LAND BANK OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. Corporate Information

The Land Bank of the Philippines (Parent) is a financial institution wholly-owned by the National Government. The Parent was established in 1963 as the financial intermediary of the Land Reform Program of the government. Later, it became the first universal bank by charter with expanded commercial banking powers to sustain its social mission of spurring countryside development.

The Parent is a depository bank of the government and its various instrumentalities. The Parent services the requirements of the national government, local government units and government-owned and controlled corporations. As of December 31, 2016, 67 percent of the deposit portfolio came from the government while the rest came from private depositors.

The Parent and its subsidiaries (Group) are engaged in the business of banking, financing, leasing, real estate, insurance brokering and other related services to personal, commercial, corporate and institutional clients. The Group's products and services include deposit-taking, lending and related services, treasury and capital market operations, trade services, payments and cash management, and trust services.

The Parent's principal office of business is located at the LandBank Plaza, 1598 M.H. Del Pilar corner Dr. J. Quintos Streets, Malate, Manila.

The accompanying comparative financial statements of the Parent were authorized for issue by the Parent's Board of Directors on February 28, 2017 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 <u>Basis of Financial Statements Preparation</u>

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL), available-for- sale (AFS) investments, and derivative financial instruments that have been measured at fair value.

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

The functional currency of RBU and FCDU is Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year.

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

2.2 Statement of Compliance

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

2.3 Basis of Consolidation

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

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

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

Significant Accounting Policies

Foreign currency translation

Transactions and balances

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD. For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date. Foreign exchange differences arising from revaluation and translation of foreign-currency denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

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

Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of the financial instruments include the following:

Cash and cash equivalents and short-term investments – Carrying amounts approximate fair values due to the relatively short-term maturity of these instruments.

Debt and Equity securities – Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from counterparties or independent parties offering pricing services, values based on adjusted quoted market prices of comparable investments or values computed using the discounted cash flow methodology.

Loans and receivables – Fair values of loans are estimated using the discounted cash flow methodology using the Parent's current incremental lending rates for similar types of loans.

Mortgage loans – Fair values of loans on real estate are estimated using the discounted cash flow methodology using the Parent's current incremental lending rates for similar types of loans.

Short-term investments – Carrying amounts approximate fair values.

Others – Quoted market prices are not readily available for these assets. They are not reported at fair value and are not significant in relation to the Group's total portfolio of securities.

Obligations to repurchase securities are recorded at cost which approximates fair value.

Liabilities – Fair values are estimated using the discounted cash flow methodology using the Parent's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. Except for the long-term fixed rates liabilities and floating rate liabilities with repricing periods beyond three months, the carrying values approximate fair values due to the relatively short term maturities of the liabilities or frequency of the repricing.

Financial Instruments

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date - the date that an asset is delivered to or by the Group. Securities transactions are also recognized on settlement date basis. Derivatives are recognized on trade date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and if they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. In the absence of an available current bid and asking prices, the price of the most recent transaction is used 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.

Derivative Instruments

The Parent enters into derivative contracts such as currency forwards and currency swaps to manage its foreign exchange exposure. These derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of comprehensive income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative instruments are booked at its notional amount under contingent account on trade date and subsequently measured using the mark to forward methods. Any gains/(losses) arising from the market valuation are booked under asset account “Derivatives with positive fair value“ if the market valuation is positive and under the liability account “Derivatives with negative fair value” if the market valuation is negative contra foreign exchange gain/(loss) account.

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

(a) *Held for trading*

Financial assets held for trading are debt and equity securities recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in ‘Gain on Financial Assets HFT’. Interest earned or incurred is recorded in ‘Interest income’ or ‘Interest expense’, respectively, while dividend income is recorded in ‘Dividends’ when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

(b) *Loans and receivables, amounts due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements*

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

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

HTM investments are financial assets with fixed or determinable payments and fixed maturities for which the Group’s management has the positive intention and ability to hold to maturity. These investments are carried at amortized cost using the effective interest rate (EIR) method, reduced by any impairment in value. Gains and losses are recognized in statement of comprehensive income when the HTM investments are derecognized, impaired or revalued (in case of foreign currency denominated), as well as through the amortization process.

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

AFS investments are debt and equity securities which do not qualify to be classified as HFT, HTM or loans and receivables. They are purchased and held indefinitely, but which the Group anticipates to sell in response to liquidity requirements or changes in market conditions. AFS investments are carried at fair market value. The effective yield component (including premium, discounts and directly attributable transaction costs) and foreign exchange restatement results of AFS debt securities are reported in earnings. Dividends on AFS equity instruments are recognized in the statement of comprehensive income when the entity’s right to receive payment is established. The unrealized gains and losses arising from the recognition of fair value changes on AFS assets are reported as a separate component of equity in the statement of financial position.

<u>Impairment of Financial Assets</u>

The Group determines at each reporting date if there is objective evidence that a financial asset may be impaired.

Financial assets carried at amortized cost

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses if objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for assets that are not individually significant. If it is determined that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics (i.e., on the basis of the Group's scoring process that considers asset term, industry and collateral) and that group of assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for group of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at 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 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.

