classified by maturity bucket to determine re-pricing gaps that are essential indicator of the level of interest rate risk in the banking book. It is a simulation method that analyzes the interest rate risk in the banking book in terms of earnings (accrual basis). The re-pricing gap is multiplied by a change in interest rate or rate shocks to determine EaR or the potential increase or decrease in NII resulting from changes in interest rates. EaR measures the decline in NII resulting from upward or downward interest rate movements in a "Business as usual" environment, either through gradual movements or as a one-off large interest rate shock over a particular time horizon.

   The following table sets the re-pricing gap position of LANDBANK as of December 31, 2014 and the increase (decline) in earnings for upward and downward interest rate shocks in the banking book:

2014 Change in Interest Rates

(In P Millions)

Basis Points for P/$	-300/-15	-200/-10	-100/-5	-50/-2.5	+50/+2.5	+100/+5	+200/+10	+300/+15
EaR	14,194.32	9,462.88	4,731.44	2,365.72	(2,365.72)	(4,731.44)	(9,462.88)	(14,194.31)

(In P Millions)

FINANCIAL ITEMS	Due Within 1 Month (Mo)	Due in More than 1 Mo to 3 Mos	Due in More than 3 Mo to 6 Mos	Due in More than 6 Mos
Financial Assets				
Due from BSP	0	0	0	0
Total Loans	135,868.19	114,076.59	40,402.46	18,003.84
Total Investments	1,035.96	1,142.19	7,467.27	936.59
Sales Contract Receivables	27.65	6.01	5.45	14.89
Total Financial Assets	136,931.79	115,224.78	47,875.18	18,955.32
Financial Liabilities				
Deposits	634,375.02	137,539.50	17,525.40	13,930.21
Bills Payable	0	1,162.80	5,719.78	662.90
Others	45.03	0	0	0
Total Financial Liability	634,420.06	138,702.31	23,245.18	14,593.12
Off-Balance Sheet				
Derivatives	(17,888.00)	(447.20)	0	0
Commitments	0	0	0	(46,467.05)
Total Off-Balance Sheet	(17,888.00)	(447.20)	0	(46,467.05)
Re-pricing Gap	(515,376.26)	(23,924.72)	24,630.00	(42,104.85)

b. Economic Value Perspective - The Bank uses the EVE Model to assess the potential long-term effects of changes in interest rates. This model provides long-term view of possible effects of interest rate changes 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.

EVE is calculated by valuing all assets and liabilities, plus or minus off-balance sheet transactions in the theoretical base rate environment, then revaluing the balance sheet based on a forecasted change in interest rates, and calculating the change. The base case scenario is run using theoretical forecast. Alternate scenarios are run against the base case. The percentage changes between the base case and the alternate scenario measure the changes in the values of the balance sheet.

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

2014 Change in Interest Rates

(In P Millions)

Basis Points	-300	-200	-100	-50	+50	+100	+200	+300
EVE	5,764	3,813	1,891	942	(935)	(1,862)	(3,696)	(5,502)

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 LANDBANK are measured and reported to the ALCO and RiskCom at least on a monthly basis under the earnings perspective through the EaR Model and quarterly for the economic value perspective using the EVE Model.

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 by estimating the potential range of loss in the market value of the trading portfolio over a one-day period at the 99.00 percent confidence level assuming a static portfolio. This level implies that on 99 trading days out of 100, the MTM of the portfolio will likely either 1) increase in value, or 2) decrease in value by less than the VaR estimate, and that on one trading day out of 100, the MTM of the portfolio will likely decrease in value by an amount that will exceed the VaR estimate.

VaR is calculated by simulating changes in the key underlying market risk factors (e.g., interest rates, interest rate spreads, equity prices, foreign exchange rates) to determine the potential distribution of changes in the market value of the Bank's portfolios of market risk sensitive financial instruments. Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management.

The VaR disclosure for the trading activities is based on Historical Simulation Model. Also for Equities, Forex and Foreign Securities trading portfolio, the internally developed Historical Simulation VaR Calculation Model is being used. The Bank, however, continuously pursues initiatives to improve processes in preparation to the Bank's migration towards an Internal Model Approach for capital charging. The VaR disclosure is intended to ensure consistency of market risk reporting for internal risk management, external disclosure and regulatory purposes. The over-all VaR limit for the trading activities of LANDBANK-FMG was set at P319 Million (with a 99.00 percent confidence level and a one-day holding period) throughout the year 2014.

2. Back-Testing

Back-testing is the basic technique used in verifying the quality of risk measures used by the Bank. It is the process of comparing actual trading results with model-generated risk measures.

Back-testing is a standard measure in determining the accuracy and predictive capability of the risk models. In back-testing, the focus is on the comparison of actual daily changes in portfolio value and hypothetical changes in portfolio value that would occur if end-of-day positions remain unchanged during the one-day holding period. If MTM and trading loss exceeds the result of the model-generated risk measure, it is considered as an exception. 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 which comprises the Senior Management and the RiskCom. These Committees analyze actual performance against VaR measures to assess model accuracy and to enhance the risk estimation process in general.

3. Stress Testing

Measuring market risk using statistical risk management models has recently become the main focus of risk management efforts in the banking industry where banking activities are exposed to changes in fair value of financial instruments. LANDBANK believes that the statistical models alone do not provide reliable method of monitoring and controlling risk. While VaR models are relatively sophisticated, they have several known limitations. Most significantly, standard VaR models 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) is a model forecasting the loss return values of a selected portfolio. It calculates the size of possible losses related to a precise scenario. It identifies scenarios that may influence the portfolio strongly and which market variables may trigger these scenarios to be able to come up with sound portfolio risk management strategies. The PSA uses various approaches for scenario identification such as the use of data based on market sentiments, replication scenario based on historical events that occurred in the past or extreme value approach using hypothetical scenarios to take account of plausible changes or future developments that have no historical precedent. Reverse stress testing is also conducted to identify and simulate the events that can lead the Bank to a particular tail event.

Results of PSA are also simulated to assess its impact on the CAR compliance of 10.00 percent and the Common Equity Tier 1 (CET1) ratio of at least 6.00 percent set by the BSP.

Liquidity Risk Management

Liquidity Risk Management Framework

The LANDBANK BOD exercises oversight through the RiskCom and delegates the responsibility of managing the overall liquidity of the Bank to the ALCO. The RiskCom meets twice a month or more frequently as required by prevailing situations. It is responsible for effectively executing the liquidity strategy and overseeing the daily and long-term management of liquidity risk. ALCO delegates day-to-day operating responsibilities to the TIBS based on specific practices and limits established in governing treasury operations. The RMG is responsible for the oversight of the Bank's liquidity risk positions and ensures that reports on the Bank's current risk are prepared and provided to ALCO and the RiskCom in a timely manner.

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 the RiskCom.

The Bank's liquidity policy is to maintain fund availability at all times in order to meet all of its obligations in the normal course of business. In managing its liquidity, LANDBANK has the following sources of funding: cash from operations; stock of marketable assets; government and retail deposit sources; and various credit lines from banks.

The ALMG submits to the TIBS Head and to the LANDBANK President various daily Treasury Reports (which include the Bank's cash or near cash investments and other data related to liquidity) to assist Senior Management in decision making.

The Bank's liquidity position is subjected to stress testing and scenario analysis to evaluate the impact of sudden stress events. The scenarios are based on historic events, case studies of liquidity crisis and models using hypothetical events.

Liquidity Risk Measurement Models

The Bank considers liquidity risk based on Market and Funding Liquidity Risk perspective.

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 the probability that large transactions may have a significant effect on market prices which lack sufficient depth, or associated with structured or complex investments as the market of potential buyers is typically small. It is also the risk of an unexpected and sudden erosion of market liquidity as a result of sharp price movement or jump in volatility, or internal to the Bank such as loss of market confidence. This scenario 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). This report is prepared to provide senior management and the LANDBANK BOD timely appreciation of the Bank's liquidity position.

The ALCO and the TIBS are responsible for the daily implementation and monitoring of relevant variables affecting the Bank's liquidity position. 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.

As of December 31, 2014, P205.79 billion or 19.35 percent of the Bank's Total Assets were represented by Net Loans with remaining maturities of less than one year and P36.23 billion or 3.43 percent of Total Assets were invested in trading and investment securities with remaining maturities of one year or less. The Bank's trading and investment securities account includes securities issued by sovereign issuers, primarily government treasury bills, fixed rate treasury notes, floating rate treasury notes and foreign currency denominated bonds issued by the government. Other resources include Due from BSP and Other Banks amounted to 22.30 percent of Total Assets. Deposits with banks are made on a short-term basis with almost all being available on demand or within a month.

Although the Bank pursues what it believes to be a prudent policy in managing liquidity risk, a maturity gap does, from time to time, exist 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.

Liquidity Gap Report (LGR)

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

PARENT

(In P Millions) BALANCE SHEET	2014 Due Within 1 Year	Due in More than 1 Year	TOTAL	2013 Due Within 1 Year	Due in More than 1 Year	TOTAL
Assets						
Cash and Other Cash Items	24,247,689	0	24,247,689	20,354,849	0	20,354,849
Due from BSP	229,351,507	0	229,351,507	249,497,118	0	249,497,118
Due from Other banks	6,284,410	976	6,285,385	3,138,986	1,501	3,140,487
Interbank Loan Receivable	17,243,603	0	17,243,603	7,036,608	0	7,036,608
Security Purchased Under agreement to resell	56,390,000	0	56,390,000	6,122,000	0	6,122,000
Loans and Receivables	132,153,291	269,391,777	401,545,068	95,697,641	225,304,658	321,002,299
Investments	36,225,870	265,439,491	301,665,362	19,287,347	203,482,894	222,770,241
Other Assets	2,658,260	17,395,932	20,054,192	1,457,647	15,701,862	17,159,509
TOTAL ASSETS	504,554,629	552,228,177	1,056,782,805	402,592,195	444,490,915	847,083,110
Liabilities						
Deposits						
Demand	392,352,685	0	392,352,685	348,297,024	0	348,297,024
Savings	469,423,769	40	469,423,810	324,134,174	0	324,134,174
Time	46,276,487	24,619	46,301,076	26,183,654	443,107	26,626,761
LTCND	0	5,000,000	5,000,000	0	5,000,180	5,000,180
Bills Payable	2,182,813	18,058,314	20,241,128	2,275,469	21,294,894	23,570,363
Unsecured Subordinated Debt	0	10,500,000	10,500,000	0	17,434,000	17,434,000
Due to BTr, BSP, & MCs/ PCIC	1,755,387	117,078	1,872,465	1,373,523	115,561	1,489,084
Due to Local Banks	8,621	0	8,621	5,101	0	5,101
Other Liabilities & Payables	8,329,210	20,590,337	28,919,547	1,178,955	19,394,318	20,570,273
TOTAL LIABILITIES	920,328,975	54,290,389	974,619,363	703,444,901	63,682,060	767,126,961

The Bank performs liquidity gap analysis using the LGR. It 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. RMG through TRMD assists ALCO in its function by preparing Peso, Forex Regular, Foreign Currency Deposit Unit (FCDU) and Consolidated LGR on a monthly basis.

Core Deposit

The Bank also determines Core Deposit which is calculated based on Net Withdrawal Pattern. Core Deposit looks at deposit levels which incorporates the offsetting effect of withdrawal patterns on deposits. 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-maturity deposits

Regular Savings (Total Savings less High Yield Savings Accounts) 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, 2014 based on contractual repayment arrangements which take into account the effective maturities as indicated by the Bank's deposit retention history.

(In P Millions) Balance Sheet Items	Due in Within 3 Months	Due More than 3 Months to 68 Months	Due More than 6 Months to 1 Year	Due in more than 1 Year to 5 Years	More than 1 Year	Total
Financial Assets						
Cash and Due from Banks	202,560	0	57,324	0	1	259,885
Total Loans	130,400	51,508	23,879	81,026	188,366	475,178
Total Investments	15,753	6,874	13,598	89,157	176,282	301,665
Other Assets	2,314	0	345	0	17,396	20,054
TOTAL ASSETS	351,026	58,382	95,146	170,183	382,045	1,056,783
Financial Liabilities						
Deposits	384,836	18,717	15,993	652	492,879	913,078
Borrowings	2,373	474	1,100	6,764	11,411	22,122
Other Liabilities and Unsecured Subordinated Debt	249	0	8,080	0	31,090	39,420
Total Capital	0	0	0	0	82,163	82,163
TOTAL LIABILITIES & CAPITAL	387,458	19,191	25,173	7,416	617,544	1,056,783
Assets & Liabilities Gap Position	(36,432)	39,191	69,973	162,767	(235,499)	

LANDBANK has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk that is consistent with the nature and complexity of its business activities, overall level of risk, and its risk appetite. The Maximum Cumulative Outflow (MCO) limit which is set by the LANDBANK 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 near time buckets.

Financial 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 or leverage limits. The following table sets out the Bank's liquidity ratios as of the dates indicated:

	31 December 2014 (Audited)	2013 (Audited)	2012 (Audited)
Liquid Assets(1) (In P Millions)	625,897.34	502,534.78	313,078.38
Financial Ratios:			
Liquid Assets to Total Assets	59.23%	59.33%	48.67%
Liquid Assets to Total Deposit	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

Liquidity Stress Test

The Bank examines several possible situations usually worst case, most likely case, and best case. It does Portfolio Stress Test and Liquidity Stress Test. Result of scenario 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 various ratios mentioned, for example, minimum liquid assets to volatile liabilities.

LANDBANK developed the Liquidity Stress Test to address the shortcoming of the LGR Model. This is a risk management tool used to evaluate the potential impact on liquidity of unlikely, although plausible events or movements in a set of financial variables. While such unlikely outcomes do not mesh easily with LGR analysis, analysis of these outcomes can provide further information on expected portfolio losses or cash flow over a given time horizon.

Liquidity management is one of the fundamental preconditions to achieving all other banking activities - strategically mapped by ALCO, actively managed by TIBS through the ALMG, and overseen by RMG through TRMD.

The Bank performs a comprehensive liquidity risk measurement and control using as a tool the Consolidated LGR covering the entire LANDBANK Group. Risk models used in liquidity risk management are subjected to independent model validation. The Internal Audit Group (IAG) is tasked to do model validation. An independent validation is also being done by the Basel Officer for Market who reports directly to the Head of the RMG. For 2014, incorporated were latest enhancements made on the model as a result of independent model validation by a third party auditor.

Liquidity Coverage Ratio (LCR)

The LCR is designed to ensure banks maintain an adequate level of unencumbered high quality liquid assets to meet liquidity needs under an acute 30-day stress scenario. Under the Basel Committee's Basel III LCR rules, the LCR is to be calculated by dividing the amount of unencumbered cash and highly liquid, unencumbered government, government-backed and corporate securities by estimated net outflows over a stressed 30-day period. The net outflows are calculated by applying assumed outflow factors prescribed in the rules to various categories of liabilities, such as deposits, unsecured and secured wholesale borrowings, unused commitments and derivatives-related exposures, partially offset by inflows from assets maturing within 30- days.

Pending issuance of BSP Circular and Guidelines for the LCR, the Bank used an internally developed LCR model. In the meantime, the Bank has started mapping accounts that may be classified as "High Quality Liquid Assets" based on Basel III Requirements. The Bank has institutionalized other measures to properly manage liquidity risk as follows:

1. *Active Board and Senior Management Oversight* – The LANDBANK BOD and Senior Management receive regular liquidity reports and updates to fully inform them of the level of liquidity risk assumed by the Bank and if activities undertaken are within the prescribed risk tolerance in accordance with approved guidelines, liquidity or funding policy (targets), and risk limits.

2. *Liquidity Risk Management Governance -* The LANDBANK BOD defines the Bank's risk appetite and other key metrics that set the levels of acceptable liquidity risk that can be taken by the Bank. The LANDBANK BOD also provides the final validation of proposed organizational and reporting structures for the management of liquidity risk. It is also responsible for ensuring that liquidity risk management strategies are implemented and followed. It ensures that risk appetite is respected and delegates the management and optimization of the Bank's liquidity risk position to ALCO.

   The ALCO optimizes results within the risk appetite limit set by the Bank and takes decisions to manage liquidity risk and to allocate resources in order to manage this risk. ALCO is responsible for ensuring that liquidity risk management strategies are applied. It reviews liquidity risk reports and monitors compliance with agreed risk appetite limits. It monitors the adequacy of the risk infrastructure, pre-validates (as well as maintains) risk indicators and models. The TIBS is responsible for managing the liquidity risk exposure that the Bank generates.

   The TIBS ensures that ALCO decisions pertaining to the management of liquidity risk are implemented. The FMG and ALMG take assets and liabilities positions by executing ALCO's decision. They also develop, calibrate, and maintain the Bank's liquidity risk indicators. The RMG, through TRMD, independently performs oversight function related to liquidity risk identification, measurement and analysis, monitoring, and control. The TRMD reports on the Bank's market risk exposure to ALCO and the RiskCom.

   The Financial Accounting Department (FAD) and Treasury Operations Department (TOD) provide the backroom support and are responsible in generating and reconciling the balance sheet. As such, FAD and TOD furnish figures and various relevant reports to FMG, ALMG, and TRMD.

3. *Liquidity Risk Approving Authorities – The Bank has identified approving levels and authorities in the formulation of risk management policies and procedures, risk measurement methodologies, limit setting and ratification of limit allocation, monitoring, and control procedures.*

4. *Organized liquidity management methods* – The Bank has established adequate internal guidelines as well as administrative, accounting and review procedures. Each operating unit of the Bank is mandated to come up and regularly review and update its Operations Manual.

5. *Documented Liquidity Risk Management Policies and Procedures* – The Bank has established and documented all risk management policies and procedures which are subject to regular review and are revised as needed.

6. *Diversified funding sources* – The Bank utilizes diversified funding sources that include government and private deposits, loans from multilateral and bilateral institutions (such as the World Bank , Asian Development Bank , Japan Bank for International Cooperation, etc.), inventory of GS under AFS, credit lines with other banks, among others.

7. *Statutory Deposit with BSP* – Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to unified reserve equivalent to 20.00 percent effective May 30, 2014 (under BSP Circular #832). Government deposits are subject to an additional 30.00 percent liquidity floor requirement for total reserves of 50.00 percent.

8. *Acquisition of an Asset and Liability Risk Management System (ALRMS) for full automation of ALRMS processes* – The Bank has approved the acquisition of the ALRMS which would be facilitated with the hiring of an external consultant to assist the Bank in the system development and production. The system, when implemented, shall allow the Bank to optimize the use of a dynamic system to manage not only liquidity risks but also other risks associated with the investment functions of the Bank.

9. *Liquidity Contingency Plan (LCP)*
   To ensure that the Bank has sufficient liquidity at all times, the Bank formulated a liquidity contingency plan using extreme scenarios of adverse conditions which will help evaluate the Bank's ability to withstand these prolonged 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.

The plan details the amount of funds (such as unused credit facilities) the Bank can access and the scenarios under which it could use them. This provides guidance for managing liquidity risks in the following market scenarios:

a. Ordinary course of business - In the ordinary course of its business activities, the Bank typically manages its liquidity risk by seeking to roll-over its deposited funds through the offering of competitive rates of interest, drawing upon its interbank credit lines or the early termination of Government Securities Purchased Under Reverse Repurchase Agreements (GSPURRA).

b. Seasonal or Intermediation duration - The Bank manages its liquidity risk in the longer-term via the liquidation of marketable AFS category securities, the solicitation of government deposits and the use of derivative instruments in the swap market.

c. Acute or institution specific – In acute or institution specific circumstances, the Bank will seek to manage its liquidity risk by the proportional liquidation of AFS and HTM-GS, the non-renewal of maturing short-term loans, borrowings from the BSP and the PDIC using eligible securities as collateral, and generating cash infusions through large deposits and the government.

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

Operational Risk Management

A significant achievement of the Bank in 2014 in the area of operational risk management was the implementation and embedding of risk management at the Business Unit level. Operational risk management across the institution is becoming a way of life, with the business units becoming aware of the specific operational risks they are confronted with, taking a proactive stance in managing these and escalating breaches as soon as they occur.

Operational Risk Management Exposure

As of December 31, 2014, the Bank's RWA for Operational risk using the Basic Indicator Approach (BIA) was P45,018.677 million or 9.60 percent of the Bank's entire RWA of P469,533.431. The Bank is now adopting the aggregation of operational losses derived from various business units which is included in the overall capital assessment.

New Operational Risk Management Tools Introduced in 2014

- IT Risk Management System (ITRMS) Framework

- Monitoring of System Access of Retired Employees

- Report and Analysis of Seceded LANDBANK Employees and Service Company Workers

- Effectiveness of internal audit function

- There is a strong collaborative teamwork at the Bank between the risk management function and the risk-based audit function. The results of audit are major inputs in assessing the effectiveness of risk management at the Business Units' level.

- Review process for new and existing products and services

- New products of the Bank are documented via an Executive Order (EO). RMG provides risk assessment of new products, recommends risk measures to control or mitigate potential risks, and proposes controls to address policy gaps, if necessary. It has also developed a standard review sheet template which contains the basic features and elements to be assessed in new products and services.

  For existing products and services, LANDBANK's risk management policies are reviewed to determine relevance to prevailing Bank conditions and are duly adjusted based on sound and rational judgment.

Enhancement of Existing Risk Management Tools

Enhancements were made in the existing risk management tools to be at par with the best global practices.

1. <u>Information Security Technology Risk Management (ISTRM)</u>

   - Risk Assessment Register (RAR) – Enhancements include the automated asset ID, drop down macro threat, additional threat, and vulnerabilities in the drop down menu.
   - Risk Treatment Register (RTR) – The system is programmed to automatically generate the Top Five Information and IT assets.
   - Classification of Information Assets – This is a qualitative inventory tool to establish ownership of info assets and serve as uniform reference in handling confidentiality of information and the assessment of controls.

2. <u>Business Continuity Management (BCM)</u>

The BCM Framework of the Bank is regularly reviewed to assess alignment with regulatory requirements and to incorporate enhancements made for the year. To further intensify the BCM program of the Bank, the functions of the Head Office Business Continuity Committee (HOBCC) was strengthened. The Committee, composed of the Bank's key officers, reviews and evaluates the most critical business functions and processes at the LANDBANK Plaza and their possible impact on the organization in case of disaster.

The Bank's Business Continuity Plan (BCP) was updated to reflect changes in business goals, functions, systems and strategies that could bear impact on operations, as well as, the existing mechanisms to address these problems. Enhancement of the Bank's BCP was made to ensure readiness and lessen the Recovery Time Objective (RTO) and continue the delivery of Bank's product and services during disaster.

The Bank enhanced or updated the BCP components such as the IT Disaster Recovery Plan (ITDRP), Crises Communication Plan (CCP), and the Liquidity Contingency Plan (LCP).

- Business Continuity Questionnaire (BCQ) – The questionnaire aims to intensify awareness level of Field Unit (FU) personnel on the Bank's Business Continuity Program to gauge extent of emergency preparedness and proper response of FU personnel in case of risk event. Included in the BCQ template were the automatic monitoring sheet and summary of "non-compliant items" to ensure compliance of Business Units (BUs).
- Business Impact Analysis (BIA) – The BIA is used to analyze or assess the potential (tangible and intangible) impact of business disruption to BUs, identify critical business functions and processes, determine the minimum required resources (manpower and logistics) and vital records to carry out the critical functions, ascertain the appropriate recovery strategy based on identified Maximum Tolerable Period of Disruption (MTPoD) and RTO, and ensure prompt restoration of critical functions in the most cost effective manner. Enhancements include the assessment of third party service providers, regulatory requirements, and Recovery Point Objective.
- Geo-Hazard Maps and Rainfall and Tropical Cyclone Forecast – These are disseminated to BUs as a guide in the review of their respective BCPs. In addition, the Bank closely coordinates with concerned government agencies such as Philippine Atmospheric Geophysical & Astronomical Services Administration (PAGASA), National Disaster Risk Reduction and Management Council (NDRRMC), Bureau of Fire Protection (BFP) and Philippine Institute of Volcanology & Seismology (PHIVOLCS).

3. <u>Business Process Management</u>

   - Risk and Control Self-Assessment (RCSA) – Inclusion of the bases of quantifications and assumptions are part of the 2014 enhancements to arrive at realistic self-assessment and monitoring of action plans every semester.
   - Fraud Reporting and Monitoring Framework – Managing fraud risk has been the priority of the Bank. The Bank's appetite on fraud management

is ideally toward "zero fraud". The Bank is adopting the reporting & monitoring framework such as Fraudwatch System, Whistle Blower Policy, Code of Conduct, continuous training on fraud detection to prevent, detect and deter fraudulent acts and honest error.

- Loss Database – Creation of additional database such as customer complaints with potential losses and potential regulatory penalties

  Risk Event Monitoring (REM) Report – The Bank developed a sound internal loss database and enhanced it to conform to the future requirements of the advanced approach such as mapping the event to the Basel seven events (1)Employment Practices & Workplace Safety; 2) Clients, Products and Business Practices; 3) Damage to Physical Assets; 4) Business Disruption and System Failures; 5) Execution, Delivery and Process Management; 6) Internal Fraud; and 7) External Fraud), severity of an event, frequency of an event, recoveries, primary or secondary responsible employee. Also, the REM Report is used to identify and monitor risk events related to key fraud perpetrated by employees and outsiders.

- Report on Crimes and Losses – The objective of this report is to institute full disclosure and proper and effective reporting to the BSP of crimes involving loss or destruction of Bank's property committed by outsiders or LANDBANK personnel.

4. People Risk Management

- Report on Cash Shortages or Overages - Enhancement of the policy on cash shortages or overages includes the disposition and resolution of cash shortages or overages, submission of reports from quarterly to monthly basis, inclusion of ATM shortages or overages and direct submission to BRMD.

ICAAP Highlights

LANDBANK started 2014 with a solid commitment to orchestrate and embrace change in capital management, risk management and corporate governance. It continued setting its gears into motion by putting together "winning teams" headed by proactive Risk Champions leading the objective and impartial risk assessment. To ensure full compliance with the BSP recommendations on the Bank's 2013 ICAAP Document and ensure its effective implementation, the Bank undertook actions aimed at developing a comprehensive and "live" ICAAP Document.

The changes in the ICAAP Model were undertaken to enhance preparation of the 2014 ICAAP Document and to sensitize the assessment of the Bank's 2014 risk profile. This further reinforced the strong links among the support units and by the risk management and capital management functions. The amendment included a separate estimation of capital charge for the Bank's Pillar 1 and Pillar 2 risks including impact of exposure by subsidiaries and trust operations. An integrated stress testing was performed to assess the vulnerability of the balance sheet and resilience of financial plans vis-a-vis worst but plausible stress events. This was done through the collaboration of BUs, support units, capital management and risk management.

Similar to the 2013 ICAAP Document, the documentation of risk profile along with the defined mitigating controls afforded the Authorized Risk Takers (ARTs) with readily available standards that guided them on their day-to-day business generating activities while ensuring that these fell within the confines of the Bank's risk appetite and capital threshold.

The preparation of the 2014 ICAAP Document was spearheaded by the ICAAP Steering Committee, Management Committee (ManCom) and RiskCom. This was driven by the ICAAP Technical Committee comprised of 16 risk teams with members coming from the middle management and rank and file employees.

In conclusion, the results of the 2014 ICAAP are responsive beyond the minimum regulatory requirements. The risk assessment processes and capital management reveal that the Bank has more than sufficient capital to finance the performance of its banking functions, and address the risks under the most probable and stressed scenarios.

LANDBANK is committed in maintaining a strong and adequate level of capital in order to sustain its financial position, asset quality and profitability that it has zealously pursued.

Establishing Effective Compliance Management through Monitoring and Reporting Systems Enhancements and other Initiatives

In 2014, LANDBANK continued to pursue several initiatives that focused on enhancing the compliance monitoring and reporting systems in order to improve responses to regulatory requirements and strengthen the overall compliance management program of the Bank.

AML System Enhancements

In compliance with the Anti-Money Laundering Act of 2001 (R.A. 9160, as revised by R.A. 9194) and the BSP Circular 706, series of 2011, LANDBANK continues to operate the Anti-Money Laundering System (AMLS). The AMLS is a web-based system equipped with analytics capabilities for detecting and providing alerts on transactions or accounts qualified as covered transactions (CTRs) and suspicious transactions (STRs).

During the year, the existing alert scenarios of the AMLS were fine-tuned based on appropriate and relevant parameters to make it more responsive in generating quality alerts or red flags used for monitoring transactions. These new alert scenarios were approved by AMLC and implemented in September 2014.

To standardize the report format for CTRs and STRs, the Compliance Management Office (CMO), in close coordination with the IT Support Teams, provided the revised format of the Standard Data Template for all systems interfaced with the AMLS, and participated in the User's Acceptance Testing. This new format is in line with the implementation of the AMLC Report Format 1.0 (single report format) for Covered and Suspicious Transaction Reports in January 2015.

New and Enhanced AML Policies and Guidelines and Updated Money Laundering and Terrorist Prevention Program (MLLP) Manual

Developed in 2011 to strengthen detection and monitoring processes against money laundering specifically funds diverted to terrorism and similar activities, the Money Laundering and Terrorist Prevention Program (MLLP) was revisited during the year. This resulted in the formulation of new and enhanced policies and AML-related guidelines which include, among others, the Handling of Frozen Accounts and its Related Accounts; Creation of AML Team to Review Related Accounts; Know-Your-Client Requirements for Authorized Signatories of Juridical Entities; Revised Guidelines on Anti-Money Laundering System (AMLS) and Anti-Money Laundering Data Entry System (AMLDES); and Customer Acceptance, Risk Classification, Risk Assessment, Identification and Application of Due Diligence.

The LANDBANK BOD approved in March and May 2015 the revised guidelines as incorporated in the MLLP Manual.

Regulatory Risks Identification and Assessment Activities

During the year, various issuances of regulatory bodies totaling 246 were assessed and identified by the CMO as applicable to the Bank's operations. The applicable regulations were then disseminated to the concerned Bank units for information and compliance. For effective monitoring of the actions taken, the CMO requires the Bank units to accomplish its Business Unit Compliance Action Plan report and submit to the CMO for periodic compliance testing and validation.

The CMO also conducted independent compliance testing on specific areas or activities with high regulatory risks such as the AMLA compliance. Other regulatory reports for submission to the Bangko Sentral ng Pilipinas, Anti-Money Laundering Council, Philippine Deposit Insurance Commission and Securities and Exchange Commission, among others, were reviewed and assessed to ensure the Bank's strict adherence and compliance to regulatory requirements.

To comply with the Foreign Tax Compliance Act (FATCA), the CMO facilitated the registration of the Bank in the Internal Revenue Service of USA as Participating Foreign Financial Institution. Relatedly, the CMO prepared the FATCA guidelines and performed oversight functions.

Aside from monitoring of compliance reports, the CMO undertook the regular reporting of the Bank's significant compliance issues, relevant regulations, and general compliance status to senior management, AML Committee, and the Audit and Compliance Committee.

A BSP special examination held during the year was managed by CMO in coordination with the Bank's concerned units which provided their responses and updates to the BSP Report of Examination and other ad hoc requirements.

AML Training and Compliance-Related Activities

To ensure the effective management and continuing education of the Bank's employees on the various risks arising from compliance regulations across the organization, the CMO embarked on a compliance awareness campaign on AML and other compliance matters during the year.

A series of lectures on compliance awareness and AML issues was conducted for the employees through the LANDBANK in Perspective Program for new hires and for the Legal Services Group. The compliance module was also provided to participants of the Bank's training programs such as the Management Training Program, Officers Development Program and the Branch Officers Development Program.

To update employees in the branches, the CMO conducted the Trainor's Training on compliance and AML to train selected branch officers who will handle the refresher course in their respective areas.

Strengthening the tone at the top, the LANDBANK Board of Directors and senior management undertook the AML Refresher Course conducted by the Executive Director of the Anti-Money Laundering Council.

During the year, the CMO enjoined all personnel in the Head Office and NCR branches to undertake the AML examination using the LANDBANK e-Learning Access Portal (LEAP). The AML awareness campaign attained a 97.2 percent participation rate. For quick information and easy reference of employees, the CMO issued the "Compliance Nuggets" through the Louts Notes and the Bank's Newsgram which featured tidbits of various compliance regulations and issuances. The Compliance Function Database was also updated with various regulations issued for the whole year.

To strengthen the compliance culture at the business unit level, the CMO continuously engaged Compliance Coordinators to assist in the compliance function through the conduct of periodic meetings and provision of advisory services on compliance matters.

Reinforcing the Foundations in Human Resource Management

Service Excellence and Transparency

- **Anti-Red Tape Breakthrough Agency Award**

In 2014, as a result of the deep commitment to improve the quality of service and transparency to its customers, LANDBANK was awarded by the Civil Service Commission (CSC) with the Anti-Red Tape Breakthrough Agency Award for obtaining 99 percent rating in the Anti-Red Tape Act Report Card Survey (ARTA-RCS) which measures an agency's performance and client satisfaction in relation to frontline service. The survey was conducted in 100 LANDBANK branches nationwide from June to November 2013 wherein 38 branches where rated as "excellent".

In addition, 22 LANDBANK Branches were awarded with the Center Seal of Excellence (CSC-SEA) by CSC as LANDBANK has the most number of awardees in the CSC-SEA among government agencies.

To further strengthen partnership with the CSC on implementing the ARTA, the LANDBANK management has approved the proposal with CSC for the conduct of a self-funded ARTA-RCS.

- **5th Collective Negotiation Agreement**

The LANDBANK Management and the Land Bank of the Philippines Employees' Association (LBPEA) have successfully concluded the 5th Collective Negotiation Agreement (CNA) on October 24, 2014 and the Memorandum of Agreement (MOA) was signed last December 12, 2014.

Effective for three years, from 2015 to 2017, the 5th CNA amendments are as follows:
- Section 6 of Article III, on the accreditation of attendance to employee organization leadership seminars as relevant training of LBPEA officers and members; and
- Section 10 of Article III, on the right of the LBPEA to give suggestions and recommendations in the issuance of guidelines or policies directly affecting their rights and welfare.

Health and Work-Life Balance

LANDBANK considers the health and well-being of its employees as essential to a productive workforce. In 2014, the following activities and programs were conducted:

- **Mandatory Annual Medical Examination for all Employees**

  In 2014, a policy requiring all employees to undergo an annual medical examination was implemented. This is considered as a risk management strategy for early recognition of health risk factors and prevention of diseases that will prevent complications. A total of 4,656 employees were given free vaccination on a voluntary basis for protection again the flu virus.

- **Healthcare Services**

  The Bank made the healthcare services accessible to employees through a worksite medical clinic where assessment, monitoring, counseling, and first aid interventions are conducted by trained healthcare workers. Also, an ambulance is available 24/7 to transport emergency cases to the nearby hospital. A Health Maintenance Organization (HMO) helpdesk was set up to assist employees to obtain referrals for the necessary medical consultations and laboratory tests without the need to leave the office.

  The Bank continuously operates its on-site gym and fitness centers where it offers a wide array of health related activities and nutritional counseling before and after office hours at no cost to the employees.

- **LANDBANK Day Care Center (LBDCC) Program**

  The Bank continues to operate the LBDCC which was established in 2004. Accredited by the Department of Social Welfare and Development, the LBDCC, through board-certified teachers, implements holistic programs that aim to hone artistic and creative inclinations of the children through mental stimulation and socialization. Thus, parent-employees are able to concentrate on their work knowing that that their children are safe and are learning and enjoying various activities at the Day Care Center. In 2014, a total of 133 employees and 135 children benefitted from the said services.

- **Lactation Station**

  LANDBANK also continues to operate a lactation station for the employees of the Bank for breast milk extraction and storage. The establishment of a lactation station is in support of the national campaign to promote breast milk as a source of nutrition for infant and young children. In 2014, two additional cubicles were installed, making the total available cubicles to four. A total of 24 lactating mothers accessed the facility in 2014.

- **Employee Wellness Programs**

  Wellness programs are regularly conducted to promote employee wellness and camaraderie. Under ILiveWellness program, employees were provided information in order to empower and engage them through the monthly Wellness Forum and quarterly Wellness Break with health experts serving as resource speakers. Health Notes, brief reading materials on various health topics, were disseminated bank-wide through LANDBANK's internal email system or through LANDBANK's internal publication, Newsgram.

Likewise, learning sessions were provided on a wide range of topics to aid employees in finding diversions from psychological stress, entrepreneurial pursuits and address family concerns.

- **Employee Volunteerism**

  An integral part to encourage employee volunteerism is the regular conduct of bloodletting sessions in partnership with the Philippine Red Cross. The Bank conducted bloodletting activities in May and November 2014 with a total of 349 donors (13 percent increase from 2013) who participated with approximately 157,050 cc of blood donations collected. In support of other volunteerism programs, LANDBANK employees also donated their time and its corresponding money value. In 2014, Bank employees donated a total of 17,017 hours, 28 percent higher than in 2013, with a value of about P3.57 million to fund other volunteerism projects.

- **Learning and Development**

  In 2014, LANDBANK implemented 858 management and leadership, operational, and foundational (organizational and behavioral) courses as part of its Learning and Development Program. These training programs were attended by 7,271 employees or almost 100 percent of the LANDBANK population, with 27,251 incidences of participation. In addition, 31 participants attended 20 foreign trainings.

  LANDBANK continued implementing major programs pursuant to the approved Management and Leadership Development framework in support of succession planning. Batch 3 of the Management Training Program (MTP) was completed last March 2014 with 40 graduates. Batch 4 started in October 2014 with 32 participants. For the Officers Development Program (ODP), Batch 3 started in March 2014. Meanwhile, the 55 participants of the 5th and 6th Batches of the Leadership Development Program (LDP) graduated last June 2014. Batch 7 of the LDP started in October 2014 with 30 participants.

  In June 2014, the Management approved the design of the Branch Officers Development Program (BODP) as a new program under the MLDP. The first batch started in January 2015. The program aims to develop internal and external participants into becoming branch officers who possess extensive and strong business knowledge across a range of banking functions specializing on branch operations.

  For employees intending to pursue post graduate studies, enhancements on the Graduate Education Program (GEP) were approved in October 2014 such as increase in allowance for textbooks, reading materials and other learning resources, Pay Grade requirement was reinstated, while service obligation was lifted. As of end-December 2014, there were 125 scholars granted scholarships by the Bank under this Program.

  The coverage of the in-house GEP program with the College of the Holy Spirit was expanded to Central Luzon with 15 enrollees in Pampanga, while 69 enrollees attended the three simultaneous classes in the Head Office.

  The Bank also sponsored four officers to the Executive Masters in Development Management, being conducted by the Asian Institute of Management for the Department of Finance and its attached agencies. This is a special program with focus on public finance and economic development.

  The Bank also conducted other training programs on branch and credit operations, coaching and mentoring and corporate values.

  The retooling workshops on branch operations for all branch personnel were completed in June 2014. Aimed at ensuring quality performance, increased productivity and improved branch banking services to clients, participants were updated on branch banking operations and internal control measures.

  In addition, the Bank re-launched the Core Credit Program in September 2014 to strengthen credit management, marketing and communication skills, and enhance professional presence of its junior Accounts Officers and senior Accounts Assistants. Batch 1 produced 30 graduates, and as a final requirement of the Program, each participant packaged an individual Credit Facilities Proposal, which was defended before the Credit Committee.

To strengthen skills on people management, 156 Department/Unit Heads attended the seven batches of the Coaching and Mentoring program. Likewise, 196 Department/Unit Heads attended the nine batches of the Applied Human Resource for Line Managers.

As part of the 2014 updating on AMLA and Compliance training requirements, 2,621 employees from the Head Office and NCR units participated in the pilot implementation of the LANDBANK e-Learning Access Portal (LEAP). The LEAP is a web-based software which allows users to access online courses through the Bank's intranet facility.

As for the implementation of the values programs, the Bank conducted six batches of Personal and Organizational/ Work Attitude Effectiveness through the Rainbow Adventure Program with 118 participants, two batches of Workplace Ethics and Values Enhancement program (WEAVE) with 71 participants, and two batches of Public Service Ethics and Accountability Program with 63 participants.

In March 2014, the 2nd Organization Climate Survey was completed with 71 percent response rate representing 5,122 employees. Out of the 13 factors rated, four obtained a very high satisfaction rating, to cite: Organization Pride and Commitment, Nature of Work, Organization Culture, and Teamwork and Relationships.

In November 2014, the Bank inaugurated the LANDBANK Residences (located at the Marina Residential Suites beside the LANDBANK Plaza) for field officers and staff on training or on official business in Manila. The LANDBANK Residences offers utmost convenience at an affordable rate.

As part of its thrust to establish a high performance culture, the Bank, in 2014, approved and initiated the development of the Competency Framework.

FINANCIAL HIGHLIGHTS

Result of Operation

2014 is a very challenging year for the banking sector as trading gains, which pushed net incomes into record levels the previous year, weakened due to continuous decline in interest rates. Despite that, LANDBANK managed to sustain its income trajectory by recording P12.64 billion consolidated net income in 2014, which is P854 million or seven percent higher than the P11.79 billion net income in 2013. The Bank remains the fourth most profitable bank in the industry and has the highest net income growth rate among the five biggest banks.

Net interest income increased to P24.8 billion or by P3.5 billion due to significantly higher interest income combined with relatively flat interest expense. Interest income is higher by P3.6 billion due to more aggressive lending activities. Interest expense on the other hand, increased by only P131 million despite the considerable increase in deposit levels as the interest rates remain low.

LANDBANK's other operating income declined by P6.9 billion to P7.8 billion due to weak trading gains, similar to other banks. This decline was partially negated by lower operating expenses of P18.7 billion from P19.7 billion in 2013 mainly due to flat manpower costs.

Financial Condition

In 2014, LANDBANK joined the "Trillion Peso Club" – a distinguished group of banks with at least one trillion Peso in total assets. This group is exclusive to the four largest banks in the country by a large margin. LANDBANK is the Philippines' fourth largest bank in three major balance sheet accounts – assets, loans and deposit liabilities.

The Bank's total assets reached P1.06 trillion, P209.3 billion or 25 percent higher than the P849.3 billion assets in 2013. Regular loans increased by P82.9 billion or 27 percent to P385.9 billion from P303.4 billion in 2013. Investments also increased by P78.9 billion or 35 percent to P302 billion from P223.1 billion in 2013 as securities of various classifications all significantly increased. The Bank's loan and investment exposures were fully covered by deposits that reached P912.6 billion, which was P209 billion or 30 percent higher than the previous year's deposits amounting to P703.7 billion. Government deposits amounted to P625.6 billion, accounting for 69 percent of total deposits.

Capital and Capital Ratios

The Bank 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 including the P12.0 billion paid-up capital.

On January 15, 2013, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 781 containing the Basel III implementing guidelines on minimum capital requirement.

Among the major reforms of Basel III is the increase in quality, consistency and transparency of capital base to ensure a more resilient banking sector. Common equity component should be improved, Tier 2 capital is simplified with the removal of upper and lower Tier 2 capital classification and Tier 3 capital is eliminated.

Under Basel III, qualifying capital is composed of Tier 1 (going concern) and Tier 2 (gone-concern) capitals. Tier 1 capital consists of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capitals. A CET1 Ratio will be monitored in addition to the Tier 1 Ratio and Capital Adequacy Ratio (CAR) required under Basel II.

BSP Circular No. 781 took effect beginning January 1, 2014. The figures under December 2014 followed the circular consistent with Basel III, while figures under December 2013 are under Basel II.