<u>Derecognition of Financial Assets and Liabilities</u>

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liabilities. Derecognition of a financial liability happens when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting financial instruments

Offsetting of financial assets and financial liabilities are only made and the net amount are reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Subsequent Events

Any post-year-end event that provides additional information about the Group's position at the statement of financial position date (adjusting event) is reflected in the financial statements. Post-year-end events that are non adjusting events, if any, are disclosed in the Notes to the Financial Statements, when material.

Impairment of Property and Equipment, Investment Property and Other Resources

At each reporting date, the Group assesses if there is any indication that the property and equipment and investment properties may be impaired.

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

Investments in Subsidiaries

The Parent's investments in subsidiaries in which the Parent has control are accounted for under the cost method of accounting in the separate financial statements. These are carried in the statement of financial position at cost less any impairment in value.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. When the assets are sold or retired, their cost and accumulated depreciation and amortization are eliminated from the accounts and any gain or loss resulting from their disposal is recognized in the profit or loss.

The initial cost of property and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, are normally charged to profit and loss in the period in which the costs are incurred.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful life (EUL) of the property and equipment as follows:

	Number of Years
Buildings	10 - 30
Furniture, fixtures and equipment	5 - 10
Leasehold rights	10 - 30*
Transportation equipment	7 - 10

*EUL shall depend on the length of the lease. It shall be the period of the lease or the EUL of the assets, as given, whichever is shorter.

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Investment properties

Property acquired by the Group in settlement of loans through foreclosure or dation in payment, and that is not significantly occupied by the Group, is classified as investment property. Investment property comprises land and building.

Investment properties are measured at their fair value as the deemed cost as allowed under PFRS 1 and PAS 40. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss. Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of an investment property are recognized in the profit and loss in the year of derecognition.

Expenditures incurred after the fixed investment properties have been put into operation, such as repairs and maintenance costs, are normally charged to expense in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis over 10 to 30 years, which is the estimated useful life of the investment properties.

Non-Current Assets Held for Sale

Non-current assets held for sale include other properties (chattels, auto and real estate) acquired through repossession or foreclosure that the Group intends to sell within one year from the date of classification as held for sale.

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Group is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair values. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the control of the Group and there is sufficient evidence that the Group remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. The Group recognizes an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

Intangible Assets

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (three to five years) using the straight line method.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred.

Income Taxes

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

A defined contribution plan is maintained under which the entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employees service in the current and prior period. The standard requires an entity to recognize contributions to a defined contribution plan when an employee has rendered service in exchange for those contributions.

The fund comes from the Bank's annual contribution based on the total number of employees as of December 31 of each year, which for 2016 amounts to P6.27 million. The fund is being administered by the Provident Fund Office and it is kept separate and distinct from its other funds.

The Group maintains a defined contribution plan which provides for estimated pension benefits on its contributory retirement plan covering all regular employees.

Leases

(a) LBP Group is the lessee

(i) Operating lease - leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to 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 collectability 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 recognized in the profit or loss.

Generally, commissions, service charges and fees are recognized only upon collection or accrued where there is reasonable degree of certainty as to its collectability.

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.

Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRS 2014-2016 Cycle)*

    The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

    The amendments do not have any impact on the Group's financial position and result of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

    The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

    Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

    The amendments clarify that an equity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

    Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

    These amendments are not expected to have any impact on the Group.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

  This amendment is not applicable to the Group.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard on January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Group because none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 9, *Financial Instruments*

  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 providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group assessed that the adoption of PFRS 9 will have a significant 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 and on the amount of its credit losses. The Group is currently assessing the quantitative impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014-2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

The amendment is not applicable to the Group.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intention for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

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 if an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgments on any observable data which indicates a measurable decrease in the estimated future cash flows of a financial asset from a portfolio before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The carrying values of receivables from customers and HTM investments of the Group and the Parent are P653,979,538,186 and P651,884,922,377 as of December 31, 2016 and P573,079,322,336 and P570,830,803,672 as of December 31, 2015, 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 for both the Group and the Parent are P290,396,560,740 as of December 31, 2016 and P154,131,204,263 as of December 31, 2015.

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

P152,818,697,546 and P151,928,198,623 as of December 31, 2016 and P122,601,782,887 and P121,784,243,661 as of December 31, 2015, 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 P7,145,490,196 and P6,644,893,199 as of December 31, 2016 and P6,772,037,438 and P6,243,994,847 as of December 31, 2015, respectively.

4. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2016	2015 As restated	2016	2015
Cash on hand	27,820,116,755	26,568,357,307	27,820,045,782	26,568,204,651
Checks and other cash items	319,185,867	306,472,027	319,185,867	306,472,027
FX Currency notes & coins on hand	0	33,701	0	33,701
Returned checks and other cash items	103,786,468	8,461,631	103,786,468	8,461,631
Petty cash fund	6,842,000	5,115,441	6,750,000	4,963,441
Revolving fund	1,115,064	434,848	235,508	258,243
Payroll fund	780,572	762,534	780,572	762,534
	28,251,826,726	26,889,637,489	28,250,784,197	26,889,156,228

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	
	2016	2015 As restated	2016	2015
Deposit with local banks	399,159,167	212,853,919	289,385,587	105,129,525
Deposit with foreign banks	11,332,374,784	5,678,126,719	11,332,374,784	5,677,606,050
	11,731,533,951	5,890,980,638	11,621,760,371	5,782,735,575

The Group maintains nostro accounts on global basis with 25 foreign depository banks totaling 29 and 30 bank accounts in 2016 and 2015, respectively, the most significant of which are as follows:

2016	2015
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. LandesBank Baden-Wurttemberg
4. JP Morgan Chase Bank	4. The Bank of New York
5. LandesBank Baden-Wurttemberg	5. Standard Chartered Bank, Frankfurt

7. Interbank Loans Receivables

This account consists of the Parent's loans receivable from domestic and foreign banks. Interbank loans receivable carry interest rates at December 31, as follows:

	2016			2015		
Domestic	2.55%	to	4.11%	2.53%	to	2.56%
Foreign	0.12%	to	0.80%	0.015%	to	0.61%

8. Securities Purchased under Agreements to Resell

This account consists of the Parent's Government Securities Purchased under Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas.

	Group		Parent	
	2016	2015	2016	2015
Domestic				
Government Securities Purchased under Reverse Repurchase Agreement	14,792,325,450	83,654,000,000	14,792,325,450	83,654,000,000
FCDU				
Margin Call on the Bank's Report Transactions Derivative with positive	11,258,149	0	11,258,149	0
	14,803,583,599	83,654,000,000	14,803,583,599	83,654,000,000

Securities Purchased under Agreements to Resell of the Group carry interest rate at 4.00 per cent as at December 31, 2016 and 2015.

9. Held for Trading

This consists of:

	Group		Parent	
	2016	2015	2016	2015
Government Securities – Domestic	8,465,657,400	7,121,502,080	8,465,657,400	7,121,502,080
Private Securities – Domestic	7,227,302	4,701,575	7,227,302	4,701,575
Derivative with positive fair value	1,431,700,281	1,347,819,917	1,431,700,281	1,347,819,917
	9,904,584,983	8,474,023,572	9,904,584,983	8,474,023,572

The Held for Trading (HFT) financial assets of the Group carry interest rates at December 31 as follows:

	2016			2015		
Domestic	1.215%	to	10.50%	1.62%	to	10.50%
Foreign	0%	to	9.625%	2.00%	to	9.50%

HFT includes the foreign exchange (FX) risk cover of the Parent's borrowings from multilateral agencies amounting to P1,213,761,006 and P1,144,019,566 in 2016 and

2015, respectively, which is treated as a derivative financial instrument per BSP Monetary Board Resolution No. 1063 dated August 14, 2008.

Under a Memorandum of Agreement between the National Government (thru the Department of Finance) and the Parent, the former shall guarantee and assume the FX risk relating to foreign currency denominated borrowings from multilateral agencies (i.e. World Bank, Asian Development Bank, JICA, etc.) which are relent in local currencies. The fair value changes on the FX risk cover are reported immediately in the statement of comprehensive income. As of December 31, 2016, the outstanding notional amount of the FX risk cover amounted to JPY6,704,591,679.

Prior to 2007, the value of the FX risk cover as an option derivative varies on the movement of the foreign exchange rates of the Bills Payable. Beginning 2007, in accordance with Monetary Board Resolution No. 1063 dated August 14, 2008, the Bank applied the standard option valuation model approach which resulted in an increase in the derivative asset amounting to P69,741,440 in 2016 and a decrease of P41,729,383 in 2015.

The derivative with positive fair value comprise of the following:

	2016	**2015**
Foreign Exchange Risk Cover	1,213,761,006	1,144,019,566
Debt Warrants	92,655,060	87,698,051
Forward Contracts	125,284,215	116,102,300
	1,431,700,281	1,347,819,917

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

10. Available for Sale Investments

This account consists of:

	Group		**Parent**	
	2016	**2015**	**2016**	**2015**
Domestic				
Government	222,882,526,585	102,246,734,504	222,882,526,585	102,246,734,504
Private	13,825,136,451	16,447,378,034	13,825,136,451	16,447,378,034
Foreign				
Government	43,680,900,441	25,651,369,845	43,680,900,441	25,651,369,845
Private securities	2,656,479,215	2,508,304,235	2,656,479,215	2,508,304,235
Investment in non-marketable securities, net of allowance for probable losses of P1,407,712,336 in 2016 and P1,408,592,444 in 2015	7,351,518,048	7,277,417,645	7,351,518,048	7,277,417,645
	290,396,560,740	154,131,204,263	290,396,560,740	154,131,204,263

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

	2016			2015		
Domestic	2.12%	to	12.88%	1.62%	to	12.88%
Foreign	0.00%	to	10.63%	2.75%	to	10.63%

Available-for-sale investments-Domestic Private include 42,002,750 MERALCO shares of stocks with market value of P11,130,728,750 which are subject of legal disputes.