	GROUP		PARENT	
	Dec. 2014	Dec. 2013	Dec. 2014	Dec. 2013
Tier 1 (going concern) Capital				
Common Equity Tier (CET) 1 Capital	**75,216.66**	**56,095.12**	**75,216.66**	**56,095.12**
- Paid-up Common Stock	11,971.00	11,971.00	11,971.00	11,971.00
- Retained Earnings	37,670.14	32,300.47	37,670.14	32,300.47
- Undivided Profits	12,070.19	11,823.65	12,070.19	11,823.65
- Net Unrealized Gain/(Loss) on AFS Securities	13,505.33	-	13,505.33	-
Additional Tier 1 Capital	-	-	-	-
Deductions from Tier 1 Capital	**20,368.39**	**1,126.61**	**22,282.81**	**1,065.72**
Deductions from Tier 1 & Tier 2 Capital	-	**635.78**	-	**1,278.03**
Net Tier 1 Capital	**54,848.27**	**54,332.74**	**52,933.85**	**53,751.38**
Tier 2 (gone-concern) Capital	**14,703.45**	**24,819.45**	**14,681.89**	**24,799.84**
- Net Unrealized Gains on AFS Equity Sec. Purchased	-	3,998.05	-	3,998.05
- Instrument Issued Eligible as Tier 2 Capital	10,500.00	17,434.00	10,500.00	17,434.00
- General Loan Loss Provision	4,203.45	3,387.40	4,181.89	3,367.79
Deductions from Tier 1 & Tier 2 Capital	-	**635.78**	-	**1,278.03**
Net Tier 2 Capital	**14,703.45**	**24,183.67**	**14,681.89**	**23,521.81**
Total Qualifying Capital	**69,551.72**	**78,516.41**	**67,615.74**	**77,273.19**

Net Tier 1 capitals (group and parent) are relatively flat in 2014 compared to 2013 as the significantly higher CET 1 capital in 2014 were negated by the equally significant increase in regulatory adjustments. Total qualifying capital in 2014 declined mainly due to lower Tier 2 capital for the year.

Among the reasons for the decline of Tier 2 capital is the Bank's exercise of its call option on the P6.934 billion subordinated debt qualified as lower tier 2 capital on June 10, 2014. The outstanding P10.5 billion subordinated debt that was issued in January 2012 will remain eligible as tier 2 capital until end of 2015 based on BSP Circular Nos. 768, series of 2012 and 781, series of 2013.

The table below contain details of the regulatory adjustments to the Tier 1 and Tier 2 capitals. The table highlights that for 2013 data which are computed under Basel II, only Equity investments on financial subsidiaries and allied undertaking are deducted while for 2014 data computed using Basel III, the total equity investments are deducted.

	GROUP		PARENT	
	Dec. 2014	Dec. 2013	Dec. 2014	Dec. 2013
Deductions from Tier 1 Capital	**20,368.39**	**1,126.61**	**22,282.81**	**1,065.72**
Net unrealized losses on AFS equity securities purchased	-	0.01	-	0.01
Total outstanding unsecured credit accomodations, both secured and unsecured to DOSRI	3,614.82	243.25	4,435.33	243.25
Deferred Tax Assets	743.60	883.35	681.69	822.46
Other Intangible Assets	533.39	-	532.01	-
Investment in equity of unconsolidated subsidiary banks and quasi banks, and other financial allied undertakings	-	-	1,351.90	-
Investment in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies	877.01	-	877.01	-
Significant minority investment (10%-50% of voting stocks) in banks & quasi banks, and other financial allied undertaking	473.00	-	360.00	-
Minority Investment (below 10% of voting stocks) in banks & quasi banks, and other financial allied undertaking	89.04	-	30.63	-
Other Equity Investments in non-financial allied undertakings and non-allied undertakings	14,037.53	-	14,014.25	-
Deductions from Tier 1 and Tier 2 Capital	**-**	**1,271.55**	**-**	**2,556.05**
Investment in equity of unconsolidated subsidiary banks and quasi-banks and other financial allied undertaking	-	-	-	1,284.50
Investment in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies and non-financial allied undertaking	-	1,271.55	-	1,271.55

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.

	GROUP		PARENT	
	Dec. 2014	Dec. 2013	Dec. 2014	Dec. 2013
Risk-Weighted Assets				
Credit Risk-Weighted Assets				
- RW On-Balance Sheet Assets	382,934.71	305,530.62	380,778.93	303,569.66
- RW Off-Balance Sheet Assets	37,223.88	33,022.51	37,223.88	33,022.51
- Counterparty RW Assets in the Trading Books	186.41	187.14	186.41	187.14
Deduction: Gen loan loss provision in-excess of permitted	(1,873.62)	(2,686.67)	(1,873.33)	(2,687.43)
Total Credit Risk-Weighted Assets	**418,471.39**	**336,053.60**	**416,315.90**	**334,091.88**
Market Risk-Weighted Assets				
- Interest Rate Exposure	1,778.54	176.64	1,778.54	176.64
- Equity Exposure	83.30	150.08	83.30	150.08
- Foreign Exchange Exposure	647.17	1,145.66	647.17	1,145.66
- Options	3,534.36	5,382.73	3,534.36	5,382.73
Total Market Risk-Weighted Assets	**6,043.37**	**6,855.10**	**6,043.37**	**6,855.10**
Total Operational Risk-Weighted Assets	**45,018.68**	**44,373.73**	**44,231.88**	**43,492.67**
Total Risk-Weighted Assets	**469,533.43**	**387,282.43**	**466,591.15**	**384,439.65**

Basel III requires the establishment of a 2.5 percent 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.

For 2014, which is the initial year of Basel III implementation, the Bank's CET 1 Ratio stood at 11.68 percent, which is considerably ahead of the 6 percent minimum BSP requirement and 8.5 percent requirement including the capital conservation buffer. Since the Bank has no outstanding AT1 capital, Tier 1 capital ratio similarly stood at 11.68 percent. The Bank's Tier 1 ratio is also comfortably higher than the 7.5 percent BSP requirement.

	GROUP		PARENT	
	Dec. 2014	Dec. 2013	Dec. 2014	Dec. 2013
CET 1 Ratio	**11.68%**		**11.34%**	
Minimum CET 1 Ratio	6.00%		6.00%	
Capital Conservation Buffer	5.68%		5.34%	
Tier 1 Capital Ratio	**11.68%**	**14.03%**	**11.34%**	**13.98%**
Total Capital Ratio	**14.81%**	**20.27%**	**14.49%**	**20.10%**

The Bank's December 2014 total or capital adequacy ratio (CAR) stood at 14.81 percent, which is significantly higher than the 10 percent minimum BSP requirement.

The Bank's tier 1 ratio decline was due to relatively flat growth in tier 1 capital combined with the substantial expansion of balance sheet and the corresponding credit risk-weighted assets. LANDBANK's CAR is likewise lower than the previous year due to the exercise of call option on the P6.934 billion subordinated debt in 2014.

LANDBANK SUBSIDIARIES AND FOUNDATION

LBP LEASING CORPORATION

LBP Leasing Corporation (LBP Lease) continues to complement the services of LANDBANK by making available various leasing and financial facilities that support priority sectors in the acquisition of equipment and other capital assets as well as in providing working capital to expand, upgrade or modernize their operations. Among the priority sectors serviced are small and medium enterprises (SMEs), rural banks, government agencies including Government-Owned or -Controlled Corporations (GOCCs), enterprises undertaking government projects, and agri-business companies.

LBP LEASE FINANCIAL HIGHLIGHTS

In P Millions	2014	2013	Growth
Gross Revenue	514.52	506.63	2%
Total Expenses	330.01	303.48	9%
Net Income After Tax	133.37	158.73	-16%
Net Income After Other Comprehensive Income	133.45	159.24	-16%
Total Resources	4,006.77	3,712.32	8%
Total Liabilities	2,668.79	2,435.64	10%
Total Equity	1,337.98	1,276.68	5%

The LBP Lease's total portfolio amounted to P3.6 billion as against the P3.4 billion in 2013. Of the total amount, P811.8 million were lease/loans for SMEs, P1.1 billion for government agencies including GOCCs, P1.3 billion for large corporations, and P130.4 million for other sectors. Despite an increase in Gross Revenue by two percent in 2014, LBP Lease registered a 16 percent decline in Net Income After Tax due to lower revenue margins. LBP Lease ended the year with NIAT of P133.37 million and total resources of P4.0 billion.

In 2014, LBP Lease continues to support the National Government priority programs through its credit programs.

A major thrust is the Property Lease Facility which allows government agencies/offices to eventually acquire/own properties for their office space requirements without immediate substantial cash outlay. Acquisition of the property may be done through a variety of ways depending on the project requirement. This may include the following:

1. Purchase of an existing building/office space;
2. Purchase of a lot and construction of a building; or
3. Construction of a building on a property owned by the government agency/office.

In 2014, LBP Lease expanded its UV Express Re-fleeting Program and renamed it Public Utility (PU) Vehicle Re-fleeting Program to include Tourist Transport, School Service and Public Utility Bus operators. The Program was developed to help public transport operators/drivers who will be displaced by the age requirement/limitation imposed by LTFRB for public utility vehicles for the safety and comfort of the riding public. The Program allows small/independent public transport operators with valid LTFRB franchises to re-fleet their old vehicles with brand new vehicles at reasonable financing terms. As of year-end 2014, LBP Lease has financed some 77 vehicles under the Program.

MASAGANANG SAKAHAN, INC.

The Masaganang Sakahan, Inc. (MSI) continuously provides the needed marketing support to small farmers and fishers' cooperatives being assisted by LANDBANK. The MSI offers agricultural facilities and value-adding services, market linkaging of agricultural commodities, and payment-in-kind-scheme.

In 2014, MSI steadfastly pursued its mission of promoting and extending marketing support and services to cooperatives of small farmers and fishers and other SME conduits in the countryside, while maintaining a good balance of its business objectives to make the company viable and sustainable.

MSI FINANCIAL HIGHLIGHTS

In P Millions	2014	2013	Growth
Gross Revenue	262.47	220.84	19%
Total Expenses	19.15	21.14	-9%
Net Income After Tax	12.52	10.78	16%
Total Resources	148.94	177.29	-16%
Total Liabilities	34.65	69.77	-50%
Total Equity	114.29	107.52	6%

MSI increased its gross revenue in 2014 by P41.7 million from P220.8 million in 2013 to P262.5 million. Also, the Net Income After Tax increased by P1.7 million from P10.8 to P12.5 million. Total Resources declined by P28.4 million from P177.3 million to P148.9 million. Total Liabilities declined by P35.1 million to P34.7 million from P69.8 million. However, the company's equity improved by P6.8 million or 6 percent increase to P114.3 million from P107.5 million.

For the year 2014, MSI focused on enhancing the leadership skills of its Directors and employees as well as its core business.

Professional Directors Program for Continuing Education in Corporate Governance

As part of the MSI's commitment for continuing education in governance, four MSI Directors participated in a five-day Professional Directors' Program conducted by the Institute of Corporate Directors.

Staff Development and Trainings

The MSI sent six employees to trainings and seminars to further develop and enhance their skills towards efficient and effective performance of duties and responsibilities. The trainings and seminars attended were as follows:

a. Training on Republic Act No. 9184 and its revised implementing rules and regulations;
b. Technical Workshop Performance Evaluation System FY 2015;
c. Integrated Corporate Reporting System (ICRS) Orientation; and
d. Gender and Development Seminar.

Dividends Remittance to the National Government

In 2014, the MSI remitted to the National Government a total of P5.7 million as cash dividend from 2013 net income, representing a 20 percent increase in dividend remittance.

Policies and Procedures

As part of the initiative to develop, implement and enhance policies and procedures, the MSI board promulgated the following:

a. Performance Evaluation Tool/System for Directors and Management;
b. Inclusion of Mandated Leaves in the MSI Personnel Manual;
c. Guideline on the use of CCTV camera; and
d. Amendments in its Manual of Corporate Governance, Articles of Incorporation and By-Laws and the No Gift Policy.

Pilot Development of Primary Markets

In 2014, the MSI focused on serving the "Primary Market" which refers to the type of client whose main business activity involves the purchase of milled rice either consumption or for purposes of selling (e.g., restaurants, hotels, caterers, etc.).

The MSI assisted 35 cooperatives and 83 small and medium enterprises (SME) with combined traded volume for palay and milled rice at P240.0 million, 39 percent higher than last year's trading assistance of P172.6 million. The credit management assistance to LANDBANK in terms of loan payment collection from cooperatives amounted to P142.2 million, 39 percent higher than P102.6 million in 2013.

In trading business with milled rice as primary product, MSI adopted a two-pronged approach of aggressive marketing and strengthened logistical capability to develop its business volume. As a major client, the MSI served milled rice requirements to LANDBANK nationwide. For LANDBANK, MSI traded a total of 87,972 bags of milled rice, three percent higher than last year's 85,542 bags.

For other clients, MSI embarked on aggressive marketing efforts to recruit new clients focusing on primary market, maintain old accounts and win back previous accounts lost due to competition. For 2014, MSI served 50 accounts, higher than last year's 39 accounts.

LBP RESOURCES AND DEVELOPMENT CORPORATION

The LBP Resources and Development Corporation (LBRDC) handles LANDBANK's construction facility requirements particularly branch construction, relocation and renovation and construction of automated machine and LANDBANK Easy Access Facility (LEAF) booths. LBRDC also helps the Bank in the disposal of non-performing assets by providing brokering services, real estate management and development of LANDBANK's foreclosed assets. LBRDC also provides housekeeping, sanitation, janitorial, manpower and air-conditioning unit maintenance services.

LBRDC FINANCIAL HIGHLIGHTS			
In P Millions	**2014**	**2013**	**Growth**
Gross Revenue	360.2	192.25	87%
Total Expenses	320.74	168.66	90%
Net Income After Tax	32.54	22.74	43%
Total Resources	544.46	493.01	10%
Total Liabilities	104.08	57.66	81%
Total Equity	440.38	435.35	1%

LBRDC's resources increased by P51.5 million to P544.5 million from P493.0 million due to the increase in the company's increased business activities. The company's Equity correspondingly increased by P5.0 million to P440.4 million from P435.4 million due to the increase of net income in 2014.

In 2014, LBRDC completed two building constructions and 29 renovations of branch offices, ATM booths, and LEAFs. As such, LBRDC generated construction revenues amounting to P223.6 million higher by 66 percent from P134.3 million in 2013. LBRDC also generated P136.4 million in revenues from other business activities like brokering, property management, rentals of buildings, and manpower services. LBRDC posted a net income after tax of P32.5 million in 2014, 125 percent of the target of P25.9 million.

Also, LBRDC developed personnel skills and capabilities through various seminars and trainings. LBRDC expanded its housekeeping, janitorial and sanitation services and provided 443 utility workers and messengers to LANDBANK Field Units nationwide which started on April 1, 2014. LBRDC continued providing manpower and janitorial services to HOLCIM Phil., Inc. (Calumpit and Norzagaray Plant) and LBP Insurance Brokerage, Inc.

LBP INSURANCE BROKERAGE, INC.

The LBP Insurance Brokerage, Inc. (LIBI) was established to service the insurance requirements of LANDBANK 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. It is also engaged in the business of buying and selling of foreign currencies.

LIBI FINANCIAL HIGHLIGHTS			
In P Millions	**2014**	**2013**	**Growth**
Gross Profit	133.2	115.9	15%
Total Expenses	37.2	31.2	19%
Net Income After Tax	75.7	67.5	12%
Total Assets	1,115.7	995.5	12%
Total Liabilities	237.7	159.7	49%
Total Equity	877.9	835.8	5%

In 2014, LIBI realized a net income after tax (NIAT) of P75.7 million, an increase of P8.2 million or 12 percent compared with the 2013 NIAT of P67.5 million. The Return on Equity (ROE) was at 8.8 percent while Return on Asset (ROA) was at 7.2 percent, both higher by 0.7 percent and 0.4 percent, respectively compared with the 2013 ROE of 8.1 percent and ROA of 6.8 percent. Per capita income stood at P2.1 million, higher by 3.5 percent compared with the P2.0 million in 2013.

In 2014, LIBI's net premium volume generated P567.9 million, an increase of P34.1 million or 6.4 percent compared to P533.8 million in 2013. The increase was primarily due to higher premium from LANDBANK borrowers of credit life insurance/salary loan and premium for loan releases. Net service fees from insurance brokering amounted to P93.6 million, P16.3 million or 21.1 percent higher than P77.3 million in 2013. Trading Income reached of P10.0 million, 2.8 percent or P0.3 million lower than P10.3 million in 2013. The volume of dollars traded amounted to USD87.4 million, a decrease of USD10.4 million or 10.6 percent compared to USD97.8 million in 2013.

LANDBANK COUNTRYSIDE DEVELOPMENT FOUNDATION, INC.

The LANDBANK Countryside Development Foundation, Inc. (LCDFI) is a non-stock, non-profit corporate foundation of LANDBANK. LCDFI embodies LANDBANK's commitment to spur development in the countryside especially to its priority sectors such as small famers and fishers, Agrarian Reform Beneficiaries (ARBs), Countryside Financial Institutions (CFIs), Small and Medium Enterprises (SMEs) and Overseas Filipino Workers (OFWs).

In 2013, the Foundation was classified as a GOCC by the Governance Commission of the GOCCs. As such, LCDFI endeavors to comply with all pertinent rules and regulations governing GOCCs and government entities. As it transitions from an NGO into a GOCC, LCDFI continued consultation with LANDBANK's Organizational Development Department and the Procurement Department for procedural compliance as a government entity.

LCDFI Financial Highlights			
In P Millions	**2014**	**2013**	**Growth**
Gross Revenues	25.36	25.45	-0.35%
Total Expenses	24.75	27.11	-8.71%
Net Income After Tax	0.61	-1.65	
Total Resources	105.55	105.23	0.30%
Total Liabilities	2.64	2.90	-8.97%
Total Equity	102.91	102.32	0.58%

In 2014, its Gross Revenues, Total Expenses and Liabilities declined by P0.1 million, P2.4 million, and P0.3 million, respectively. LCDFI's Total Resources and Equity improved by P0.3 million and P0.6 million, respectively.

In 2014, LCDFI conducted 178 training seminars for 6,619 members of Bank-assisted cooperatives with maturity level C and D, 111 percent higher than the 2014 target of 160 trainings and 14 percent increase from the 156 trainings conducted in 2013. With the 178 trainings, 46 were conducted in Northern and Central Luzon, 66 in Southern Luzon and Bicol region, 19 in Visayas, and 47 in Mindanao.

Under Bangon Mini-Farms Program, LCDFI piloted four sites in Leyte provinces that were devastated by Typhoon Yolanda, namely: Capoocan, Tacloban City, Palo, and Tabango. Eight training workshops on organic and natural farming were conducted for 1,620 beneficiaries. Twenty-one follow-up workshops were conducted, an increase of 175 percent from the targeted 12 trainings for 2014. Likewise, a farmer's group, the Bangon Mini-Farms Alpha Sector Association, Inc. was organized.

Moreover, a partnership with the Department of Social Welfare and Development (DSWD) was forged under its "Cash for Work and Livelihood Assistance Program" that provided farmers with an initial grant to set-up a mini-farm. Likewise, the Department of Agriculture (DA) provided free seedlings and needed farm equipment.

LCDFI continued to assist farmers in setting-up local farmer's markets to sell their produce, as well as lead the initial talks for an institutional supply agreement with major supermarket chains in the Visayas.

In October 2014, the Likas-Saka Program was piloted in Hacienda Luisita in Tarlac and Bondoc Peninsula in Quezon. Training seminars on sustainable agriculture were conducted and employed local development facilitators to reduce costs and resulted to the formation of a farmer cluster in Quezon.

Meanwhile, two special college scholarship programs were launched under the LANDBANK Gawad Patnubay Scholarship Programs in 2014. These were the Couples for Christ Answering the Call of the Poor (CFC-ANCOP) with six scholars, and the Cong. Rufus Rodriguez Educational Assistance Program with eight scholars, all taking up Bachelor of Science Degrees in Agriculture-related courses.

After the completion of LANDBANK required trainings for cooperatives in the 3rd quarter of 2014, LCDFI concentrated on ensuring the effectiveness of its trainings and aligned it with LANDBANK.

On consultation with LANDBANK-Lending Programs Management Group (LPMG), LCDFI reviewed and updated the process flow of conduct of the trainings with emphasis on the use of the CORI/ECORI in assessing the impact of the trainings on the improvement of the operations of the cooperatives trained.

LCDFI also revisited the training curriculum to ensure that modules are reviewed and upgraded in accordance with ECORI targets. The pool of resource speakers was expanded to include local experts, and a new accreditation process was put in place to increase the number of quality speakers.

LCDFI also began updating its database of cooperatives. With the support of LANDBANK-Systems Implementation Department, LCDFI began the creation of a systems tool that will aid this process, and ensure the computerization of all future training databases and post-training reports. LCDFI staff members enrolled in the ADFIAP Executive Trainers Program. The week-long program at the AIM Center in Makati City was attended by the Capacity Building Director and Capacity Building Directors Officers of LCDFI. They also attended an orientation on CORI conducted by LANDBANK-LPMG at the LANDBANK Plaza.

LANDBANK'S MAJOR AWARDS AND RECOGNITIONS IN 2014

LANDBANK has reaped the fruits of its hard work with the numerous awards and recognitions received in 2014, a solid proof of the Bank's unwavering commitment towards achieving its vision and goals, and operational excellence that is at par with the best in the world.

During the year, LANDBANK was conferred with 14 international and local awards, of which, eight were received by the Bank for the first time ever – four from international award-giving bodies and four from local bodies. Details are contained hereunder:

INTERNATIONAL

1. *Bank of the Year Award* – LANDBANK has been chosen as the Bank of the Year Philippines 2014 by The Banker, the world's leading monthly journal of record for the banking industry for the last 90 years. The Bank of the Year Award is regarded as the Oscars of the Banking Industry. The Award recognizes the institution's strong and prudent management, sound business model, and disaster response and recovery efforts in the aftermath of super typhoon Yolanda.

2. *Outstanding Entrepreneur Award* – Asia Pacific Entrepreneurship Awards (APEA) Philippines 2014 – The APEA "Outstanding Entrepreneur Award" was conferred to LANDBANK President and CEO Gilda E. Pico. The award recognizes outstanding individuals who have demonstrated entrepreneurial attributes that make them role models for emerging entrepreneurs, including the tenacity and perseverance to continue innovating and making a difference under adverse situations and environments. APEA is a regional award for outstanding entrepreneurship, providing a platform for companies and governments to recognize and be recognized for entrepreneurial excellence.

international awards

3. *Overall Winner in the Sustainable Business Awards (SBA) Philippines 2014* – LANDBANK was proclaimed as the Best Overall Winner among 22 companies that won in the SBA. It recognized LANDBANK's inclusive business models, innovative programs, and significant contribution in improving the livelihood of local communities. LANDBANK also won in the climate change category in recognition of its progressive environmental policies and strong support for climate change mitigation and adaptation projects. Held for the first time in the country, the SBA is organized by Global Initiatives (Singapore) and Pricewaterhouse Coopers Philippines.

4. *Outstanding Business Sustainability Achievement Award* – LANDBANK was conferred with this award during the Karlsruhe Sustainable Finance Award ceremony held in Germany. The award recognizes financial institutions that have been successful in "incorporating economic, social and environmental aspects in the corporate strategy and business processes" and have embedded sustainability within their institutions.

international awards

5. *Six Major Awards from the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)* – LANDBANK bagged three awards under the Infrastructure Development Category (Financing facility for the DepEd PPP for School Infrastructure Project Phase 1; Financing Facility for PPP-Construction of TPLEX; Development and Expansion of Iligan City Water System) and three more under the Corporate Social Responsibility (CSR) Category (Adopt a Watershed II, Gawad Kabuhayan; Gawad Patnubay). This is the fourth year in a row that the Bank was recognized by ADFIAP for its outstanding development projects.

6. *Top ASEAN CIO* – Alan V. Bornas, Senior Vice President of LANDBANK's Technology Management Group, was the sole Filipino named as one of the five international outstanding Chief Information Officers (CIO) in the ASEAN Region. The Award honours individuals responsible for information management and security in order to ensure business continuity, minimize business risks and maximize business opportunities in enterprises, governmental and civic organizations. The award was conferred last December 2014 during the 10th ASEAN CIO/Chief Security Officers (CSO) Summit and Awards in Ho Chi Minh City, Vietnam.

local awards

LOCAL

7. *1st Philippines Best Practice and Benchmarking Award* – LANDBANK's Environment Due Diligence Program won in this competition, and will be one of the Philippines' official entries to the 2015 International Best Practices Competition.

8. *Excellence Award for Ecology-Friendly Government Offices* – LANDBANK was among the five government offices which received this award from the Department of Environment and Natural Resources (DENR) for going the extra mile in ensuring that their operations have low environmental impact.

9. *#1 Government Securities Eligible Dealer (GSED)* – LANDBANK has been named by the Bureau of the Treasury (BTr) as the No. 1 Government Securities Eligible Dealer (GSED) in 2014 for the second year in a row. The award recognizes both primary and secondary market trading prominence and a GSED's contribution to the capital markets development of the country.

10. *Outstanding Lending Bank under the Credit Surety Fund (CSF) category conferred by the BSP* – LANDBANK was once again recognized as an "Outstanding Lending Bank" under the Credit Surety Fund (CSF) category of the 2014 Awards Ceremony and Appreciation Lunch for BSP Stakeholders. The Bank was recognized for its active role in the BSP-initiated credit enhancement scheme, the Credit Surety Fund.

Ecology Friendly

11. *Anti-Red Tape Breakthrough Agency Award from the Civil Service Commission* – LANDBANK was recognized for its quality of customer service in compliance to the provisions of the ARTA at the forefront, and for obtaining a 99% rating in the ARTA Report Card Survey which measures an agency's performance and client satisfaction in relation to frontline service.

local awards

1st Philippine Best Practice

Outstanding Lending Bank


CSC ARTA

GSED

other citation

Best QMS

OTHER CITATION

12. *Best QMS* – LANDBANK's Quality Management System (QMS) was lauded as one of the best in the Philippines by the International Operations of SOCOTEC Group, the Mother Company of Certification International Philippines, Inc. (CIP).

13. *Innovations and Best Practices Award in Internal Auditing* -LANDBANK emerged as winner, topping seven government agencies, based on four criteria set by the Association of Government Internal Auditors (AGIA): Contribution to Agency Operations; Relevance or Significance in Internal Auditing; Sustainability; and Originality or Uniqueness.

14. *Top Taxpayer in the City of Manila* - LANDBANK was recognized as one of the Top 10 Real Property Taxpayers.

AGIA

Manila Taxpayers Award

BOARD OF DIRECTORS

* as of December 2014

SEC. CESAR V. PURISIMA
Chairman
(Secretary - Department of Finance)

CRISPINO T. AGUELO
Director
(Representative - Agrarian Reform Beneficiaries)

TOMAS T. DE LEON, JR.
Director
(Representative - Private Sector)

GILDA E. PICO
Vice Chairman
President and CEO

VICTOR GERARDO J. BULATAO
Director
(Representative - Agrarian Reform Beneficiaries)

DOMINGO I. DIAZ
Director
(Representative-Private Sector)

SEC. ROSALINDA D. BALDOZ
Director
(Department of Labor and Employment)

SEC. PROCESO J. ALCALA
Director
(Department of Agriculture)

SEC. VIRGILIO R. DELOS REYES
Director
(Department of Agrarian Reform)

USEC. ANTONIO A. FLETA
Alternate Director
(Department of Agriculture)

USEC. ANTHONY N. PARUÑGAO
Alternate Director
(Department of Agrarian Reform)

USEC. JEREMIAS N. PAUL, JR.
Alternate Director
(Department of Finance)

USEC. REYDELUZ D. CONFERIDO
Alternate Director
(Department of Labor and Employment)

MANAGEMENT TEAM

GILDA E. PICO
President and CEO

CECILIA C. BORROMEO
Executive Vice President
Agricultural and Development Lending Sector

RABBONI FRANCIS B. ARJONILLO
Executive Vice President
Treasury and Investment Banking Sector

ANDRES C. SARMIENTO
Executive Vice President
Operations Sector

JOCELYN D. G. CABREZA
Executive Vice President
Branch Banking Sector

JULIO D. CLIMACO, JR.
Executive Vice President
Corporate Services Sector

UNITS UNDER THE BOARD AND OFFICE OF THE PRESIDENT

As of December 2014

From left: FVP Alex A. Lorayes, FVP Noemi P. Dela Paz, VP Noel B. Marquez, FVP Amelia S. Amparado, LCDFI Exec. Dir. Peter Andrew S. Gutierrez

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

AGRICULTURAL AND DEVELOPMENT LENDING SECTOR

As of December 2014

From left: LIBI GM George R. Francisco, VP Elsie Fe B. Tagupa, MSI President / CEO Roy C. Oscillada, VP Lolita T. Silva, LBP Leasing President / CEO Manuel H. Lopez, VP Lucila E. Tesorero, SVP Edward John T. Reyes

From left: SVP Joselito P. Gutierrez, FVP Ma. Celeste A. Burgos, FVP Leila C. Martin, VP Vilma V. Calderon, FVP Daisy M. Macalino, FVP Filipina B. Monje, FVP Jose Abelardo F. Agregado

BRANCH BANKING SECTOR

As of December 2014

From left: VP Renato G. Eje, FVP Ananias O. Lugo Jr., VP Ana S. Concha, VP Camilo C. Leyba, VP Mauricio C. Feliciano

From left: FVP Ramon R. Monteloyola, VP Randolph L. Montesa, SVP Jennifer A. Tantan, FVP Marilyn M. Tiongson, VP Manuel Jose Mari S. Infante, VP Ruel Z. Romarate

CORPORATE SERVICES SECTOR

As of December 2014

From left: VP Annalene M. Bautista, LBRDC Pres. Simeona S. Guevarra, VP Catherine Rowena B. Villanueva, VP Donato C. Endencia

OPERATIONS SECTOR

As of December 2014

From left: VP Ricardo S. Arlanza, VP Ma. Eloisa C. Dayrit, FVP Conrado B. Roxas, SVP Yolanda D. Velasco, SVP Alan V. Bornas, VP Minda D. Rubio, VP Antonio V. Hugo, Jr.

TREASURY AND INVESTMENT BANKING SECTOR

As of December 2014

From left: FVP Christopher Ma. Carmelo Y. Salazar, FVP Carel D. Halog, VP James Aldana

LIST OF SENIOR OFFICERS AND DEPARTMENT HEADS

as of September 9, 2015

President and CEO
Gilda E. Pico

Corporate Secretary
Reynauld R. Villafuerte

Physical Security Office
Efren S. Tedor

Compliance Management Group
Amelia S. Amparado

Internal Audit Group
Noemi P. Dela Paz

Credit Review Department
Rene I. Silva

Field Operations Audit Department
Viemerey E. Mercado

Head Office and Systems Technology Audit Department
Constance V. Manuel

Legal Services Group
Reynauld R. Villafuerte

Administrative Legal Department
Virgilio M. Quintana

CARP Legal Services Department
Noel B. Marquez

Banking Legal Services Department
Cesar S. Cabañes

Litigation Department
Rosemarie M. Osoteo

Field Legal Services Department
Felix L. Manlangit

Risk Management Group
Teresita E. Cheng

Treasury Risk Management Department
Rosemarie E. Sotelo

Business Risk Management Department
Sofia C. Ladores

Credit Policy and Risk Management Department
Audie A. Cabusao

Strategic Planning Group
Liduvino S. Geron

Corporate Planning and Economics and Policy Studies Department
Sheila Marie M. Encabo

Central MIS Department
Samuel E. Acuña

Customer Service and Product Developmet Department
Cressida M. Alday-Mendoza

Quality Management Office
Sandra May C. Daraman

Trust Banking Group
Josephine G. Cervero

Trust Business Development Department
Madonna M. Cinco

Trust Account Management Department
Camilo G. Sanchez

Third Party Custodianship & Registry Department
Analiza M. Vasco

Trust Portfolio Management Department
Josefino P. Cerin

Trust Operations Department
Lamelita G. Aquino

Agrarian Services Group
Alex A. Lorayes

Bond Servicing Department
Ricarte Porfirio A. Rey

Landowners Assistance and Policy Department
Vicente Ramon A. Castro

Land Transfer Processing Department
Rafael L. Berbaño

AGRICULTURAL AND DEVELOPMENT LENDING SECTOR
Cecilia C. Borromeo

Lending Support Department
Carolyn I. Olfindo

Special Assets Department
Ma. Cristina C. Malab

Loan Recovery Department
Emellie V. Tamayo

Corporate Banking Group
Edward John T. Reyes

Corporate Banking Dept. I
Lucila E. Tesorero

Corporate Banking Dept. II
Vilma V. Calderon

Corporate Banking Dept. III
Marietta B. Cajuguiran

Financial Institutions Department
Cielito H. Lunaria

Public Sector Department
Emma M. Brosas

Lending Programs Management Group
Leila C. Martin

Development Assistance Department
Melinda C. Cruz

Environmental Program and Management Department
Prudencio E. Calado III

Fund Sourcing Department
Ronnie H. Encarnacion

Program Management Department I
Edgardo S. Luzano

Program Management Department II
Generoso S. David

Retail Lending Group
Lolita T. Silva

Mortgage Banking Department I
Abel E. Madarang

Mortgage Banking Department II
Edgardo C. Ramirez

SME Lending Department
Luz D. Abalos

Northern and Central Luzon Lending Group
Ma. Celeste A. Burgos

La Union Lending Center
Victoria M. Zambrano

Pangasinan Lending Center
Jaime. S. Cruz, Jr.

Cagayan Lending Center
Victor A. Agorto

Bulacan Lending Center
Demetrio P. Espiritu III

Pampanga Lending Center
Ranilo B. Jimenez

Bataan Lending Center
Nanny P. Garcia

Tarlac Lending Center
Rolando G. Santos

Nueva Ecija Lending Center
Eduardo N. Reyes Jr.

Isabela Lending Center
Bernardo B. Bayangos

Nueva Vizcaya Lending Center
Normandy R. Salagubang

Ilocos Sur Lending Center
Cesar N. Ulpindo

Southern Luzon Lending Group
Filipina B. Monje

Batangas Lending Center
John Axel E. Melendres

Occidental Mindoro Lending Center
Danilo D. Crobalde

Oriental Mindoro Lending Center
Marlon G. De Castro

Cavite Lending Center
Jesse J. Calibuso

Albay Lending Center
Hil Benedict G. Manzanades

Laguna Lending Center
Edwin Roel S. Ramos

Palawan Lending Center
Joel S. Babaan

Camarines Lending Center
Gil Jose S. Sarte

Rizal Lending Center
Eleanor D. Quicoy

Quezon Lending Center
Alex A. Hinojosa

Visayas Lending Group
Daisy M. Macalino

Samar Lending Center
Buenaventura V. Leyva

Iloilo Lending Center
Vivian M. Cañonero

Leyte Lending Center
Eulalio G. Lagapa Jr.

Negros Occidental Lending Center
Jeffrey A. Maningo

Bohol Lending Center
Allan R. Bisnar

Cebu Lending Center
Elsie Fe B. Tagupa

Negros Oriental Lending Center
Cecilio B. Clarete

Mindanao Lending Group
Joselito P. Gutierrez

General Santos Lending Center
Dante M. Abad

Zamboanga Del Sur Lending Center
Zenaida K. Valencia

Zamboanga Del Norte Lending Center
Vinicius S. Hamoy

Zamboanga City Lending Center
Roel A. Tarroza

Agusan Del Norte Lending Center
Jimmy P. Arco

Davao Lending Center
Charlotte I. Conde

Bukidnon Lending Center
Jose Enedicto G. Faune

Cagayan De Oro Lending Center
Eden B. Japitana

North Cotobato Lending Center
Harold P. Celestial

South Cotobato Lending Center
Rosa Maria C. Cabanial

BRANCH BANKING SECTOR
Jocelyn DG Cabreza

Branch Banking Support Department
Dina Melanie R. Madrid

CCT Program Management Office
Domingo Conrado G. Galsim

Systems Implementation Department
Ana S. Concha

Card and Electronic Banking Group
Randolph L. Montesa

Credit Card Administration Department
Vivian C. Bedrijo

Debit Cards and ATM Management Department
Marissa B. Pineda

Electronic Products Department
Pacifico C. De Paz, Jr.

Cash Management Solutions Department
Ninna Richelle H. Veran

OFW Remittance Group
Renato G. Eje

Domestic Remittance Marketing Department
Jose James T. Figueras

Overseas Remittance Marketing and Support Department
Reo S. Andarino

North NCR Branches Group
Jennifer A. Tantan

North NCRBG Cluster A
Ma. Belma T. Turla

North NCRBG Cluster B
Delma O. Bandiola

North NCRBG Cluster C
Myrgie O. Mendoza

South NCR Branches Group
Ramon R. Monteloyola

South NCRBG Cluster A
Rossana S. Coronel

South NCRBG Cluster B
Mylene B. Macapagal

South NCRBG Cluster C
Ma. Cielito D. Valdivia

North Luzon Branches Group
Nomerlito A. Juatchon

Central Luzon Branches Group
Althon C. Ferolino

Southeast Luzon Branches Group
Marilou L. Villafranca

Southwest Luzon Branches Group
Ananias O. Lugo, Jr.

East Visayas Branches Group
Manuel Jose Mari S. Infante

West Visayas Branches Group
Mauricio C. Feliciano

East Mindanao Branches Group
Camilo C. Leyba

West Mindanao Branches Group
Khurshid U. Kalabud

CORPORATE SERVICES SECTOR
Julio D. Climaco, Jr.

Corporate Affairs Department
Catherine Rowena B. Villanueva

Facilities and Procurement Services Group
Annalene M. Bautista

Procurement Department
Alwin I. Reyes

Facilities Management Department
Hermie DL. Villa

Project Management and Engineering Department
Alexander S. Lazaro

Human Resource Management Group
Voltaire Pablo P. Pablo III

Employee Relations Department
Voltaire Pablo P. Pablo III

Organization Development Department
Emmanuel G. Hio, Jr.

Personnel Administration Department
Joselito B. Vallada

Provident Fund Office
Belina A. Llamanzares

OPERATIONS SECTOR
Andres C. Sarmiento

Technology Management Group
Alan V. Bornas

Data Center Management Department
Alden F. Abitona

e-Banking Systems Department
Arthur E. Dalampan

Enterprise Systems Department
Marites D. Laserna

IT Security Office
Lolita L. Sumaylo

IT-Project Management Office
Minda D. Rubio

Network Operations Department
Enrique L. Sazon Jr.

Retail Banking Systems Department
Grace Ofelia Lovely V. Dayo

Banking Operations Group
Conrado B. Roxas

Foreign and Domestic Remittance Department
Corazon A. Gatdula

International Trade Department
Susan I. Mariano

Loans Implementation Department
Maria Edelwina D. Carreon

Property Valuation and Credit Information Department
Winston Rochel L. Galang

Banking Services Group
Antonio V. Hugo, Jr.

ATM & Cash Management Department
Janet B. Saludez

Central Clearing Department
Reynaldo C. Capa

MDS & Collections Management Department
Irish D. Tan

Controllership Group
Yolanda D. Velasco

Administrative Accounting Department
Celia G. Barretto

Agrarian Accounting Office
Jaime G. Dela Cruz

Systems and Method Department
Benjamin P. Villanueva, Jr.

Treasury Operations Department
Merceditas N. Oliva

Financial Accounting Department
Ma. Eloisa C. Dayrit

TREASURY AND INVESTMENT BANKING SECTOR
Rabboni Francis B. Arjonillo

Investment Sales and Distribution Department
Lolita M. Almazar

Treasury Support Department
Joseny V. Alvarez-Guevarra

Asset and Liability Management Group
Christopher Ma. Carmelo Y. Salazar

Balance Sheet Management Department
Ivy C. Sacramento

Liquidity and Reserve Management Department
Ma. Elizabeth L. Gener

Financial Markets Group
Carel D. Halog

Capital Markets Trading Department
Ma. Francia O. Titar

FX Sales and Hedging Solutions Department
Adelfa R. Masacupan

Rates and FX Trading Department
Christine G. Mota

Investment Banking Group
James A. Aldana

Investment Banking Department II
Florence Rosalind R. Claveria

INDEPENDENT AUDITOR'S REPORT

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 statement of financial position as at December 31, 2014, and the statement of comprehensive income, statement of changes in capital funds and statement of cash flows for the year 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 presentation 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 these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 judgment, 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 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter
We draw attention to Note No. 10 to the Financial Statements which disclosed, among others, that the LBP's Available-for-sale-Domestic-Private investments account includes unrestored 3,366,800 MERALCO shares with fair value of P861.901 million. Likewise, the corresponding cash and property dividends earned of P169.448 million and 9,488,394 shares of stock in Rockwell Land Corporation, respectively, were 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.

Our opinion is not modified in respect of the above matter.

COMMISSION ON AUDIT

CORA D. MARQUEZ
Supervising Auditor

14 August 2015

STATEMENT OF FINANCIAL POSITION

December 31, 2014 (In thousand pesos)

	NOTE	GROUP		PARENT	
ASSETS		**2014**	**2013**	**2014**	**2013**
Cash and other cash items	4	24,249,017	20,355,855	24,247,689	20,354,849
Due from Bangko Sentral ng Pilipinas	5	229,351,507	249,580,208	229,351,507	249,497,118
Due from other banks	6	6,385,039	3,196,281	6,285,385	3,140,487
Interbank loans receivable	7	17,243,602	7,036,608	17,243,602	7,036,608
Securities purchased under agreements to resell	8	56,390,000	6,122,000	56,390,000	6,122,000
Financial assets at fair value through profit or loss	9	14,812,840	2,347,077	14,812,840	2,347,077
Available for sale investments	10	191,341,109	179,836,155	191,341,109	179,836,155
Held to maturity investments	11	95,814,860	40,904,585	95,025,587	40,101,183
Loans and receivables - net	12 & 17	402,186,672	322,410,939	401,265,229	321,002,300
Investments in subsidiaries	13	0	0	485,826	485,826
Investment property - net	14	6,808,754	7,286,826	6,689,560	7,155,984
Property and equipment - net	15	5,943,421	5,069,832	5,478,999	4,981,525
Non-current assets held for sale		247,327	35,524	223,573	8,816
Other resources - net	16	7,798,320	5,079,250	7,765,981	5,013,183
Deferred income tax	22	65,171	66,790	0	0
		1,058,637,639	**849,327,930**	**1,056,606,887**	**847,083,111**
LIABILITIES AND CAPITAL FUNDS					
Liabilities					
Deposit liabilities	18	912,579,675	703,759,154	912,951,636	704,058,139
Bills payable	19	20,241,128	23,854,363	20,241,128	23,570,363
Unsecured subordinated debt	20	10,500,000	17,434,000	10,500,000	17,434,000
Derivative liabilities		45,034	302,393	45,034	302,393
Deposits from other banks		8,621	5,101	8,621	5,101
Treasurer's, Manager's and Cashier's checks		1,496,752	1,114,721	1,496,752	1,114,721
Payment order payable		99,378	57,298	99,378	57,298
Marginal deposits		314,271	551,994	314,271	551,994
Cash letters of credit		8,502,862	2,224,936	8,502,862	2,224,936
Other liabilities	21	19,852,722	17,883,479	19,766,047	17,808,016
		973,640,443	**767,187,439**	**973,925,729**	**767,126,961**
Capital Funds	30				
Common stock		11,971,000	11,971,000	11,971,000	11,971,000
Paid-in surplus		101,098	101,098	101,098	101,098
Retained earnings free		19,684,110	17,403,361	17,876,610	15,839,741
Retained earnings reserve		27,035,769	24,481,711	26,837,732	24,176,674
Undivided profits		12,643,928	11,789,911	12,389,393	11,530,111
Revaluation increment		61,200	61,200	0	0
Net unrealized gains on securities available for sale		13,500,091	16,332,210	13,505,325	16,337,526
		84,997,196	**82,140,491**	**82,681,158**	**79,956,150**
		1,058,637,639	**849,327,930**	**1,056,606,887**	**847,083,111**

The Notes on pages 117 to 148 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2014 (In thousand pesos)

		GROUP		PARENT	
	NOTE	2014	2013	2014	2013
INTEREST INCOME					
Loans		19,909,873	17,359,647	19,677,443	17,132,296
Investments		9,673,580	9,643,490	9,645,497	9,616,452
Due from Bangko Sentral ng Pilipinas		1,810,162	800,451	1,810,162	800,451
Deposit in banks		11,672	3,382	11,362	3,355
Others		1,848	3,078	1,848	3,078
		31,407,135	27,810,048	31,146,312	27,555,632
INTEREST EXPENSE					
Deposit liabilities		4,896,023	4,462,200	4,903,215	4,471,694
Unsecured subordinated debt		868,768	1,119,590	866,643	1,119,590
Borrowed funds		838,907	891,118	838,907	882,469
Others		1,182	361	1,225	3,928
		6,604,880	6,473,269	6,609,990	6,477,681
NET INTEREST INCOME		24,802,255	21,336,779	24,536,322	21,077,951
PROVISION FOR CREDIT LOSSES	17	65,792	1,478,035	45,063	1,463,467
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		24,736,463	19,858,744	24,491,259	19,614,484
OTHER OPERATING INCOME					
Gain from sale/redemption/reclass of non-trading of FA and Liab		1,429,733	8,652,501	1,429,733	8,652,501
Foreign exchange gains from revaluation		1,753,071	1,991,355	1,753,071	1,991,355
Dividends		1,671,015	1,331,354	1,671,015	1,331,354
Fees and commission		1,300,013	971,039	1,206,370	893,714
Gain from dealings in foreign currency		602,143	636,136	591,828	625,574
Miscellaneous - net		1,053,122	1,158,429	1,012,501	980,659
		7,809,097	14,740,814	7,664,518	14,475,157
OTHER OPERATING EXPENSES					
Compensation and fringe benefits		7,586,387	7,480,295	7,538,571	7,429,238
Loss on financial assets and liabilities - held for trading		429,140	1,968,700	429,140	1,968,700
Taxes and licenses		2,129,446	2,443,222	2,098,970	2,415,845
Depreciation and amortization		740,219	723,336	719,774	711,050
Rent		818,351	592,117	871,351	703,340
Miscellaneous expenses		7,054,349	6,480,151	7,054,267	6,284,238
		18,757,892	19,687,821	18,712,073	19,512,411
INCOME BEFORE INCOME TAX		13,787,668	14,911,737	13,443,704	14,577,230
PROVISION FOR INCOME TAX	22	1,143,740	3,121,826	1,054,311	3,047,119
NET INCOME		12,643,928	11,789,911	12,389,393	11,530,111
OTHER COMPREHENSIVE INCOME					
Net unrealized losses on securities available for sale		(2,832,119)	(8,363,555)	(2,832,200)	(8,364,064)
		(2,832,119)	(8,363,555)	(2,832,200)	(8,364,064)
TOTAL COMPREHENSIVE INCOME		**9,811,809**	**3,426,356**	**9,557,193**	**3,166,047**

The Notes on pages 117 to 148 form part of these financial statements.