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

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

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

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

The Parent's shares of stock in MERALCO are not part of the Agrarian Reform Fund (ARF), a fund which is solely answerable to the obligation of the National Government pursuant to its Agrarian Reform Program. In accordance with Section 63 of Republic Act 6657 (Comprehensive Agrarian Reform Law), assets of the bank cannot be used to pay for land acquisition as this shall only be sourced from the ARF.

In its December 14, 2011 *Decision* in G.R. No. 188376, the Supreme Court directed MERALCO to return to the Land Bank of the Philippines (LBP) 42,002,750 MERALCO shares of stock. The Supreme Court further declared that the MERALCO shares of stocks are corporate assets of LBP illegally taken to satisfy the payment of just compensation that should have been appropriated only from the ARF. This ruling has become final and executory on September 11, 2012 (Entry of Judgment).

LBP immediately filed a motion before the Regional Agrarian Reform Adjudicator (RARAD) for the issuance of a writ of execution to implement the Supreme Court decision. This was, however, vigorously opposed by the other party. On April 1, 2013, the RARAD finally issued the *Writ of Execution.* As partial compliance, MERALCO delivered to LBP 38,635,950 shares including cash dividends in the total amount of P1,206,955,618; and property dividends consisting of 108,884,212 shares of stock in Rockwell Land Corporation.

Still undelivered are 3,366,800 shares, plus accrued cash dividends thereon, amounting to P297,086,432 as of December 31, 2016, plus 9,488,394 shares of stock in Rockwell Land Corporation as property dividends, and the unpaid dividends due from the 1,402,750 MERALCO shares amounting to P8,145,010. These 1,402,750 shares are part of the 38,635,950 shares restored to LBP, but certificated in the name of the other party before the Supreme Court decision was partially implemented.

To recover fully the MERALCO shares and dividends, LBP sent its June 18, 2014 *Letter* to the Office of the Regional Adjudicator Region IV – B (MIMAROPA) requesting the office to direct the Sheriff to perform all necessary acts for the full implementation of the April 1, 2013 *Writ of Execution* such as, but not limited to, the issuance of another *Demand to Comply* to be served upon MERALCO. LBP again sent the August 15, 2014 *Letter* to RARAD reiterating its request to expedite the full implementation of the Supreme Court's ruling in G.R. No. 188376 and to prevent further damage to LBP.

On February 6, 2015, LBP received the January 24, 2014 *Sheriff's Report* from the Sheriff of the Regional Adjudicator Region IV-B (MIMAROPA) regarding MERALCO's partial compliance of the December 14, 2011 Supreme Court *Decision* in G.R. No. 188376. LBP's June 18, 2014 *Letter* and August 15, 2014 *Letter* were not acted upon by the RARAD, and no further writ of execution or demand to comply were issued.

Since RARAD no longer issued a writ of execution or demand to comply, LBP sent the February 11, 2015 *Letter* addressed to MERALCO to demand the delivery of the remaining 3,366,800 shares of stocks plus unpaid dividends. MERALCO failed to respond to LBP's demand.

On account of the January 24, 2014 *Sheriff's Report* and MERALCO's failure to respond to LBP's February 11, 2015 *Letter,* LBP prepared a petition for contempt against MERALCO and its representatives for failing to deliver the remaining 3,366,800 shares of stocks plus accrued dividends and the unpaid dividends due from the 1,402,750 MERALCO shares delivered to LBP, and to compel full compliance with the December 14, 2011 Supreme Court *Decision*.

On March 10, 2015, the petition was sent to the Office of the Government Corporate Counsel (OGCC) for review and signature. OGCC approved the filing of the petition before the Supreme Court. On April 14, 2015, the ***Petition to Cite Respondents in Indirect Contempt*** was filed before the Supreme Court.

The Supreme Court has not yet directed the parties to file their respective Memoranda nor submitted the case for Decision as to date.

Parent's Accumulated market gains/losses on AFS government and private issues as of December 31, 2016 amounted to P5,757,789,248. Parent's Net unrealized gains/losses on AFS was P3,536,033,144.

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, 2016 in the amount of P2,221,756,104 represents the remaining unamortized portion of the net unrealized gain or loss, that has been recognized directly in equity when the Available-for-sale securities has been reclassified to Held to maturity securities on various dates. The said amount shall be continuously amortized to profit or loss over the remaining life of the Held-to-maturity securities.

Total Investment in Non-Marketable Equity Securities (INMES) account of the Parent includes investment of US$143,146,324 (P6,781,381,460) in Metro Rail Transit Corporation's (MRTC) preference shares and Unsecuritized Equity Rental Payments.

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

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

	Acquisition Cost As of December 31, 2016 (In US Dollars)	Book Value As of December 31, 2016 (In US Dollars)	Percentage in MRTC
▪ MRT III Bonds	95,891,497	186,802,650	
▪ MRT III Preferred Shares	54,000,000	54,000,000	
Securitized ERPs	149,891,497	240,802,650	26.65%
Unsecuritized ERPs	90,579,859	89,146,324	11.12%
	240,471,356	329,948,974	37.77%

The decrease in the investment in unsecuritized ERP was brought about by the refund of US$1,433,535 (equally shared by the Bank and DBP) received from a third party in 2010. The refund represents cash that was already in the account of the third party, hence this did not affect the LBP's percentage of economic interest in MRTC. Another refund of US$1,381,747 was received by the Bank and DBP in early 2011 representing Accrued ERPs.