STATEMENT OF CHANGES IN CAPITAL FUNDS - GROUP

For the year ended December 31, 2014 (In thousand pesos)

	Common Stock Shares	Common Stock Amount	Paid-in Surplus	Retained Earnings Free	Retained Earnings Reserve	Undivided Profits	Revaluation Increment	Net Unrealized Gain/Loss on Securities	T O T A L
Balance, December 31, 2012	**1,197,100**	**11,971,000**	**101,098**	**17,581,192**	**18,598,083**	**10,962,816**	**61,200**	**24,695,765**	**83,971,154**
Net income during the year-as restated						11,789,911			11,789,911
Net unrealized loss on securities								(8,363,555)	(8,363,555)
Declaration of cash dividends				(6,451,468)					(6,451,468)
Transfer to retained earnings free				10,962,816		(10,962,816)			0
Transfer to retained earnings reserve				(2,934,000)	2,934,000				0
Revaluation loss on ten-year syndicated loan of Smart Communications, Inc.				(55,469)					(55,469)
PFRS/prior period adjustment				(1,697,820)	2,949,628				1,251,808
Currency translation difference				(1,890)					(1,890)
Balance, December 31, 2013	**1,197,100**	**11,971,000**	**101,098**	**17,403,361**	**24,481,711**	**11,789,911**	**61,200**	**16,332,210**	**82,140,491**
Net income during the year						12,643,928			12,643,928
Net unrealized loss on securities								(2,832,119)	(2,832,119)
Declaration of cash dividends				(6,123,822)					(6,123,822)
Transfer to retained earnings free				11,789,911		(11,789,911)			0
Transfer to retained earnings reserve				(2,893,000)	2,893,000				0
Payment of Trust Operations Business' judgement Obligation and BSP Penalty					(338,942)				(338,942)
PFRS/prior period adjustment				(492,143)					(492,143)
Currency translation difference				(197)					(197)
Balance, December 31, 2014	**1,197,100**	**11,971,000**	**101,098**	**19,684,110**	**27,035,769**	**12,643,928**	**61,200**	**13,500,091**	**84,997,196**

The Notes on pages 117 to 148 form part of these financial statements.

STATEMENT OF CHANGES IN CAPITAL FUNDS - PARENT

For the year ended December 31, 2014 (In thousand pesos)

	Common Stock		Paid-in	Retained Earnings	Retained Earnings	Undivided	Net Unrealized Gain/(Loss)	
	Shares	Amount	Surplus	Free	Reserve	Profits	on Securities	T O T A L
Balance, December 31, 2012	**1,197,100**	**11,971,000**	**101,098**	**16,177,974**	**18,227,046**	**10,724,718**	**24,701,590**	**81,903,426**
Net income during the year						11,530,111		11,530,111
Net unrealized loss on securities							(8,364,064)	(8,364,064)
Declaration of cash dividends				(6,308,000)				(6,308,000)
Transfer to retained earnings free				10,724,718		(10,724,718)		0
Transfer to retained earnings reserve				(3,000,000)	3,000,000			0
Revaluation loss on ten-year syndicated loan of Smart Communications, Inc.				(55,469)				(55,469)
PFRS/prior period adjustment				(1,697,592)	2,949,628			1,252,036
Currency translation difference				(1,890)				(1,890)
Balance, December 31, 2013	**1,197,100**	**11,971,000**	**101,098**	**15,839,741**	**24,176,674**	**11,530,111**	**16,337,526**	**79,956,150**
Net income during the year						12,389,393		12,389,393
Net unrealized loss on securities							(2,832,201)	(2,832,201)
Declaration of cash dividends				(6,000,000)				(6,000,000)
Transfer to retained earnings free				11,530,111		(11,530,111)		0
Transfer to retained earnings reserve				(3,000,000)	3,000,000			0
Payment of Trust Operations Business' judgement Obligation and BSP Penalty					(338,942)			(338,942)
PFRS/prior period adjustment				(493,045)				(493,045)
Currency translation difference				(197)				(197)
Balance, December 31, 2014	**1,197,100**	**11,971,000**	**101,098**	**17,876,610**	**26,837,732**	**12,389,393**	**13,505,325**	**82,681,158**

The Notes on pages117 to148 form part of these financial statements.

STATEMENT OF CASH FLOWS

December 31, 2014 (In thousand pesos)

	GROUP		PARENT	
	2014	**2013**	**2014**	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	30,288,471	27,866,660	30,025,854	27,614,861
Interest paid	(6,162,229)	(6,473,782)	(6,166,763)	(6,478,367)
Fees and commission	1,300,013	971,039	1,206,370	893,714
Loss on financial assets and liabilities held for trading	(429,140)	(1,968,700)	(429,140)	(1,968,700)
Gain from dealings in foreign currency	602,143	636,136	591,828	625,574
Miscellaneous income	1,053,122	1,158,436	1,012,501	980,659
General and administrative expenses	(17,300,887)	(17,388,154)	(17,294,407)	(17,201,427)
Operating income before changes in operating assets and liabilities	**9,351,493**	**4,801,635**	**8,946,243**	**4,466,314**
Changes in operating assets and liabilities				
(Increase)/Decrease in operating assets				
Interbank loans receivable	(10,206,994)	4,131,500	(10,206,994)	4,131,500
Financial assets at fair value through profit or loss	(12,465,763)	1,466,500	(12,465,763)	1,466,500
Loans and receivable	(79,418,327)	(29,310,622)	(79,883,000)	(29,410,270)
Other resources	(2,098,333)	475,359	(2,130,874)	486,058
Increase/(Decrease) in operating liabilities				
Deposit liabilities	208,820,521	160,055,425	208,893,497	160,209,133
Derivative liabilities	(257,359)	255,452	(257,359)	255,452
Marginal deposits	(237,723)	(202,440)	(237,723)	(202,440)
Treasurer's, Manager's and Cashier's Checks	382,031	(261,461)	382,031	(261,461)
Other liabilities	6,737,645	3,587,994	6,809,250	3,727,013
Net cash generated from operations	**120,607,191**	**144,999,342**	**119,849,308**	**144,867,799**
Income taxes paid	(168,341)	(3,009,307)	(144,995)	(2,985,961)
Net cash generated from operating activities	**120,438,850**	**141,990,035**	**119,704,313**	**141,881,838**
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	(1,388,727)	(835,473)	(998,082)	(819,471)
(Additions)/Disposals of investment property	329,339	(518,337)	320,800	(504,273)
Disposals of Non-current assets held for sale	(211,803)	11,386	(214,757)	10,283
Dividends received	1,671,015	1,331,354	1,671,015	1,331,354
Gain from investment securities	1,429,733	8,652,501	1,429,733	8,652,501
Decrease/(increase) in:				
Available for sale investments	(14,337,073)	522,230	(14,337,155)	521,721
Held to maturity investments	(54,910,275)	2,642,635	(54,924,404)	3,170,642
Investment in subsidiaries	0	0	0	0
Net cash provided by/used in investing activities	**(67,417,791)**	**11,806,296**	**(67,052,850)**	**12,362,757**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid	(6,123,852)	(6,451,468)	(6,000,000)	(6,308,000)
Other charges to capital	(973,607)	918,022	(972,955)	917,393
Increase/(decrease) in:				
Bills payable	(3,621,452)	(3,256,427)	(3,337,452)	(3,240,427)
Unsecured subordinated debt	(6,934,000)	0	(6,934,000)	0
Net cash used in financing activities	**(17,652,911)**	**(8,789,873)**	**(17,244,407)**	**(8,631,034)**
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,753,071	1,991,355	1,753,071	1,991,355
NET INCREASE IN CASH AND CASH EQUIVALENTS	**37,121,219**	**146,997,813**	**37,160,127**	**147,604,916**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	20,355,855	17,868,379	20,354,849	17,867,540
Due from Bangko Sentral ng Pilipinas	249,580,208	85,202,557	249,497,118	85,096,569
Due from other banks	3,196,281	4,185,595	3,140,487	3,545,429
Securities purchased under agreements to resell	6,122,000	25,000,000	6,122,000	25,000,000
	279,254,344	**132,256,531**	**279,114,454**	**131,509,538**
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	24,249,017	20,355,855	24,247,689	20,354,849
Due from Bangko Sentral ng Pilipinas	229,351,507	249,580,208	229,351,507	249,497,118
Due from other banks	6,385,039	3,196,281	6,285,385	3,140,487
Securities purchased under agreements to resell	56,390,000	6,122,000	56,390,000	6,122,000
	316,375,563	**279,254,344**	**316,274,581**	**279,114,454**

The Notes on pages 117 to 148 form part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(Amounts in thousands, except as indicated)

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, 2014, 69 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 23, 2015 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 thousand pesos (P000) 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 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
LBP Financial Services-Italy	Italy	Financial services	Euro

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 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.

Equity securities - Fair values are based on quoted prices published in markets.

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. 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.

Reclassification of financial assets

A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the consolidated statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

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. When current bid and asking prices are not available, the price of the most recent transaction is used since 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.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions for the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

(a) *Financial assets designated at fair value through profit or loss (FVPL)*

FVPL consists of securities held for trading and financial assets that are voluntarily designated as FVPL on trade date.

The FVPL category includes government debt securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair market value, based primarily on quoted market prices, or if quoted market prices are not available, discounted cash flows using market rates that are commensurate with the credit quality and maturity of the investments.

Realized and unrealized gains and losses on these instruments are recognized under the trading and foreign exchange profits accounts in the statement of comprehensive income.

(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 or financial assets designated at FVPL.

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

HTM investments are quoted non-derivative 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. Where the Group sells other than an insignificant amount of HTM investments or those close to maturity, the entire category would be tainted and reclassified as AFS investments. These investments are carried at amortized cost using the effective interest rate method, reduced by any impairment in value. Gains and losses are recognized in statement of comprehensive income when the HTM investments are derecognized or impaired, as well as through the amortization process.

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

AFS investments are those which do not qualify to be classified as designated as FVPL, 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 available-for-sale 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.

<u>Impairment of Financial Assets</u>

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. Where continuing involvement takes the form of a written and/or purchase option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities. A financial liability is derecognized 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.

Derivative Instruments

The Group 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.

For the purpose of hedge accounting, hedges are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge).

The Group did not apply hedge accounting treatment for its derivative transactions.

The Group has certain derivatives that are embedded in host financial contracts (such as structured notes, debt investments, and loan receivables) and non-financial contracts (such as purchase orders, lease contracts and service agreements). These embedded derivatives include credit default swaps (which are linked to a reference bond), and calls and puts in debt and equity securities; conversion options in loans receivable; and foreign-currency derivatives in debt instruments, lease contracts, purchase orders and service agreements.

Embedded derivatives are separated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial instruments at FVPL and when their economic risks and characteristics are not closely related to those of their respective host contracts.

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 Group's investments in subsidiaries and entities in which the Group 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 P498,001,532 and P496,290,816 as of December 31, 2014 and P363,315,524 and P361,103,483 as of December 31, 2013, 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 P191,341,109 and P191,341,109 as of December 31, 2014 and P179,836,155 and P179,836,155 as of December 31, 2013, 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 P95,814,860 and P95,025,587 as of December 31, 2014 and P40,904,585 and P40,101,183 as of December 31, 2013, 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 P5,943,421 and P5,478,999 as of December 31, 2014 and P5,069,832 and P4,981,525 as of December 31, 2013, respectively.

4. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2014	2013	2014	2013
Cash on hand	23,991,772	20,077,969	23,991,754	20,077,683
Checks and other cash items	242,996	236,052	242,996	236,052
Returned checks and other cash items	8,151	36,610	8,151	36,610
Petty cash fund	4,137	3,857	3,982	3,731
Revolving fund	1,388	831	233	237
Payroll fund	573	536	573	536
	24,249,017	20,355,855	24,247,689	20,354,849

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	
	2014	2013	2014	2013
Deposit with local banks	216,299	119,205	122,502	69,267
Deposit with foreign banks	6,168,740	3,077,076	6,162,883	3,071,220
	6,385,039	3,196,281	6,285,385	3,140,487

The Group maintains nostro accounts on global basis with 22 foreign depository banks totaling 28 and 30 bank accounts in 2014 and 2013, respectively, the most significant of which are as follows:

2014	2013
1. Wells Fargo Bank, N.A.	1. Wells Fargo Bank, N.A.
2. Standard Chartered Bank, N.Y.	2. Standard Chartered Bank, N.Y.
3. The Bank of New York	3. Standard Chartered Bank, Tokyo
4. Standard Chartered Bank, Frankfurt	4. Mizuho Corporate Bank
5. Mizuho Corporate Bank	5. The Bank of New York

Deposits with foreign banks as of December 31, 2014 include special deposit account with Standard Chartered Bank - Tokyo and Bank of Tokyo-Mitsubishi, UFJ amounting to JPY393.22 million and JPY0.13 million, respectively, which are 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 amounting to P17,243,602 and P7,036,608 as of December 31, 2014 and 2013, respectively.

Interbank loans receivable carry interest rates at December 31, as follows:

	2014	2013
Domestic	2.31% to 3.22%	2.00% to 2.75%
Foreign	0.05% to 0.18%	0.05% to 0.35%

8. Securities Purchased under Agreements to Resell

This account consists of:

	Group		Parent	
	2014	2013	2014	2013
Government Securities Purchased under Reverse Repurchase Agreement	56,390,000	6,122,000	56,390,000	6,122,000
	56,390,000	6,122,000	56,390,000	6,122,000

Securities Purchased under Agreements to Resell of the Group carry interest rate at 4.00 per cent and 3.50 per cent as of December 31, 2014 and 2013, respectively.

9. Financial Assets at Fair Value Through Profit or Loss

This consists of:

	Group		Parent	
	2014	2013	2014	2013
Government Securities – Domestic	13,059,318	6,215	13,059,318	6,215
Government Securities – Foreign	399,972	260,099	399,972	260,099
Private Securities – Domestic	46,634	92,116	46,634	92,116
Derivative with positive fair value	1,306,916	1,988,647	1,306,916	1,988,647
	14,812,840	2,347,077	14,812,840	2,347,077

Financial Assets at Fair Value Through Profit or Loss (FVPL) of the Group carry interest rates at December 31 as follows:

	2014	2013
Domestic	1.62% to 4.17%	4.80% to 10.50%
Foreign	7.25% to 7.39%	1.62% to 8.00%

Financial Assets at FVPL includes the foreign exchange (FX) risk cover of the Parent's borrowings from multilateral agencies amounting to P1.19 billion in 2014 and P1.95 billion in 2013 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, 2014, the outstanding notional amount of the FX risk cover amounted to US$7.77 million and JPY8,392.67 million.

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 P0.76 billion and P1.46 billion in 2014 and 2013, respectively.

The derivative with positive fair value comprise of the following:

	2014	2013
Foreign Exchange Risk Cover	1,185,749	1,948,909
Debt Warrants	83,337	0
Forward Contracts	37,830	39,738
	1,306,916	1,988,647

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	
	2014	2013	2014	2013
Domestic				
Government	141,401,875	136,723,341	141,401,875	136,723,341
Private	15,375,784	16,029,515	15,375,784	16,029,515
Foreign				
Government	24,730,076	18,516,809	24,730,076	18,516,809
Private securities	2,543,228	1,307,577	2,543,228	1,307,577
Investment in non-marketable securities, net of allowance for probable losses of P1,395,864 in 2014 and P1,436,564 in 2013	7,290,146	7,258,913	7,290,146	7,258,913
	191,341,109	179,836,155	191,341,109	179,836,155

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

	2014	2013
Domestic	1.62% to 10.50%	1.62% to 12.87%
Foreign	2.75% to 10.63%	2.75% to 10.62%

Available-for-sale investments-Domestic Private include 42.003 million MERALCO shares of stocks with market value of P10.753 billion which are subject of legal disputes.

In November 2008, MERALCO unlawfully cancelled the 42.003 million 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 42.003 million shares, 3.37 million shares had been negotiated by another party; 37.23 million shares remained quarantined at the Philippine Depository and Trust Corporation (PDTC); and another 1.4 million 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 corporates 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 P1,206,955,617.77; 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 P161,303,398.00 as of September 30, 2014, 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 P8,145,009.73. These 1.4 million shares are part of the 38.63 million 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.

Parent's Accumulated market gains/losses on AFS government and private issues as of December 31, 2014 amounted to P15,856.43 million. Parent's Net unrealized gains/losses on AFS was P13,505.33 million.

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, 2014 in the amount of P2,351.10 million, 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$143.15 million (P6,781.38 million) 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, 2014 (In US Dollars) In Millions	Book Value As of December 31, 2014 (In US Dollars) In Millions	Percentage in MRTC
• MRT III Bonds	125.36	199.56	
• MRT III Preferred Shares	54.00	54.00	
Securitized ERPs	179.36	253.56	26.65%
Unsecuritized ERPs	90.58	89.15	11.12%
	269.94	342.71	37.77%

The decrease in the investment in unsecuritized ERP was brought about by the refund of US$1.48 million (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$1.38 million was received by the Bank and DBP in early 2011 representing Accrued ERPs.