11. Held to Maturity Investments

This account consists of:

	Group		Parent	
	2016	2015	2016	2015
Government				
Domestic	140,122,852,716	111,168,854,442	139,232,353,793	110,351,315,216
Foreign	7,548,562,307	6,312,833,190	7,548,562,307	6,312,833,190
Private				
Domestic	4,525,200,772	4,525,369,411	4,525,200,772	4,525,369,411
Foreign	622,081,751	594,725,844	622,081,751	594,725,844
	152,818,697,546	122,601,782,887	151,928,198,623	121,784,243,661

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

	2016			2015		
Domestic	2.12%	to	18.25%	2.12%	to	18.25%
Foreign	3.70%	to	11.63%	5.12%	to	11.63%

12. Loans and Receivables

This account consists of:

	Group		Parent	
	2016	2015 As restated	2016	2015
Interbank loans receivable	13,933,991,858	16,709,831,946	13,933,991,858	16,709,831,946
Allowance for credit losses	(377,489,237)	(372,425,567)	(377,489,237)	(372,425,567)
	13,556,502,621	16,337,406,379	13,556,502,621	16,337,406,379
Loans to Government	75,362,941,773	77,116,862,729	77,323,717,031	78,912,843,115
Allowance for credit losses	(39,254,484)	(46,612,110)	(37,475,575)	(44,833,201)
	75,323,687,289	77,070,250,619	77,286,241,456	78,868,009,914
Agrarian Reform and other Agriculture Loans	82,676,676,393	72,463,771,389	82,656,139,911	72,435,187,659
Allowance for credit losses	(813,149,563)	(802,391,283)	(804,241,345)	(802,391,283)
	81,863,526,830	71,661,380,106	81,851,898,566	71,632,796,376
Microfinance Loans	15,195,660,709	9,312,152,807	15,195,660,709	9,312,152,807
Allowance for credit losses	(162,299,417)	(280,484,849)	(162,299,417)	(280,484,849)
	15,033,361,292	9,031,667,958	15,033,361,292	9,031,667,958
SME/MSE Loans	50,434,960,772	40,914,536,276	50,340,269,990	40,914,536,276
Allowance for credit losses	(1,265,855,622)	(1,409,011,227)	(1,264,527,250)	(1,409,011,227)
	49,169,105,150	39,505,525,049	49,075,742,740	39,505,525,049
Contract to Sell	1,213,186,524	1,220,138,412	1,213,186,524	1,220,138,412
Allowance for credit losses	(67,094,207)	(60,124,866)	(67,094,207)	(60,124,866)
	1,146,092,317	1,160,013,546	1,146,092,317	1,160,013,546
Loans to Private Corporation	221,228,865,584	195,860,324,146	219,809,378,837	194,168,885,913
Allowance for credit losses	(2,098,313,121)	(1,222,570,672)	(1,958,547,377)	(1,062,855,272)
	219,130,552,463	194,637,753,474	217,850,831,460	193,106,030,641

	Group		Parent	
	2016	2015 As restated	2016	2015
Loans to Individuals for Housing Purposes	4,594,431,303	3,888,373,652	4,594,431,303	3,888,373,652
Allowance for credit losses	(113,440,784)	(77,954,795)	(113,440,784)	(77,954,795)
	4,480,990,519	3,810,418,857	4,480,990,519	3,810,418,857
Loans to Individual for Consumption	20,927,918,069	15,701,598,988	20,927,918,069	15,701,598,988
Allowance for credit losses	(265,346,014)	(291,792,666)	(265,346,014)	(291,792,666)
	20,662,572,055	15,409,806,322	20,662,572,055	15,409,806,322
Loans to Individual for Other Purposes	3,265,151,628	2,426,139,439	3,038,124,371	2,307,306,091
Allowance for credit losses	(30,993,589)	(32,989,036)	(26,974,555)	(32,286,304)
	3,234,158,039	2,393,150,403	3,011,149,816	2,275,019,787
Loans & Receivable-Others-Non Residents-FCDU	42,617,143	0	42,617,143	0
	483,643,165,718	431,017,372,713	483,997,999,985	431,136,694,829
Accrued interest receivable	3,682,585,380	3,412,268,550	3,679,060,625	3,407,919,772
Allowance for credit losses	(208,095,604)	(268,093,309)	(208,095,604)	(268,093,309)
	3,474,489,776	3,144,175,241	3,470,965,021	3,139,826,463
Accounts receivable	1,880,863,405	1,724,176,154	1,777,505,545	1,599,142,055
Allowance for credit losses	(939,519,428)	(820,507,950)	(895,077,510)	(767,859,383)
	941,343,977	903,668,204	882,428,035	831,282,672
Sales contract receivable	1,025,704,678	881,212,093	1,010,467,301	882,876,193
Allowance for credit losses	(65,928,195)	(44,625,559)	(65,928,195)	(44,625,559)
	959,776,483	836,586,534	944,539,106	838,250,634
Due from ARF	44,812,459	190,422,226	44,812,459	190,422,226
Unquoted debt securities	11,343,693,075	13,608,063,739	11,343,693,075	13,608,063,739
Allowance for credit losses	(727,713,927)	(697,980,552)	(727,713,927)	(697,980,552)
	10,615,979,148	12,910,083,187	10,615,979,148	12,910,083,187
Lease contract receivable	1,509,819,094	1,516,217,992	0	0
Allowance for credit losses	(28,546,015)	(40,986,648)	0	0
	1,481,273,079	1,475,231,344	0	0
	501,160,840,640	450,477,539,449	499,956,723,754	449,046,560,011

Interest rates on loans in 2016 range from 0.75 per cent to 15.00 per cent for peso denominated loans and from 0.6196 per cent to 6.88 per cent for foreign currency denominated loans.

Unquoted debt securities of the Parent classified as loans consist of government and private securities amounting to P134,033,530 and P10,481,945,618, respectively, as of December 31, 2016 and P882,198,165 and P12,027,885,022, respectively, as of December 31, 2015. The account includes Metro Rail Transit Corporation's (MRTC) Bonds with book value of $186,802,650 (P9,287,287,769) 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	234,359,461	135,318,884	6,728,054,914
FCDU	93,640,243	51,483,766	2,559,772,855
	327,999,704	186,802,650	9,287,827,769

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 investments 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:

	2016	2015
Balance, January 1	4,434,160,030	3,340,369,232
Provision	10,835,402	37,173,978
Write-offs	(260,717,891)	(178,740,457)
Transfers and other adjustments	893,158,220	1,235,357,277
Balance, December 31	5,077,435,761	4,434,160,030

As of December 31, 2016 and 2015, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2016		2015	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	62,872,554,788	12.86	65,736,248,945	15.09
Various guarantees	140,926,345,944	28.81	126,857,104,169	29.12
Various mortgages	155,918,505,389	31.88	129,522,139,940	29.74
	359,717,406,121	73.55	322,115,493,054	73.95
Unsecured loans	129,358,029,625	26.45	113,455,361,805	26.05
Gross loan at amortized cost	489,075,435,746	100.00	435,570,854,859	100.00

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

	2016	2015
Total NPLs	7,173,190,276	6,394,449,785
Allowance for credit losses	(5,077,435,761)	(4,434,160,030)
Net NPLs	2,095,754,515	1,960,289,755

13. Investment in Subsidiaries

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

Name	Amount
LBP Leasing and Finance Corporation (formerly LBP Leasing Corporation)	310,252,630
LBP Insurance Brokerage, Inc.	52,500,000
LBP Resources and Development Corporation	51,467,436
Masaganang Sakahan, Inc.	24,554,940
	438,775,006

14. Investment Property

This account consists of:

	Group					
	2016			2015		
	Land	**Building**	**Total**	**Land**	**Building**	**Total**
At Cost						
At January 1	5,140,496,096	2,798,310,365	7,938,806,461	5,714,389,263	2,754,029,924	8,468,419,187
Additions/(Disposals)	23,562,486	(47,223,866)	(23,661,380)	(573,893,167)	44,280,441	(529,612,726)
At December 31	5,164,058,582	2,751,086,499	7,915,145,081	5,140,496,096	2,798,310,365	7,938,806,461
Accumulated depreciation and impairment						
At January 1	381,363,319	1,151,415,498	1,532,778,817	597,617,301	1,058,793,463	1,656,410,764
Depreciation	0	113,958,857	113,958,857	0	129,798,857	129,798,857
Transfers/Adjustment	335,034,811	(178,902,576)	156,132,235	(223,181,682)	(74,605,628)	(297,787,310)
Impairment	2,950,232	(18,772,647)	(15,822,415)	6,927,700	37,428,806	44,356,506
At December 31	719,348,362	1,067,699,132	1,787,047,494	381,363,319	1,151,415,498	1,532,778,817
Net book value	4,444,710,220	1,683,387,367	6,128,097,587	4,759,132,777	1,646,894,867	6,406,027,644

	Parent					
	2016			2015		
	Land	**Building**	**Total**	**Land**	**Building**	**Total**
At Cost						
At January 1	5,061,545,050	2,714,412,369	7,775,957,419	5,635,438,217	2,670,131,928	8,305,570,145
Additions/(Disposals)	6,389,630	(47,223,866)	(40,834,236)	(573,893,167)	44,280,441	(529,612,726)
At December 31	5,067,934,680	2,667,188,503	7,735,123,183	5,061,545,050	2,714,412,369	7,775,957,419
Accumulated depreciation and impairment						
At January 1	377,976,034	1,107,592,295	1,485,568,329	597,617,301	1,018,393,091	1,616,010,392
Depreciation	0	112,325,488	112,325,488	0	126,376,026	126,376,026
Transfers/Adjustment	335,034,811	(178,902,576)	156,132,235	(223,181,682)	(74,605,628)	(297,787,310)
Impairment	0	(18,772,647)	(18,772,647)	3,540,415	37,428,806	40,969,221
At December 31	713,010,845	1,022,242,560	1,735,253,405	377,976,034	1,107,592,295	1,485,568,329
Net book value	4,354,923,835	1,644,945,943	5,999,869,778	4,683,569,016	1,606,820,074	6,290,389,090