11. Held to Maturity Investments

This account consists of:

	Group		Parent	
	2014	**2013**	**2014**	**2013**
Government				
Domestic	84,435,914	36,504,244	83,646,641	35,700,842
Foreign	6,417,637	4,400,341	6,417,637	4,400,341
Private				
Domestic	4,390,830	0	4,390,830	0
Foreign	570,479	0	570,479	0
	95,814,860	40,904,585	95,025,587	40,101,183

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

	2014	**2013**
Domestic	4.12% to 18.25%	6.25% to 18.25%
Foreign	6.38% to 11.63%	2.88% to 10.62%

12. Loans and Receivables

This account consists of:

	Group		Parent	
	2014	2013	2014	2013
Interbank loans receivable	25,995,346	21,707,225	25,995,346	21,707,225
Allowance for credit losses	(367,395)	(409,846)	(367,395)	(409,846)
	25,627,951	21,297,379	25,627,951	21,297,379
Loans to Government	80,506,194	78,813,536	82,824,859	80,632,037
Allowance for credit losses	(51,128)	(30,262)	(51,128)	(30,262)
	80,455,066	78,783,274	82,773,731	80,601,775
Agrarian Reform and other Agriculture Loans	55,795,543	45,470,004	55,754,236	45,446,063
Allowance for credit losses	(724,228)	(723,679)	(724,228)	(723,679)
	55,071,315	44,746,325	55,030,008	44,722,384
Microfinance Loans	6,971,020	4,399,067	6,971,020	4,399,067
Allowance for credit losses	(156,220)	(181,141)	(156,220)	(181,141)
	6,814,800	4,217,926	6,814,800	4,217,926
SME/MSE Loans	30,877,552	21,366,914	30,877,552	21,366,914
Allowance for credit losses	(1,111,226)	(1,284,008)	(1,111,226)	(1,284,008)
	29,766,326	20,082,906	29,766,326	20,082,906
Contract to Sell	1,282,225	2,548,535	1,282,225	2,548,535
Allowance for credit losses	(73,314)	(68,576)	(73,314)	(68,576)
	1,208,911	2,479,959	1,208,911	2,479,959
Loans to Private Corporation	165,321,960	116,884,935	163,804,143	115,396,117
Allowance for credit losses	(735,789)	(407,277)	(571,128)	(235,266)
	164,586,171	116,477,658	163,233,015	115,160,851
Loans to Individuals for Housing Purposes	3,101,040	2,547,012	3,101,040	2,547,012
Allowance for credit losses	(36,720)	(55,840)	(36,720)	(55,840)
	3,064,320	2,491,172	3,064,320	2,491,172
Loans to Individual for Consumption	14,541,032	831,643	14,477,277	829,381
Allowance for credit losses	(227,445)	(89,470)	(227,445)	(89,470)
	14,313,587	742,173	14,249,832	739,911
Loans to Individual for Other Purposes	1,528,750	8,864,128	1,528,758	8,864,129
Allowance for credit losses	(21,565)	(170,801)	(21,565)	(170,801)
	1,507,185	8,693,327	1,507,193	8,693,328
	382,415,632	300,012,099	383,276,087	300,487,591
Accrued interest receivable	3,160,859	2,782,723	3,156,316	2,776,387
Allowance for credit losses	(254,381)	(365,763)	(254,362)	(365,742)
	2,906,478	2,416,960	2,901,954	2,410,645
Accounts receivable	1,659,864	1,534,618	1,550,520	1,515,367
Allowance for credit losses	(796,957)	(767,194)	(755,355)	(731,471)
	862,907	767,424	795,165	783,896
Sales contract receivable	1,019,347	1,298,580	1,019,106	1,298,099
Allowance for credit losses	(10,422)	(12,492)	(10,422)	(12,492)
	1,008,925	1,286,088	1,008,684	1,285,607
Due from ARF	316,154	21,045	316,154	21,045
Unquoted debt securities	13,738,152	16,780,323	13,738,152	16,780,323
Allowance for credit losses	(770,967)	(766,807)	(770,967)	(766,807)
	12,967,185	16,013,516	12,967,185	16,013,516
Lease contract receivable	1,730,336	1,922,660	0	0
Allowance for credit losses	(20,945)	(28,853)	0	0
	1,709,391	1,893,807	0	0
	402,186,672	322,410,939	401,265,229	321,002,300

Interest rates on loans in 2014 range from 1.337 per cent to 39.00 per cent for peso denominated loans and from 0.204 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 P2,195.00 million and P10,722.74 million, respectively, as of December 31, 2014 and P4,460.71 million and P11,552.80 million, respectively, as of December 31, 2013. The account includes Metro Rail Transit Corporation's (MRTC) Bonds with book value of $199.56 million (P8,924.48 million) 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	289.25	149.99	6,484.04
FCDU	115.57	54.57	2,440.44
	404.82	194.56	8,924.48

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:

	2014	2013
Balance, January 1	3,248,889	4,214,884
Provision	0	1,274,712
Write-offs	(560,159)	(924,218)
Transfers and other adjustments	651,639	(1,316,489)
Balance, December 31	3,340,369	3,248,889

As of December 31, 2014 and 2013, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2014		2013	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	64,885,108	16.78	59,069,775	19.45
Various guarantees	125,785,578	32.54	104,371,568	34.36
Various mortgages	94,176,989	24.36	70,091,303	23.08
	284,847,675	73.68	233,532,646	76.89
Unsecured loans	101,768,781	26.32	70,203,834	23.11
Gross loan at amortized cost	386,616,456	100.00	303,736,480	100.00

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from non-performing loan (NPL) classification those receivables from customers classified as loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

As of December 31, 2014 and 2013, the Parent's NPLs amounted to P6,821,304 and P7,317,991, respectively.

	Parent	
	2014	2013
Total NPLs	6,821,304	7,317,991
NPLs fully covered by allowance for credit losses	(1,194,923)	(1,312,686)
Net NPLs	5,626,381	6,005,305

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans receivable in lump sum and loans receivable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. Restructured loans which do not meet the requirements to be treated as performing loans are also part of the Parent's non-performing loans.

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 Corporation	310,253
LBP Insurance Brokerage, Inc.	52,500
LBP Resources and Development Corporation	51,467
Masaganang Sakahan, Inc.	24,555
LBP Financial Services, Italy	47,051
	485,826

On 10 January 2011, the LBP Board of Directors under Board Resolution No. 11-029 approved the voluntary closure of LBP Financial Services, SpA, Italy (LFSS). The full repatriation of the LFSS is still on the process of negotiating with the Posteitaliane for the repatriation of the remaining funds to Land Bank.

14. Investment Property

This account consists of:

	Group					
	2014			2013		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	6,163,948	2,864,345	9,028,293	5,919,834	2,548,500	8,468,334
Additions (Disposals)	(446,845)	(113,029)	(559,874)	244,114	315,845	559,959
At December 31	5,717,103	2,751,316	8,468,419	6,163,948	2,864,345	9,028,293
Accumulated depreciation and impairment						
At January 1	697,370	1,044,097	1,741,467	601,367	1,005,358	1,606,725
Depreciation	170	117,897	118,067	0	88,258	88,258
Transfers/Adjustment	(96,691)	(112,187)	(208,878)	0	(40,695)	(40,695)
Impairment	326	8,683	9,009	96,003	(8,824)	87,179
At December 31	601,175	1,058,490	1,659,665	697,370	1,044,097	1,741,467
Net book value	5,115,928	1,692,826	6,808,754	5,466,578	1,820,248	7,286,826

	Parent					
	2014			2013		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	6,082,982	2,774,037	8,857,019	5,843,808	2,467,317	8,311,125
Additions (Disposals)	(447,544)	(103,905)	(551,449)	239,174	306,720	545,894
At December 31	5,635,438	2,670,132	8,305,570	6,082,982	2,774,037	8,857,019
Accumulated depreciation and impairment						
At January 1	694,308	1,006,727	1,701,035	598,305	970,848	1,569,153
Depreciation	0	114,958	114,958	0	85,399	85,399
Transfers/Adjustment	(96,691)	(111,975)	(208,666)	0	(40,696)	(40,696)
Impairment	0	8,683	8,683	96,003	(8,824)	87,179
At December 31	597,617	1,018,393	1,616,010	694,308	1,006,727	1,701,035
Net book value	5,037,821	1,651,739	6,689,560	5,388,674	1,767,310	7,155,984

Depreciation and amortization of the Group amounting to P118,067 and P88,258 and of the Parent amounting to P114,958 and P85,399 in 2014 and 2013, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Investment properties acquired through foreclosure as of December 31, 2014 which are still within the redemption period by the borrowers and with on-going court case amounted to P473,711 and P1,503,979, respectively. Properties amounting to P62,555 are agricultural lands covered by the government's agrarian reform program. As of December 31, 2014 and 2013, the aggregate market value of the investment properties amounted to P8,837,640 and P9,747,624, respectively, for the Group and P8,702,231 and P9,610,693, respectively, for the Parent. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

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 2014	Total 2013
At Cost										
At January 1	548,536	7,088	4,383,936	442,292	90,398	5,323,108	355,929	70,011	11,221,298	10,606,331
Additions	26,519	179,783	82,745	140,841	3,329	847,795	373,115	6,033	1,660,160	1,070,967
Disposals	0	0	(109)	(3,763)	(8,063)	(189,897)	0	0	(201,832)	(244,346)
Transfers	(199)	(46,500)	3,221	(18,726)	(4,238)	(193,965)	(9,602)	(278)	(270,287)	(211,654)
At December 31	574,856	140,371	4,469,793	560,644	81,426	5,787,041	719,442	75,766	12,409,339	11,221,298
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	1,874,130	193,989	62,834	3,683,584	261,325	61,681	6,137,543	5,833,257
Depreciation & amortization	0	0	91,120	43,761	1,669	340,767	29,222	4,273	510,812	524,792
Disposals	0	0	(83)	(1,122)	(7,755)	(177,586)	0	0	(186,546)	(224,998)
Transfers/Adjustments	0	0	(5,309)	5,545	301	(23,401)	9,576	(6,790)	(20,078)	4,492
At December 31	0	0	1,959,858	242,173	57,049	3,823,364	300,123	59,164	6,441,731	6,137,543
Allow for Losses	0	0	7,214	137	2,825	7,450	0	6,561	24,187	13,923
Net book value	574,856	140,371	2,502,721	318,334	21,552	1,956,227	419,319	10,041	5,943,421	5,069,832

	Parent									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2014	Total 2013
At Cost										
At January 1	548,536	7,088	4,303,623	442,119	74,168	5,292,232	295,340	57,878	11,020,984	10,421,728
Additions	26,519	179,783	73,621	140,801	2,165	845,377	0	0	1,268,266	1,054,758
Disposals	0	0	(109)	(3,763)	(8,063)	(187,602)	0	0	(199,537)	(244,134)
Transfers	(199)	(46,500)	3,221	(18,640)	(4,237)	(193,965)	(9,602)	(279)	(270,201)	(211,368)
At December 31	574,856	140,371	4,380,356	560,517	64,033	5,756,042	285,738	57,599	11,819,512	11,020,984
Accumulated Depreciation & Amortization										
At January 1	0	0	1,844,306	193,903	54,078	3,660,195	215,260	57,794	6,025,536	5,729,652
Depreciation & amortization	0	0	87,860	43,653	198	339,223	25,350	0	496,284	516,099
Disposals	0	0	(83)	(1,122)	(7,755)	(176,329)	0	0	(185,289)	(224,958)
Transfers/Adjustments	0	0	(5,522)	5,631	302	(23,402)	9,576	(6,790)	(20,205)	4,743
At December 31	0	0	1,926,561	242,065	46,823	3,799,687	250,186	51,004	6,316,326	6,025,536
Allow for Losses	0	0	7,214	137	2,825	7,450	0	6,561	24,187	13,923
Net book value	574,856	140,371	2,446,581	318,315	14,385	1,948,905	35,552	34	5,478,999	4,981,525

Depreciation and amortization of the Group amounting to P510,812 and P524,792 and of the Parent amounting to P496,284 and P516,099 in 2014 and 2013, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Office equipment, furniture and vehicles with carrying amount of P192,191 and P234,534 in 2014 and 2013, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P76,198 and P27,736 in 2014 and 2013, respectively.

16. Other Resources

This account consists of:

	Group		Parent	
	2014	**2013**	**2014**	**2013**
Accrued interest receivable	3,223,900	2,483,371	3,223,900	2,483,371
Sundry debits	2,187,835	1,166,090	2,187,835	1,166,090
Prepaid expenses	364,684	253,328	400,426	255,700
Other intangible assets	534,416	379,540	532,006	378,046
Documentary stamps	49,215	19,359	49,215	19,359
Stationery & supplies on hand	123,295	135,665	120,965	134,192
Accounts receivable	126,382	135,752	120,886	129,190
Inter-office float items	2,022	8,175	2,022	8,175
Others	1,186,571	497,970	1,128,726	439,060
	7,798,320	5,079,250	7,765,981	5,013,183

17. Allowance for Credit Losses

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

	2014	**2013**
Balance at beginning of year:		
Loan portfolio	3,248,889	4,214,884
Other assets	4,116,196	3,873,224
	7,365,085	8,088,108
Provisions charged to operations	45,063	1,463,467
Accounts charged off and others	(560,855)	(936,965)
Transfer/adjustments	490,740	(1,249,525)
	(25,052)	(723,023)
Balance December 31	7,340,033	7,365,085
Balance at end of year:		
Loan portfolio	3,340,369	3,248,889
Receivables from customers and other assets	3,999,664	4,116,196
	7,340,033	7,365,085

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 P45,063 for the year detailed as follows:

	Parent
Loans and receivables	0
Other loans and receivables	10,073
Property and equipment	4,324
Others	30,666
	45,063

18. Deposit Liabilities

This account consists of:

	Group		Parent	
	2014	**2013**	**2014**	**2013**
Domestic				
Demand deposits	392,016,125	348,115,219	392,226,721	348,297,024
Savings deposits	458,518,376	315,781,131	458,673,787	315,892,068
Time certificate of deposits	1,250,401	1,412,692	1,250,401	1,412,692
Long Term Negotiable Certificate of Deposits	5,000,000	5,000,180	5,000,000	5,000,180
	856,784,902	670,309,222	857,150,909	670,601,964
Foreign				
Savings deposit –FCDU/EFCDU	10,744,068	8,235,863	10,750,022	8,242,106
Time certificate of deposit-FCDU/EFCDU	45,050,705	25,214,069	45,050,705	25,214,069
	55,794,773	33,449,932	55,800,727	33,456,175
	912,579,675	703,759,154	912,951,636	704,058,139

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.25 to 3.50 per cent in 2014 and 0.18 to 5.37 per cent in 2013. Foreign deposit rates range from 0.15 to 2.50 per cent and from 0.13 to 2.45 per cent in 2014 and 2013, respectively.

19. Bills Payable

This account consists of:

	Group		Parent	
	2014	**2013**	**2014**	**2013**
Bangko Sentral ng Pilipinas	97,860	98,049	97,860	98,049
Domestic borrowings	458,026	838,946	458,026	554,946
Foreign borrowings	19,685,242	22,917,368	19,685,242	22,917,368
	20,241,128	23,854,363	20,241,128	23,570,363

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

Creditor/Funder	2014	2013
World Bank/IBRD	6,932,092	7,949,896
Asian Development Bank (ADB)	613,392	765,434
Japan International Cooperation Agency (JICA)	10,707,813	12,571,958
Kreditanstalt fur Wiederaufbau (KfW)	1,431,945	1,630,080
	19,685,242	22,917,368

The total foreign borrowings of P19,685.24 million is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P15,627.13 million are provided with foreign exchange risk cover (FXRC) by the National Government. This has historical value of P17,533.68 million. 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 2014 range from 0.62 to 2.7 per cent and 0.75 to 4.75 per cent, respectively, while for 2013, the rates range from 0.61 to 2.7 per cent and 0.75 to 9.83 per cent, for foreign and domestic borrowings, respectively.

20. Unsecured Subordinated Debt

This account consists of:

	Issue Date	Maturity Date	2014	2013
Domestic	June 09, 2009	June 09, 2019	0	6,934,000
	January 27, 2012	January 27, 2022	10,500,000	10,500,000
			10,500,000	17,434,000

21. Other Liabilities

This account consists of:

	Group		Parent	
	2014	2013	2014	2013
Accrued interest, fringe benefits, taxes and other expense payable	3,939,867	3,209,570	3,866,231	3,154,252
Accounts payable	7,315,610	6,035,861	7,384,087	6,063,374
Due to Agrarian Reform Fund	204,032	3,489,744	204,032	3,489,744
Sundry credits	3,070,892	936,598	3,070,892	936,598
Unearned income	45,197	59,062	45,306	59,163
Withholding tax payable	233,038	163,334	231,033	161,845
Miscellaneous liabilities	3,626,320	3,137,343	3,722,610	3,223,502
Others	1,417,766	851,967	1,241,856	719,538
	19,852,722	17,883,479	19,766,047	17,808,016

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 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	
	2014	2013	2014	2013
Current:				
Normal income tax (NIT)	1,001,385	2,845,399	913,540	2,769,835
Minimum corporate income tax (MCIT)	0	0	0	0
	1,001,385	2,845,399	913,540	2,769,835
Deferred	142,355	276,427	140,771	277,284
	1,143,740	3,121,826	1,054,311	3,047,119

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

	Group		Parent	
	2014	**2013**	**2014**	**2013**
Statutory income tax	3,980,985	4,411,686	3,877,796	4,311,123
Tax effects of:				
FCDU income	(577,676)	(536,930)	(577,676)	(536,930)
Tax exempt & tax paid income	(4,014,556)	(3,415,292)	(4,004,024)	(3,404,370)
Other deductible/Non-deductible expense	1,114	336,840	1,114	336,370
Non-deductible interest expense	1,323,537	1,204,892	1,323,537	1,204,892
Deferred tax asset	142,355	276,427	140,771	277,284
Others	287,981	844,203	292,793	858,750
	1,143,740	3,121,826	1,054,311	3,047,119

There was no deferred tax asset recognized by the Parent for CY 2014. Subsidiaries recognized deferred tax assets of P65.171 million and P66.790 million for CY 2014 and CY 2013, 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:

	2014	**2013**
Allowance for credit losses	12,999,720	13,512,037
	12,999,720	13,512,037

Report on the 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, 2014, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues	
Services/operations	18,313,106
Non-operating and taxable other income:	
Trading and securities gain	2,210,065
Service charges, fees and commissions	1,186,680
Profit from assets sold	202,521
Income from trust operations	158,022
Others	736,193
	4,493,481
Expenses	
Cost of services:	
Compensation and fringe benefits	5,746,258
Others	5,571,174
	11,317,432
Itemized deductions:	
Compensation and fringe benefits	1,467,818
Taxes and licenses	2,033,460
Security, messengerial and janitorial	590,748
Communications, light and water	388,309
Information technology expenses	366,144
Depreciation and amortization	247,580
Bad debts	565,750
Repairs and maintenance	188,641
Transportation and travel	174,566
Management and professional fees	181,308
Rent	205,695
Representation and entertainment	100,729
Others	2,692,004
	9,202,752

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 2014 are as follows:

Documents / transactions	**DST Paid**
Debt instruments, bonds, certificate of time deposits	1,785,553
Mortgages, pledges, deed of assignments/trust	28,433
Foreign bills of exchange, letters of credit	28,487
Acceptance of bills of exchange payable in the Philippines	13,988
Bank, checks, drafts and telegraphic transfer/others	3,827
	1,860,288

II. All other taxes, local and national, paid for 2014:

National	
Percentage taxes (GRT)	1,940,951
Fringe benefits tax	8,738
National taxes	784
	1,950,473
Local	
Real estate tax	40,697
Local business tax	24,971
Mayor's Permit/Municipal License/Other Regulatory Fees/License Permit	54,951
Other local taxes	6,274
	126,893
	2,077,366

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

Tax on Compensation and benefits	835,175
Creditable withholding taxes	136,659
Final withholding taxes	1,169,757
	2,141,591

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

Tax Credits against Income Tax	1,603,284
Tax Credits against Gross Receipts Tax	96,908
	1,700,192

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 2014 and 2013 amounted to P560.965 million and P552.988 million, 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	
	2014	**2013**
Within one year	363,752	340,920
After one year but not more than five years	704,098	693,031
More than five years	261,818	232,162
	1,329,668	1,266,113

Operating lease commitments – as lessor

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

	Parent	
	2014	**2013**
Within one year	17,552	24,735
After one year but not more than five years	11,954	10,151
More than five years	6,692	510
	36,198	35,396

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, 2014 amounted to P72,508 million of which P71,673 million are government borrowings covered by BSP Circular No. 547.

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

	2014				2013			
	Key Management Personnel	Subsidiaries	Others (GOCCs, Provident Fund and Rural Banks)	Total	Key Management Personnel	Subsidiaries	Others (GOCCs, Provident Fund and Rural Banks)	Total
Receivables from customers	30,033	2,411,294	71,673,465	74,114,792	24,758	1,911,545	64,439,892	66,376,195
Deposit liabilities	0	371,961	0	371,961	0	298,985	0	298,985
Other liabilities	0	551,593	0	551,593	0	472,500	0	472,500
	30,033	3,334,848	71,673,465	75,038,346	24,758	2,683,030	64,439,892	67,147,680

The following are the significant transactions with subsidiaries:

	2014	2013
Sales/(Purchases)	(26,242)	(24,168)
Interest income	70,488	65,639
Interest expense	(166,795)	(169,755)
Lease expense	(44,553)	(45,907)
Other income	1,404	1,657
Other expenses	(336,573)	(32,139)
	(502,271)	(204,673)

Transactions with other related parties:

Compensation of key management personnel:

	Group		Parent	
	2014	2013	2014	2013
Short-term employee benefits	133,614	121,113	115,809	106,421
Post-employment benefits	32,821	31,141	27,754	26,189
Other long-term benefits	45,243	37,428	45,243	37,428
	211,678	189,682	188,806	170,038

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, 2014 and 2013, 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 P80,852,721 and P57,263,059 as at December 31, 2014 and 2013, respectively.

Summary of Assets under Management is as follows:

	2014	2013
Special Purpose Trust	2,424,237	3,246,336
Other Fiduciary Accounts	15,691,151	9,193,862
Agency	22,298,110	24,850,846
Trust	40,439,223	19,972,015
	80,852,721	57,263,059

In compliance with the requirements of the General Banking Law, government securities with total face value of P950,000 in 2014 and P950,000 in 2013 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, 2014, the outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P19,006.00 million with market value of P19,027.35 million while the currency bought amounted to P670.80 million with a market value of P671.47 million.

Over the Counter Interest Rate Option Contract Bought

As of December 31, 2014, the outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P68.91 million with market value of P83.34 million.

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, 2014, the outstanding notional amount of the FX risk cover amounted to US$7.77 million and JPY8,392.67 million.

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	
	2014	**2013**
Trust Department accounts	80,852,721	57,263,059
Commitments	63,655,672	57,319,997
Standby/commercial letters of credit	15,850,626	8,456,839
Derivatives	23,208,712	11,558,208
Outstanding guarantees	88,521	387,637
Spot exchange contracts	1,207,440	1,331,850
Late deposits received	563,482	426,750
Outward bills for collection	53,336	54,782
Others	784,704	866,960
	186,265,214	137,666,082

29. Financial Performance

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

	2014	**2013**
Net interest margin ratio	3.44%	3.67%
Return on average assets	1.35%	1.56%
Return on average equity	17.20%	14.33%

30. Capital Funds

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 April 28, 2014, the Parent remitted cash dividends to the National Government in the amount of P6.0 billion covering its CY2013 net income.

For CY2014 net income, the Parent remitted P6.0 billion cash dividend on March 31, 2015.

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.

	(Amounts in Millions)			
	Group		Parent	
	2014	2013	2014	2013
Tier 1 Capital	75,217	54,969	75,217	55,029
Tier 2 Capital	14,703	24,819	14,682	24,800
Gross Qualifying Capital	89,920	79,788	89,899	79,829
Less: Required Deductions	20,368	1,272	22,283	2,556
Total Qualifying Capital	69,552	78,516	67,616	77,273
Risk Weighted Assets	469,533	387,282	466,591	384,440
Adjusted Tier 1 Capital ratio	11.68%	14.03%	11.35%	13.98%
Total Capital Adequacy Ratio (CAR)	14.81%	20.27%	14.49%	20.10%

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

RISK MANAGEMENT ORGANIZATION

Risk Management and Good Governance

Risk Management is an integrative component of good governance which endeavors to ensure adequacy of policies, systems and procedures to manage risks. Risk management at Land Bank of the Philippines (LBP) completes the triumvirate that takes a close look at the 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 control framework.

Oversight on all risk-related functions is a responsibility of the LBP Board of Directors (BoD). This responsibility is rendered by the Board through the Risk Oversight Committee (RiskCom), which evaluates and approves the Bank's risk management framework, policies and effectiveness of controls.