Depreciation of the Group amounting to P113,958,857 and P129,798,857 and of the Parent amounting to P112,325,488 and P126,376,026 in 2016 and 2015, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Investment properties acquired through foreclosure as of December 31, 2016 which are still within the redemption period by the borrowers and with on-going court case amounted to P66,879,367 and P1,164,627,305, respectively. Properties amounting to P58,499,744 are agricultural lands covered by the government's agrarian reform program.

15. Property and Equipment

This account consists of:

Group

	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2016	Total 2015 As restated
At Cost										
At January 1	612,984,636	114,409,118	4,612,950,162	670,346,069	82,089,219	6,718,884,746	775,167,733	76,672,175	13,663,503,858	12,404,769,224
Additions	7,027,500	73,926,623	41,021,914	257,903,240	16,824,185	959,506,496	50,317,440	9,692,826	1,416,220,224	1,683,600,054
Disposals	0	0	(15,755,725)	(4,188,129)	(2,269,375)	(214,180,414)	(37,763,783)	(2,491,000)	(276,648,426)	(206,132,809)
Transfers	0	(30,595,903)	(5,133,022)	(99,473,003)	(15,820,284)	(183,874,618)	0	58,639	(334,838,191)	(218,732,611)
At December 31	620,012,136	157,739,838	4,633,083,329	824,588,177	80,823,745	7,280,336,210	787,721,390	83,932,640	14,468,237,465	13,663,503,858
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	1,999,412,718	287,503,058	64,617,492	4,145,961,503	305,209,574	67,299,434	6,870,003,779	6,437,999,803
Depreciation & amortization	0	0	55,925,263	60,894,050	1,141,366	563,249,962	13,788,601	2,778,795	697,778,037	581,774,001
Disposals	0	0	(11,323,753)	(10,609,246)	(1,496,178)	(208,234,382)	(18,678,615)	(2,241,900)	(252,584,074)	(172,699,458)
Transfers/Adjustments	0	0	(37,105,817)	16,382,673	(9,919,252)	3,604,447	193,611	10,718,625	(16,125,713)	22,929,433
At December 31	0	0	2,006,908,411	354,170,535	54,343,428	4,504,581,530	300,513,171	78,554,954	7,299,072,029	6,870,003,779
Allow for Losses	0	0	7,213,932	824,720	2,825,144	12,550,388	0	261,056	23,675,240	21,462,641
Net book value	620,012,136	157,739,838	2,618,960,986	469,592,922	23,655,173	2,763,204,292	487,208,219	5,116,630	7,145,490,196	6,772,037,438

Parent

	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2016	Total 2015
At Cost										
At January 1	602,202,636	114,409,118	4,515,395,192	670,185,054	65,919,279	6,692,277,735	285,738,416	57,598,516	13,003,725,946	11,819,511,914
Additions	7,027,500	73,926,623	40,128,560	257,831,310	13,593,798	954,753,957	50,317,440	9,611,012	1,407,190,200	1,600,668,335
Disposals	0	0	(15,755,725)	(4,188,129)	(2,269,375)	(213,275,505)	(903,517)	0	(236,392,251)	(197,721,692)
Transfers	0	(30,595,903)	(5,133,022)	(99,473,003)	(15,820,284)	(183,844,252)	0	58,639	(334,807,825)	(218,732,611)
At December 31	609,230,136	157,739,838	4,534,635,005	824,355,232	61,423,418	7,249,911,935	335,152,339	67,268,167	13,839,716,070	13,003,725,946
Accumulated Depreciation & Amortization										
At January 1	0	0	1,962,671,483	287,367,617	54,286,587	4,126,034,787	252,381,692	55,526,292	6,738,268,458	6,316,326,081
Depreciation & amortization	0	0	51,960,255	60,858,196	125,161	561,471,597	6,157,684	0	680,572,893	564,259,683
Disposals	0	0	(11,323,753)	(10,609,246)	(1,496,178)	(207,337,666)	(813,165)	0	(231,580,008)	(166,069,516)
Transfers/Adjustments	0	0	(37,105,817)	16,382,673	(9,919,252)	3,616,448	193,611	10,718,625	(16,113,712)	23,752,210
At December 31	0	0	1,966,202,168	353,999,240	42,996,318	4,483,785,166	257,919,822	66,244,917	7,171,147,631	6,738,268,458
Allow for Losses	0	0	7,213,932	824,720	2,825,144	12,550,388	0	261,056	23,675,240	21,462,641
Net book value	609,230,136	157,739,838	2,561,218,905	469,531,272	15,601,956	2,753,576,381	77,232,517	762,194	6,644,893,199	6,243,994,847

Depreciation and amortization of the Group amounting to P697,778,037 and P581,774,001 and of the Parent amounting to P680,572,893 and P564,259,683 in 2016 and 2015, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Office equipment, furniture and vehicles with carrying amount of P18,917,775 and P379,684,742 in 2016 and 2015, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P95,200,366 and P11,898,469 in 2016 and 2015, respectively.