Risk Management Philosophy

LBP is a financial institution involved in providing banking products and services that expose it to a plethora of risks. While it recognizes all risks inherent in a financial institution, it manages closely those that have significant bearing on its balance sheet accounts. Risk management is embedded in all the business processes of the Bank and it ascertains that risk-taking is commensurate with its risk appetite. The management of risks is anchored on the Bank's vision, mission and strategic objectives, as well as its organizational structure, Information Technology (IT) infrastructure, control and communication processes, among others.
The Bank's approach to risk management is as follows:

- The LBP Board, through the RiskCom, exercises oversight on all risk-related functions and activities of the Bank based on a top-down structure;
- The Risk Management Group (RMG) is independent from risk-taking units and performs the oversight function for all major risk areas (credit, market, and liquidity, operational, and other bank-wide risks). RMG reports functionally to the RiskCom and administratively to the President & Chief Executive Officer (CEO) of the Bank; and
- The Bank adopts the Integrated or Enterprise-wide approach in managing risks. Enterprise Risk Management (ERM) views the group-wide risks of the Bank from the top and analyzes and addresses identified risks together with the authorized risk taking units. Through ERM, risk analysis is strengthened as it takes a cross-functional perspective that reveals the interdependencies of the risks and facilitates risk treatment at the source.

Risk Exposures and Assessment

LBP recognizes the following risk exposures, the same exposures articulated in its 2014 Internal Capital Adequacy Assessment Process (ICAAP) Document.

RISK	DESCRIPTION
1. Credit Risk	• A considerable percentage of the Bank's funds are deployed to credit, being its core business. Credit risk arises from the failure of a counterparty to meet the terms or perform within the bounds of its contract with the Bank. Credit risk to LBP takes the form of Counterparty Credit Risk-Loans and Counterparty Credit Risk-Investments.
2. Market	• LBP treasury activities generally deal with Government Securities (GS) and Foreign Securities, Equities, and Foreign Currencies that are classified as Held For Trading (HFT) or as Available For Sale (AFS). The values of these assets are subject to Mark-To-Market (MTM) or daily valuation to align with prevailing market prices and rates. These adjustments could result to a gain or loss for the Bank. It is the risk of loss, immediate or over time, due to adverse fluctuations in price or market value of instruments, products, and transactions in the Bank's overall trading and investment portfolio. Failure to anticipate and manage fluctuations in the values of the Bank's investments could lead to economic losses.
3. Operational Risks	
a. People Risk	• Under the Bank's ERM, People Risk consists of three risk components, particularly defined as follows: 1. **Recruitment & Retention Risk** - Difficulty of the Bank to attract and retain competent employees that might lead to organizational dysfunction and low morale; 2. **People Development & Performance Risk** - Difficulty to **develop** and enhance employee skills and provide a sound employee performance management system that may reduce employee motivation and may adversely impact the achievement of desired performance and conduct; and 3. **Succession Planning Risk** - Failure to create and **implement** a feasible continuance plan for key Bank positions and employees that might adversely affect the stability of organizational leadership and business continuity.

b. Process Risk

- Basel Committee defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems. Process Risk, as one of the sources of Operational Risk, is the risk of loss caused by, but not limited to, inadequate or failed execution of the Bank's business processes, human error or negligence, fraud and malice.

c. System or MIS Risk

- IT Risk refers to the business risk associated with the use, ownership, operation, involvement and adoption of IT Risk within the Bank. The following are the categories of IT Risk:

1. **IT Management** - Failure to effectively adopt identified IT initiatives and administer IT resources may lead to lost business and hinder the achievement of the Bank's goals and objectives.

2. **IT Confidentiality** - Failure of information system to adequately protect both IT data and IT infrastructure leads to or allows unauthorized access, or leads to destruction of information and information systems of the Bank.

3. **IT Availability or Continuity** - Failure to ensure uninterrupted operations and immediate recovery from systems and implementation failures lead to losses of the Bank.

4. **IT Integrity** - Failure of information system to provide accurate, reliable and timely financial and non-financial information when needed leads to operational inefficiencies or lost business opportunities.

5. **Technology Implementation** - Failure to adopt and implement the appropriate approved 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. Not in LBP Risk dictionary but included in IT Risk Management Plan.

4. Strategic Risk

- Current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed against these goals, and the quality of implementation.

  The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivery networks, and managerial capacities and capabilities. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes (BSP Circular No. 510, Series of 2006).

5. Concentration and Contagion Risk

- The Concentration and Contagion Risks which are considered by the Bank as Pillar 2 risks are hereby defined as follows:

1. **Credit Concentration Risk** - Arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

2. **Contagion Risk** - An adverse condition that may affect companies within a holding or parent company, resulting to an adverse effect on the financial performance of the parent company itself, or to its other subsidiaries and affiliates. It could also affect a portion, or an entire portfolio of a bank creditor, or at worse, the entire industry from which that particular distressed company belongs to.

6. Liquidity Risk

- Failure to properly manage the Bank's cash flows that could affect its ability to settle its obligations as they become due and could lead to insolvency and regulatory sanctions.

7. Interest Rate Risk

- Inability to appropriately plan for and react to fluctuations in interest rates which leads to market value losses on investment securities or cash flow shortfalls resulting from re-pricing of loans or obligations. It is the risk that the Bank will experience deterioration in its financial position as interest rate moves over time.

  These losses impact the earnings and economic value of capital.

8. Counterparty Risk

- Counterparty risk refers to a class of credit risks that occur from transactions where reciprocal obligations are made between the Bank and counterparties or customers. It is the risk associated with the grant of facilities, whether by way of actual financing with outlay of funds or by actual engagement in a commitment by a borrower to fulfil an actual or contingent obligation to the Bank.

  Based on the above definition, credit risk is inherent in banking activities whether for loans or investments, including activities in the banking book and in the trading book, and both for on-balance and off-balance sheet. Thus, LBP classifies Counterparty Credit Risk as pertaining to both Loans and Investments.

  The Bank defines Counterparty Credit Risk on loans as the inability to review and analyze the credit quality of potential or existing borrowers to serve as basis for loan approval (at application) and to determine the probability of default (on an on-going basis), that could lead to economic losses.

  Other than loans, LBP is facing credit risk (counterparty risk) on various financial instruments, and is an element in virtually every product and service that the Bank provides such as acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. Thus, Counterparty Credit Risk on investment is referred to by the Bank as the failure to anticipate and manage the risk of counterparty default (for investment securities and derivatives) might lead to severe financial and economic losses for the Bank.

  Counterparty Risk on loans for ICAAP, except for Interbank Loans, is captured under the Credit Risk Category of the LBP ICAAP Document. Thus, discussions of credit risk under this section shall refer to counterparty and the concentration risk exposure related to trading or investments. And counterparty would refer to an entity with which the Bank engages in trading or treasury related activities, typically, but not necessarily always with other financial institution.

9. Compliance Risk

- Compliance Risk is defined as the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules and regulations, prescribed practices, internal policies and procedures or ethical standards. (BSP Circular No. 510, Series of 2006).

  Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the bank clients may be ambiguous or untested. This risk exposes LBP to fines, payment of damages and the voiding of contracts.

  Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and lack of contract enforceability.

Recently, the compliance framework has been redefined with the issuance of BSP Circular No. 747, Series 2012 which mandates the establishment of a strong, responsive and appropriate bank-wide Compliance System designed to focus on the mitigation of business risk. The circular defines business risks as “conditions which may be detrimental to the Bank’s business model and its ability to generate returns from operations, which in turn erode its franchise value”.

Providing delineation between the risk program and the compliance program, BSP Circular No. 747, Series of 2012 refers to the risk program as covering “financial risks that arise from the balance sheet exposures of the institution”. On the other hand, compliance program will deal with business risks which shall include, but not limited to the following:

1. Reputation risk resulting from internal decisions that may harm the Bank’s market standing.

2. Reputation risk resulting from internal decisions or practices that will eventually have an impact on the public’s trust.

3. Legal risks insofar as changes in the interpretation or provisions of the regulations will unswervingly affect the Bank’s business goals.

4. Compliance risks resulting from bank activities that:

    - contradict existing regulations and identified best practices
    - reveal weaknesses in the implementation of codes of conduct and standards of good practice

The categories of Compliance Risk are:

- Regulatory Compliance Risk

  Imposition of the appropriate sanction shall be based on the assessment of the strength and responsiveness of the whole compliance system to address business risks. A compliance system which shall be found to be significantly insufficient shall be considered as unsafe and unsound banking practice.

- Anti-Money Laundering (AML) Compliance Risk

  Enforcement of actions shall be imposed on the basis of the over-all assessment of the Bank’s AML risk management system. Whenever a Bank’s AML compliance system is found to be grossly inadequate, this may be considered as unsafe and unsound banking practice that may warrant initiation of prompt corrective action.

10. Reputation Risk

- Failure to establish and maintain an image of integrity and competence in doing business may result to loss of customers and even key employees.

  In assessing the risk, the following factors were considered:

    - level of inherent risk (high, moderate or low)
    - adequacy of risk management (strong, acceptable or weak)
    - trend or direction of risk (decreasing, stable or increasing)

  The impact of scenarios in Reputation Risk occurs through various degrees of loss of business, particularly in the loss of clients (depositors and borrowers) as well as the ability to generate new business and to raise needed capital. The impact can also be in the cost of doing business.

11. Event Risk

- Loss resulting from damages due to natural calamities such as typhoon, earthquake, flood and other weather disturbances and manmade risk events such as fire, vandalism and tampering of Automated Teller Machine (ATM), terrorism and holdup or robbery.

12. Legal Risk

- Unenforceable contracts or defective contracts, lawsuits and adverse judgments that may lead to financial losses to the Bank. The three categories of Legal risk are:

  1. Contract – an agreement between two or more persons which creates an obligation to do or not to do a particular thing.

     A contract entered into by the Bank becomes a risk if it is contrary to law, if it has technical defects and/or if parties entering into the contract lack legal capacity to do so.

  2. Lawsuit – a process in law instituted by one party to compel another to do him justice.

     The following situations present in a lawsuit may eventually lead to an adverse judgment and could become a legal risk:

     - varying interpretations
     - loss of evidence
     - delaying tactics of litigants
     - late or non-submission of required pleadings
     - failure to appear in proceedings
     - unexpected adverse consequences from legal proceedings

  3. Adverse Judgment - unfavourable judgments against the Bank. The term may also include judgments, though favourable to the Bank, cannot be enforced or executed due to the following reasons:

     - enforcement subject to potential difficulties
     - failure or refusal of judgment obligor to honour obligations
     - judgment award not capable of satisfaction or execution

13. Trust Operations Risk

- Covers a wide array of potential risks that may arise from a trustee’s fiduciary duties predicated on the principle of exercising utmost care and prudence in handling the business affairs of other people (trustors). A trust entity does not own the assets which its clients assign for proper management. Contracts clearly state that trust arrangements are not covered by the Philippine Depository Insurance Corporation (PDIC) and except for wilful fraud, gross negligence and evident bad faith, all losses with regard to the trust entity’s investments are for the account of its clients.

  All arrangements in Trust are contractual in nature and therefore, LBP - Trust Banking Group’s (LBP-TBG’s) operation is exposed to legal risk per client. In addition, due to the trustee’s fiduciary duties, numerous rules and regulations have been imposed by the BSP to improve controls and set basic standards in fiduciary practices. Further, the continuing additional and evolving rules, regulations and circulars from regulators such as, the BSP, the Securities Exchange Commission (SEC), the Insurance Commission (IC) and the Bureau of Internal Revenue (BIR), expose LBP-TBG operations to compliance and strategic risks.

Because a trust entity's operations are similar to a bank, all areas of risk associated with commercial banking operations in terms of operational and investment risks are also applicable to trust banking.

14. Subsidiaries Risk
- Risk on earnings and assets of LBP (direct impact) arising from reduced or decline in net income of LBP subsidiaries (sub-group basis).

CREDIT RISK MANAGEMENT

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial losses. Overall credit risk management oversight is a function of the Board-level RiskCom.

Credit Risk Assessment

Credit risk assessment is a function of the Bank's lending sector and is guided by established policies and procedures which are regularly reviewed and enhanced. In close coordination with the lending units, RMG issued twenty-five (25) credit policies, bulletins and executive orders in 2014, to complement update or enhance existing credit policies and guidelines.

Consistent with good corporate governance, LBP manages credit risk by setting limits for individual borrowers and group of borrowers and industry segments. The Bank also monitors credit exposures, and continually assesses the credit quality of counterparties. Assessment of credit quality considers credit ratings of counterparties given by external credit assessment institutions such as Moody's, Fitch, Standard & Poor's and PhilRatings. The use of external credit ratings adheres to the BSP guidelines on the Implementation of the Revised Risk-Based Capital Adequacy Framework." For foreign and financial institution accounts, the Bank downloads available extra credit ratings from Bloomberg.

For all client types, credit risk management is supplemented by credit rating systems which were developed for Corporations, Small & Medium Enterprises, (SME), Financial Institutions, Cooperatives and Local Government Units (LGU). The ratings of clients are being used, among others, as basis for determining the credit worthiness of loan clients, independent review of the ratings after approval is done by RMG to support the Internal Credit Risk Rating System (ICRRS) ratings as required by BSP. For 2014, RMG completed the post-validation of five hundred sixty-five (565) ICRRS ratings of corporate clients.

Implementation of the Credit Risk Engine System (CRES)

The Credit Policy & Risk Management Department (CPRMD) was able to obtain approval for recalibration of the credit rating scorecard for corporate clients from the Credit Committee (CRECOM) and the Investment & Loan Committee (ILC). The credit rating scorecard will be deployed upon due approval of the proposed implementing guidelines currently under review by lending units. The CPRMD is also conducting recalibration of the LGU credit rating scorecard to ensure its predictive capability following some changes in set parameters.

Moreover, CPRMD continued the scoring of new livelihood accounts through the automated process from February 2014 onwards, albeit it likewise presented the recalibrated Livelihood Loans scorecard to the Branch Operations Committee (BOC) for its approval last 19 December 2014 to address parameter changes for Department of Education (DepEd) Livelihood Loan accounts.

Credit Risk Exposure and Credit-related Commitments

Credit risk with respect to derivative financial instruments is limited to those instruments with positive fair values, which are included under "Other Assets". The Bank also makes available to its customers guarantees which may require LBP to make payments on behalf of these clients. Such payments are collected from customers based on the terms of the Letter of Credit. These guarantees expose the Bank to similar risks as loans and these are mitigated by the same control processes and policies. As a result, the maximum credit risk without taking into account the fair value of any collateral and netting arrangements is limited to the amounts on the balance sheet plus commitments to customers.

The table below shows the maximum exposure to credit risk for the components of the Balance Sheets, including derivatives. The maximum exposure is shown net, after the effect of mitigation through the use of master netting and collateral arrangements.

	Group		Parent	
	2014	**2013**	**2014**	**2013**
On-Balance sheet financial assets				
Cash and balances with BSP (excluding Cash on hand)	229,608,752	249,858,094	229,607,442	249,774,284
Due from banks	6,385,039	3,196,281	6,285,385	3,140,487
Interbank loans receivable	17,243,602	7,036,608	17,243,602	7,036,608
Securities purchased under agreements to resell	56,390,000	6,122,000	56,390,000	6,122,000
Financial assets at fair value through profit or loss-Held for trading	14,812,840	2,347,077	14,812,840	2,347,077
Available-for-Sale Investments	191,341,109	179,836,155	191,341,109	179,836,155
Held-to-maturity Investments	95,814,860	40,904,585	95,025,587	40,101,183
Loans and receivables	402,186,672	322,410,939	401,265,229	321,002,300
	1,013,782,874	811,711,739	1,011,971,194	809,360,094
Off-Balance sheet items				
Financial guarantees	3,243,426	3,161,981	3,243,426	3,161,981
Loan commitments and Contingent liabilities	76,351,393	63,002,492	76,351,393	63,002,492
	79,594,819	66,164,473	79,594,819	66,164,473
Total Credit Risk Exposure	**1,093,377,693**	**877,876,212**	**1,091,566,013**	**875,524,567**

Where the financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of change in values.

The details on the maximum exposure to credit risk for each class of financial instrument are referred to in specific notes.

Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Parent has established concrete guidelines and procedures relative to managing, monitoring and reporting large exposures and credit risk concentrations in accordance with the rules and regulations issued by the BSP.

As of 31 December 2014, the Parent's qualifying capital covering credit risk is P67.616 billion. Based on the BSP definition, the Parent has set the benchmark for large exposures at P3.86 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P19.432 billion for direct lending and P27.386 billion for wholesale lending.

Overall credit risk management oversight is a function of the Board of Directors (BOD)-level Risk Management Committee. In general, mitigation measures on credit risks are implemented at various levels. However, oversight on credit risk management is vested on the Risk Management Group which is independent from the business function. This is critical in ensuring the integrity and objectivity of the credit risk assessment, pricing, and management process.

The Parent ensures that the credit risks undertaken are commensurate with the risk appetite and the Parent's capacity to manage such risks. Thus, regular monitoring of both the level of risk and equity capital is undertaken to ensure that even in instances of major credit surprises, the Parent could sustain its operations in spite of the losses incurred and continue to be an efficient financial intermediary for development and institutional financing.

The BSP considers that credit concentration exists when total loan exposure to a particular industry exceeds 30 per cent of total loan portfolio. As of 31 December 2014 and 2013, the Parent does not have credit concentration in any particular industry.

As of December 31, 2014 and 2013, information on the concentration of credit as to industry based on carrying amount is shown below:

	Parent			
	2014		2013	
	Amount	%	Amount	%
Financial intermediation	45,463,808	11.8	31,254,583	10.3
Agriculture, hunting and forestry	64,446,378	16.7	53,637,349	17.7
Real estate, renting and business activities	48,350,833	12.5	40,405,973	13.3
Public administration and defense	40,297,169	10.4	42,427,725	14.0
Manufacturing	28,367,821	7.3	23,191,570	7.6
Community, social and personal services	7,035,615	1.8	10,908,453	3.6
Electricity, gas and water	56,315,845	14.6	46,781,383	15.4
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	26,155,457	6.8	17,768,695	5.8
Transport, storage and communication	31,430,663	8.1	20,487,987	6.7
Construction	16,268,608	4.2	9,492,208	3.1
Private households	14,553,282	3.8	1,136,886	0.4
Hotel and restaurant	2,656,522	0.7	2,052,275	0.7
Others	5,274,455	1.3	4,191,393	1.4
	386,616,456	**100.0**	**303,736,480**	**100.0**
Allowance for losses	**(3,340,369)**		**(3,248,889)**	
	383,276,087		**300,487,591**	

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on the type of borrower and assessment of the credit risk of the borrower. The Bank's revised Credit Manual provides the guidelines on the acceptability of collateral and maximum valuation for each type of collateral.

The following are the main collaterals accepted by the Bank:

- For commercial lending – cash or GS, real estate properties, inventory, chattel; and
- For retail lending – mortgage over residential properties.

The Bank also obtains guarantees from corporations which are counter-guaranteed by the Philippine National Government and other corporations accredited by LBP. In the case of agricultural and agri-related loans that are vulnerable to the effects of climate and weather disturbances, borrowers are encouraged to avail of guarantee and insurance mechanisms to shield them, as well as the Bank, from risk events.

The Bank monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of the foreclosed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy foreclosed properties for business use. The Bank also makes use of master netting arrangements with counterparties.

Credit Stress Testing

The Bank regularly conducts stress testing on its loan portfolio covering various scenarios arising from risk events with high probability of occurrence. Utilizing such scenarios, tests were done to determine their impact on the Bank's loan portfolio quality, credit risk weighted assets, and ultimately on its Capital Adequacy Ratio (CAR). The stress tests enabled the Bank to adopt applicable courses of actions to mitigate the resulting risks as well as to comply with regulatory requirements.

Credit Risk Weighted Assets (CRWA)

Gross CRWA as of 2014 aggregated to P418,189.230 million broken down as follows:

Nature of Items	**Amount** (In million pesos)
Total Risk Weighted Assets (RWA) On-Balance Sheet	380,778.932
Total RWA Off-Balance Sheet	37,223.884
Total Counterparty RWA in the Banking Book (Derivatives & Repo-style Transactions)	0.000
Total Counterparty RWA in the Trading Book	186.414
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book	0.000
Total Risk-Weighted Securitization Exposures	0.000
	418,189.230

LBP's Gross CRWA net of General Loan Loss Provision of P416,315.897 million. CRWA constituted 89.23 per cent of the aggregate RWA of P466,591.145 million Capital Adequacy Ratio (CAR). The stress tests enabled the Bank to adopt applicable courses of actions to mitigate the resulting risks as well as to comply with regulatory requirements.

MARKET RISK MANAGEMENT

Market risk is the risk of financial loss arising from exposure to adverse changes in values of financial instruments caused by changes in market prices or rates, including interest rates, Foreign Exchange (Fx) rates, or stock prices that can change the value of financial products held by the Bank.

Risk exposures differ depending on whether the exposures are calculated for financial accounting or under International Financial Reporting Standards (IFRS). The standardized approach is used in the calculation of capital charge for all risk exposures. The Basel II Pillar 3 disclosures are generally based on the measures of risk exposure used to calculate the regulatory capital required.

The table below provides a breakdown of Market Risk Weighted Assets for market risk portfolio exposures calculated using the standardized approach.

Market Risk Weighted Assets (MRWA)

As of 31 December 2014, the MRWA of the Bank stood at P6,043.368 million, broken down as follows:

Nature of Items	Amount (In million pesos)
Interest Rate Exposure	1,778.538
Equity Exposure	83.300
FX Exposure	647.167
Options	3,534.363
	6,043.368

The total MRWA represents 1.30 per cent of the aggregate RWA of P466,591.145 million.

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 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 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 considered insignificant in volume.

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

A management loss alert is activated whenever losses during a specified period equal or exceed specified management loss alert level. LBP controls and minimizes the losses that may be incurred in daily trading activities through the VaR and stop loss limits.

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

Managing Market Risk Components

The following discusses the key market risk components along with respective risk mitigation techniques:

1. Fx Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in Fx rates. LBP views the Philippine PESO as its functional currency. Positions are monitored daily to ensure that these are within established limits. The following limits are set for foreign-currency related transactions:

	Position Limit (In millions)	**Management Loss Alert** Monthly	**Stop loss Limit** Monthly
Foreign Exchange Trading	$50	$320,000	$430,000
Foreign Securities	$20	$298,000	$398,000

LBP had the following significant exposures denominated in foreign currencies as of December 31, 2014:

	US$	**Others** (In thousands pesos)	**Total**
Assets			
Foreign Currency & Coins on Hand /Cash & other cash items	623,096	32,424	655,520
Due from banks	5,742,371	492,911	6,235,282
Held for trading	483,309	0	483,309
Available for sale investments	24,791,688	554,242	25,345,930
Held to Maturity	22,646,176	0	22,646,176
Interbank loans receivable	16,367,520	526,083	16,893,603
Loans and receivables	10,663,049	3,468,074	14,131,123
Investment in subsidiaries	33,952	13,574	47,526
Total Assets	**81,351,161**	**5,087,308**	**86,438,469**
Liabilities			
Deposit liabilities	54,868,745	931,982	55,800,727
Bills payable	662,902	0	662,902
Others	11,410,503	16,309,787	27,720,290
Total Liabilities	**66,942,150**	**17,241,769**	**84,183,919**

2. **Equity Price Risk Management**

The Bank is exposed to equity price risk as a consequence of value fluctuations of equity securities. Equity price risk results 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 MTM and controlled through risk limits such as position, VaR, Management Alert and Stop Loss.

3. **Interest Rate Risk in the Banking Book**

The Bank continues to manage interest rate risk in trading activities through the use of an effective and independently validated VaR methodology. 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. For any given period, the pricing structure is matched when equal amounts of such assets or liabilities mature or re-price in that period. Any mismatch of interest earning assets and interest bearing liabilities is known as a gap position. A positive gap normally means that an increase in interest rates would have a positive effect on net interest income, while a negative gap normally means that a decrease in interest rates would have a negative effect on net interest income.

The Bank establishes initial rates of interest for most of 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 week. The spread charged for particular loans varies depending on a number of factors, such as the type of customer, the credit worthiness of the borrower, the type and maturity of the loan, the type of security offered, if any, the amount of the borrower's deposits with the Bank, potential fee-based business from the customer, competitive considerations and other factors. Interest rates on floating rate loans are typically reset every 30 to 90 days. For deposits, regular savings account rates are set by reference to prevailing market rates, while rates on time deposits are usually priced below rates applicable to Philippine Treasury Bills with similar maturities.

The Bank manages interest rate 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 reports. The assumptions employed include deposit and loan pricing volatilities and reasonability of asset prepayment. It also include determining functional life of non-maturing deposit accounts which is necessary for comparing the accounts with alternative funding sources of the same duration to determine their relative value. Other assumption includes non-maturing deposits price sensitivity and decay rates and the key rate drivers for each interest rate shock scenario. Cash flows from floaters are bucketed according to their next re-pricing, if fixed rate, these shall be bucketed according to residual maturity. Non-maturing deposit accounts are classified in the '1 to 30 days' bin.

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 one year horizon. Interest related assets, liabilities and off-balance sheet items are classified by maturity bucket to determine re-pricing gaps that are essential indicator of the level of interest rate risk in the banking book. It is a simulation method that analyzes the interest rate risk in the banking book in terms of earnings (accrual basis). The re-pricing gap is multiplied by a change in interest rate or rate shocks to determine EaR or the potential increase or decrease in NII resulting from changes in interest rates. EaR measures the decline in NII resulting from upward or downward interest rate movements in a "Business as usual" environment, either through gradual movements or as a one-off large interest rate shock over a particular time horizon.

The following table sets the re-pricing gap position of the LBP as of 31 December 2014 and the increase (decline in earnings for upward and downward interest rate shocks in the banking book):

	2014 Change in Interest Rates							
(In Php Million)	**-300/-15**	**-200/-10**	**-100/-5**	**-50/-2.5**	**+50/+2.5**	**+100/+5**	**+200/+10**	**+300/+15**
Earnings-at-Risk	14,194.32	9,462.88	4,731.44	2,365.72	(2,365.72)	(4,731.44)	(9,462.88)	(14,194.32)

Financial Items	**Due within 1 month**	**Due in more than 1 month to 3 months**	**Due in more than 3 months to 6 months**	**Due in more than 6 months**
			(in Php Millions)	
Financial Assets				
Due from BSP	0	0	0	0
Total Loans	135,868.19	114,076.59	40,402.46	18,003.84
Total Investments	1,035.96	1,142.19	7,467.27	936.59
Sales Contract Receivables	27.65	6.01	5.45	14.89
Total Financial Assets	**136,931.80**	**115,224.79**	**47,875.18**	**18,955.32**
Financial Liabilities				
Deposits	634,375.02	137,539.50	17,525.40	13,930.21
Bills Payable	0	1,162.80	5,719.78	662.90
Others	45.03	0	0	0
Total Financial Liability	**634,420.05**	**138,702.30**	**23,245.18**	**14,593.11**
Off-Balance Sheet				
Derivatives	(17,888.00)	(447.20)	0	0
Commitments	0	0	0	(46,467.05)
Total Off-Balance Sheet	**(17,888.00)**	**(447.20)**	**0**	**(46,467.05)**
Repricing Gap	**(515,376.25)**	**(23,924.71)**	**24,630.00**	**(42,104.84)**

b. **Economic Value Perspective** - The Bank uses the EVE Model to assess the potential long-term effects of changes in interest rates. This model provides long-term view of possible effects of interest rate changes 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.

EVE is calculated by valuing all assets and liabilities, plus or minus off-balance sheet transactions in the theoretical base rate environment, then revaluing the balance sheet based on a forecasted change in interest rates, and calculating the change. The base case scenario is run using theoretical forecast. Alternate scenarios are run against the base case. The percentage changes between the base case and the alternate scenario measure the changes in the values of the balance sheet.

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

	2014 Change in Interest Rates (In million pesos)							
Basis Points	-300	-200	-100	-50	+50	+100	+200	+300
EVE	5,764	3,813	1,891	942	(935)	(1,862)	(3,696)	(5,502)

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 LBP 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 Model.

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 99.00 per cent confidence level, assuming a static portfolio. This level implies that on 99 trading days out of 100, the MTM of the portfolio will likely either (1) increase in value, or (2) decrease in value by less than the VaR estimate; and that on 1 trading day out of 100, the MTM of the portfolio will likely decrease in value by an amount that will exceed the VaR estimate.

VaR is calculated by simulating changes in the key underlying market risk factors (e.g., interest rates, interest rate spreads, equity prices, foreign exchange rates) to determine the potential distribution of changes in the market value of LBP's portfolios of market risk sensitive financial instruments. Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management.

The VaR disclosure for the trading activities is based on Historical Simulation Model. Also for Equities, Fx and Foreign Securities trading portfolio, the internally developed Historical Simulation VaR Calculation Model is being used. The Bank however continuously pursues initiatives to improve processes in preparation to the bank's migration towards an Internal Model Approach for capital charging. The VaR disclosure is intended to ensure consistency of market risk reporting for internal risk management, for external disclosure and for regulatory purposes. The over-all VaR limit for the trading activities of LBP-FMG was set at P319 million (with a 99.00 per cent confidence level, and a one-day holding period) throughout 2014.

2. Back-Testing

Back-testing is the basic technique used in verifying the quality of risk measures used by the Bank. It is the process of comparing actual trading results with model-generated risk measures.

Back-testing is a standard measure in determining the accuracy and predictive capability of the risk models. In back-testing, the focus is on the comparison of actual daily changes in portfolio value, and hypothetical changes in portfolio value that would occur if end-of-day positions remain unchanged during the one-day holding period. If MTM and trading loss exceeds the result of the model-generated risk measure, it is considered as an exception. 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 which serves as the LBP senior management level and the RiskCom, a Board level RiskCom. The Committees analyze actual performance against VaR measures to assess model accuracy and to enhance the risk estimation process in general.

3. Stress Testing

Measuring market risk using statistical risk management models has recently become the main focus of risk management efforts in the banking industry where banking activities are exposed to changes in fair value of financial instruments. LBP believes that the statistical models alone do not provide reliable method of monitoring and controlling risk. While VaR models are relatively sophisticated, they have several known limitations. Most significantly, standard VaR models 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) report is a model forecasting the loss return values of a selected portfolio. It calculates the size of possible losses related to a precise scenario. It identifies scenarios that may influence the portfolio strongly and which market variables may trigger these scenarios to be able to come up with sound portfolio risk management strategies. PSA uses various approaches for scenario identification such as the use of data based on market sentiments, replication scenario based on historical events that occurred in the past or extreme value approach using hypothetical scenarios to take account of plausible changes or future developments that have no historical precedent. 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 to CAR of the Bank to be able to assess its impact on the CAR compliance set at 10.00 per cent and the Common Equity Tier 1 (CET1) ratio of at least 6.00 per cent.

LIQUIDITY RISK MANAGEMENT

Liquidity Risk Management Framework

The LBP Board exercises oversight through RiskCom and delegated the responsibility of managing the overall liquidity of the Bank to the ALCO. This Committee meets twice a month or more frequently as required by prevailing situations. It is responsible for effectively executing the liquidity strategy and overseeing the daily and long-term management of liquidity risk. ALCO delegates day-to-day operating responsibilities to the TIBS based on specific practices and limits established in governing treasury operations. The RMG through the Treasury Risk Management Department (TRMD) is responsible for the oversight 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.

LBP'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. In managing its liquidity, LBP has the following sources of funding: cash from operations, stock of marketable assets, government and retail deposit sources, and various credit lines from banks.

The ALMG submits to the TIBS Head and the President various daily Treasury Reports (which include the Bank's cash or near cash investments and other data related to liquidity) to assist senior management in decision making.

The Bank's liquidity position is subjected to stress testing and scenario analysis to evaluate the impact of sudden stress events. The scenarios are based on historic events, case studies of liquidity crisis and models using hypothetical events.

Liquidity Risk Measurement Models

The Bank considers liquidity risk based on Market and Funding Liquidity Risk perspective.

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 the probability that large transactions may have a significant effect on market prices that lack sufficient depth, or associated with structured or complex investments as the market of potential buyers is typically small. It is also the risk of an unexpected and sudden erosion of market liquidity as a result of sharp price movement or jump in volatility, or internal to the Bank such as loss of market confidence. This scenario 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 LGR. This report is prepared to provide Senior Management and the Board timely appreciation of the Bank's liquidity position.

The ALCO and the TIBS are responsible for the daily implementation and monitoring of relevant variables affecting LBP's liquidity position. 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.

As of 31 December 2014, P205.79 billion or 19.35 per cent of LBP's Total Assets were represented by Net Loans with remaining maturities of less than one year and P36.23 billion or 3.43 per cent of LBP's Total Assets were invested in trading and investment securities with remaining maturities of one year or less. The Bank's trading and investment securities account includes securities issued by sovereign issuers, primarily government treasury bills, fixed rate treasury notes, floating rate treasury notes and foreign currency denominated bonds issued by the government. Due from BSP and Other Banks amounted to 22.30 per cent of LBP's Total Assets. Deposits with banks are made on a short-term basis with almost all being available on demand or within a month.

Although the Bank pursues what it believes to be a prudent policy in managing liquidity risk, a maturity gap does, from time to time, exist 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.

Liquidity Gap Report (LGR)

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

	PARENT					
	2014			2013		
	Due Within One Year	**Due Greater than One Year**	**Total**	**Due Within One Year**	**Due Greater than One Year**	**Total**
Assets						
Cash and Other Cash Items	24,247,689	0	24,247,689	20,354,849	0	20,354,849
Due from BSP	229,351,507	0	229,351,507	249,497,118	0	249,497,118
Due from Other banks	6,284,410	975	6,285,385	3,138,986	1,501	3,140,487
Interbank loan receivable	17,243,602	0	17,243,602	7,036,608	0	7,036,608
Security Purchased Under agreement to resell	56,390,000	0	56,390,000	6,122,000	0	6,122,000
Loans and Receivables	132,153,291	269,111,938	401,265,229	95,697,641	225,304,659	321,002,300
Investments	36,225,870	265,439,491	301,665,361	19,287,347	203,482,894	222,770,241
Other Assets	2,770,327	17,387,787	20,158,114	1,457,647	15,701,861	17,159,508
Total Assets	**504,666,696**	**551,940,191**	**1,056,606,887**	**402,592,196**	**444,490,915**	**847,083,111**
Liabilities						
Deposits						
Demand	392,226,721	0	392,226,721	348,297,024	0	348,297,024
Savings	469,423,769	40	469,423,809	324,134,174	0	324,134,174
Time	46,276,487	24,619	46,301,106	26,183,654	443,107	26,626,761
LTNCD	0	5,000,000	5,000,000	0	5,000,180	5,000,180
Bills Payable	2,182,814	18,058,314	20,241,128	2,275,469	21,294,894	23,570,363
Unsecured Subordinated Debt	0	10,500,000	10,500,000	0	17,434,000	17,434,000
Due to BTr, BSP, & MCs/PCIC	1,755,387	117,078	1,872,465	1,373,523	115,561	1,489,084
Due to Local Banks & Others	8,621	0	8,621	5,101	0	5,101
Other Liabilities & Payables	8,329,210	20,022,669	28,351,879	1,175,956	19,394,318	20,570,274
Total Liabilities	**920,203,009**	**53,722,720**	**973,925,729**	**703,444,901**	**63,682,060**	**767,126,961**

The Bank performs liquidity gap analysis using the LGR. It 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, Foreign Currency Deposit Unit (FCDU) and Consolidated LGR on a monthly basis.

Core Deposit

The Bank also determines Core Deposit which is calculated based on Net Withdrawal Pattern. Core Deposit looks at deposit levels which incorporates the offsetting effect of withdrawal patterns on deposits. 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-maturity deposits

Regular Savings (Total Savings less High Yield Savings Accounts) 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 2014 based on contractual repayment arrangements which take into account the effective maturities as indicated by LBP's deposit retention history.

	Due within 3. mos.	Due more than 3 to 6 mos.	Due more than 6 mos. to 1 year	Due more than 1 year to 5 years	Due more than 5 years	Total
			(In million pesos)			
Financial Assets						
Cash and Due from Banks	202,560	0	57,324	0	1	259,885
Total Loans	130,400	51,508	23,879	81,026	188,086	474,899
Total Investments	15,753	6,874	13,598	89,157	176,283	301,665
Other Assets	2,188	0	582	0	17,388	20,158
Total Assets	350,901	58,382	95,383	170,183	381,758	1,056,607
Financial Liabilities						
Deposits	384,711	18,717	15,993	652	492,879	912,952
Borrowings	2,373	474	1,100	6,764	11,411	22,122
Other Liabilities and Unsecured Subordinated Debt	249	0	8,080	0	30,523	38,852
Total Capital					82,681	82,681
Total Liabilities & Capital	387,333	19,191	25,173	7,416	617,494	1,056,607
Asset & Liabilities Gap Position	**(36,432)**	**39,191**	**70,210**	**162,767**	**(235,736)**	

The 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 Maximum Cumulative Outflow (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 near time buckets.

Financial 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 or leverage limits. The following table sets out the Bank's liquidity ratios as of the dates indicated:

	31 December	
	2014 (Prudential)	**2013** (Audited)
	(In million pesos, except percentages)	
Liquid Assets(1)	625,897.34	502,534.78
Financial Ratios:		
Liquid Assets to Total Assets	59.55%	59.33%
Liquid Assets to Total Deposit	68.46%	71.38%

1. Note: Liquid Assets include Cash and other Cash Items, Interbank Loans, Government Securities and Tradable non-Government securities and commercial paper

Liquidity Stress Test

The Bank examines several possible situations, usually worst case, most likely case and best case. It does Portfolio Stress Test and Liquidity Stress Test. Result of scenario 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 various ratios mentioned, for example, minimum liquid assets to volatile liabilities.

LBP developed the Liquidity Stress Test to address the shortcoming of LGR Model. This is a risk management tool used to evaluate the potential impact on liquidity of unlikely, although plausible, events or movements in a set of financial variables. While such unlikely outcomes do not mesh easily with LGR analysis, analysis of these outcomes can provide further information on expected portfolio losses or cash flow over a given time horizon.

Liquidity management is one of the fundamental preconditions to achieving all other banking activities - strategically mapped by ALCO, actively managed by the TIBS through the ALMG and overseen by the RMG through TRMD.

LBP performs a comprehensive liquidity risk measurement and control using as tool the Consolidated LGR covering the entire LBP Group. Risk models used in liquidity risk management are subjected to independent model validation. The Internal Audit Group (IAG) is tasked to do model validation. An independent validation is also being done by the Basel Officer for Market who reports directly to the Head of the RMG. For this year, incorporated were latest enhancements made on the model as a result of independent model validation by a third party auditor.

Liquidity Coverage Ratio (LCR)

LCR is designed to ensure banks maintain an adequate level of unencumbered high quality liquid assets to meet liquidity needs under an acute 30-day stress scenario. Under the Basel Committee's Basel III LCR rules, the LCR is to be calculated by dividing the amount of unencumbered cash and highly liquid, unencumbered government, government-backed and corporate securities by estimated net outflows over a stressed 30-day period. The net outflows are calculated by applying assumed outflow factors, prescribed in the rules, to various categories of liabilities, such as deposits, unsecured and secured wholesale borrowings, unused commitments and derivatives-related exposures, partially offset by inflows from assets maturing within 30- days.

Pending issuance of BSP Circular and Guidelines for LCR, the Bank used an internally developed LCR model. In the meantime, the Bank has started mapping accounts that may be classified as "High Quality Liquid Assets" based on Basel III Requirements. The Bank has institutionalized other measures to properly manage liquidity risk as follows:

1. *Active Board and Senior Management Oversight* – The Board and Senior Management receives regular liquidity reports and updates to fully inform them of the level of liquidity risk assumed by the Bank and if activities undertaken are within the prescribed risk tolerance in accordance with approved guidelines, liquidity or funding policy (targets), risk limits.

2. *Liquidity Risk Management Governance* - The Board defines LBP's risk appetite and other key metrics that set the levels of acceptable liquidity risk that can be taken by the Bank. The Board also provides the final validation of proposed organizational and reporting structures for the management of liquidity risk. It is also responsible for ensuring that liquidity risk management strategies are implemented and followed. It ensures that risk appetite is respected and delegates to ALCO the management and optimization of the bank's liquidity risk position.

The ALCO optimizes results within the risk appetite limit set by the Bank and takes decisions to manage liquidity risk and allocate resources to manage this risk. ALCO is responsible for ensuring that liquidity risk management strategies are applied. It reviews liquidity risk reports and monitors compliance with agreed risk appetite limits. It monitors the adequacy of the risk infrastructure, pre-validates (as well as maintains) risk indicators and models. The TIBS is responsible for managing the liquidity risk exposure that the bank generates.

The TIBS ensures that ALCO decisions pertaining to the management of liquidity risk are implemented. The FMG and the ALMG take assets and liabilities positions by executing ALCO's decision. They also develop, calibrate and maintain LBP's liquidity risk indicators. The RMG through TRMD independently performs oversight function related to liquidity risk identification, measurement and analysis, monitoring and control. TRMD reports on the Bank's market risk exposure to ALCO and the RiskCom.

The Financial Accounting Department (FAD) and Treasury Operations Department (TOD) provide the backroom support and are responsible in generating and reconciling LBP balance sheet. As such, FAD and TOD provide figures and various relevant reports to FMG, ALMG, and TRMD.

3. *Liquidity Risk Approving Authorities* – The Bank has identified approving levels and authorities in the formulation of risk management policies and procedures, risk measurement methodologies, limit setting and ratification of limit allocation, monitoring and control procedures.

4. *Organized liquidity management methods* – The Bank has established adequate internal guidelines as well as administrative, accounting and review procedures. Each operating unit of the Bank is mandated to come up and regularly review and update its Operations Manual.

5. *Documented Liquidity Risk Management Policies and Procedures* – The Bank has established and documented all risk management policies and procedures which are subject to regular review and revised as needed.

6. *Diversified funding sources* – The Bank utilizes diversified funding sources that includes Government and Private deposits, Loans from multilateral and bilateral institutions (World Bank [WB], Asian Development Bank [ADB], Japan Bank for International Cooperation [JBIC] etc.), inventory of GS under AFS, credit lines with other banks, among others.

7. *Statutory deposit with BSP* – Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to unified reserve equivalent to 20.00% effective 30 May 2014 (Under BSP Circular #832). Government deposits are subject to an additional 30.00 per cent liquidity floor requirement for total reserves of 50.00 per cent.

8. *Acquisition of an Asset and Liability Risk Management System (ALRMS) for full automation of ALRMS processes* – The Bank has approved the acquisition of the ALRMS which would be facilitated with the hiring of an external consultant to assist the Bank in the system development and production. The system when implemented shall allow the Bank to optimize the use of a dynamic system to manage not only liquidity risks but also other risks associated with the investment functions of the Bank.

9. *Liquidity Contingency Plan (LCP)* - To ensure that the Bank has sufficient liquidity at all times, the Bank formulated a liquidity contingency plan using extreme scenarios of adverse conditions and evaluates the Bank's ability to withstand these prolonged 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.

The plan details the amount of funds (such as unused credit facilities) the Bank can access and the scenarios under which it could use them. This provides guidance for managing liquidity risks in the following market scenarios:

a. *Ordinary course of business* - In the ordinary course of its business activities, the Bank typically manages its liquidity risk by seeking to roll-over its deposited funds through the offering of competitive rates of interest, drawing upon its interbank credit lines or the early termination of Government Securities Purchased Under Reverse Repurchase Agreements (GSPURRA).

b. *Seasonal or Intermediation duration* - The Bank manages its liquidity risk in the longer-term via the liquidation of marketable AFS category securities, the solicitation of government deposits and the use of derivative instruments in the swap market.

c. *Acute or institution specific* – In acute or institution specific circumstances, the Bank will seek to manage its liquidity risk by the proportional liquidation of AFS and HTM-GS, the non-renewal of maturing short-term loans, borrowings from the BSP and the PDIC using eligible securities as collateral and generating cash infusions through large deposits and the Government.

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

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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

www.landbank.com