16. Other Assets

This account consists of:

	Group		Parent	
	2016	2015 As restated	2016	2015
Accrued interest receivable	4,249,564,877	2,971,701,785	4,249,564,877	2,971,701,785
Sundry debits	1,132,214,119	1,391,962,556	1,132,214,119	1,391,962,556
Prepaid expenses	703,310,727	397,260,012	695,565,609	436,598,468
Other intangible assets	995,115,732	900,274,550	990,649,656	899,195,138
Documentary stamps	13,642,766	27,628,975	13,642,766	27,628,975
Stationery & supplies on hand	121,214,793	124,464,570	119,015,779	123,029,011
Accounts receivable	124,220,000	134,720,346	120,395,981	131,162,894
Inter-office float items	6,380,704	6,906,291	6,380,704	6,906,291
Others	1,358,779,342	1,359,468,492	1,297,272,019	1,300,600,019
Allowance for credit losses	(37,078,489)	(37,388,489)	(37,078,489)	(37,388,489)
	8,667,364,571	7,276,999,088	8,587,623,021	7,251,396,648

17. Allowance for Credit Losses

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

	2016	2015
Balance at beginning of year:		
Loan portfolio	4,434,160,030	3,340,369,232
Receivables from customers and Other assets	4,045,670,340	3,999,664,246
	8,479,830,370	7,340,033,478
Provisions charged to operations	118,370,022	104,913,927
Accounts charged off and others	(130,652,996)	(179,874,259)
Transfer/adjustments	766,146,962	1,214,757,224
	753,863,988	1,139,796,892
Balance December 31	9,233,694,358	8,479,830,370
Balance at end of year:		
Loan portfolio (Note 12)	5,077,435,761	4,434,160,030
Receivables from customers and other assets	4,156,258,597	4,045,670,340
	9,233,694,358	8,479,830,370

With the foregoing level of allowance for credit losses, Management believes that the Parent has sufficient allowance to cover any losses that the Parent may incur from the non-collection or non-realization of its loans and receivables and other risk assets.

The account includes provision for credit losses/impairment losses of the Parent as follows:

	2016	2015
Loans and receivables	10,835,402	37,173,978
Other loans and receivables	4,125,283	3,234,807
Property and equipment	2,212,599	3,214,963
Others	101,196,738	61,290,179
	118,370,022	104,913,927

18. Deposit Liabilities

This account consists of:

	Group		Parent	
	2016	2015	2016	2015
Domestic				
Demand deposits	558,433,859,126	474,530,109,127	558,645,451,456	474,739,410,247
Savings deposits	604,692,020,353	505,527,477,627	604,832,103,495	505,685,191,060
Time certificate of deposits	740,236,375	852,279,517	740,236,375	852,279,517
Long Term Negotiable Certificate of Deposits	11,000,000,000	11,000,000,000	11,000,000,000	11,000,000,000
	1,174,866,115,854	991,909,866,271	1,175,217,791,326	992,276,880,824
Foreign				
Demand deposits –FCDU/EFCDU	0	18,723	0	18,723
Savings deposit –FCDU/EFCDU	16,660,725,911	27,623,085,394	16,661,180,162	27,623,613,083
Time certificate of deposit-FCDU/EFCDU	44,098,363,715	26,327,345,634	44,098,363,715	26,327,345,634
	60,759,089,626	53,950,449,751	60,759,543,877	53,950,977,440
	1,235,625,205,480	1,045,860,316,022	1,235,977,335,203	1,046,227,858,264

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.25 to 3.75 per cent in 2016 and 0.25 to 3.75 per cent in 2015. Foreign deposit rates range from 0.15 to 2.50 per cent and from 00.31 to 1.12 per cent in 2016 and 2015, respectively. In 2016 and 2015, P830,665,634,534 or 67 per cent and P705,448,431,124 or 67 per cent, respectively, of the Parent's deposit portfolio came from the government while the rest came from private depositors.

19. Bills Payable

This account consists of:

	Group		Parent	
	2016	2015	2016	2015
Bangko Sentral ng Pilipinas	64,110,213	70,499,354	64,110,213	70,499,354
Domestic borrowings	542,684,470	771,973,888	326,684,470	371,973,888
Foreign borrowings	22,951,863,236	20,907,457,753	22,951,863,236	20,907,457,753
Foreign interbank borrowings	3,480,400,000	0	3,480,400,000	0
Foreign repo borrowings	3,212,275,733	0	3,212,275,733	0
	30,251,333,652	21,749,930,995	30,035,333,652	21,349,930,995

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

Creditor/Funder	2016	2015
World Bank/IBRD	9,888,905,728	8,225,523,429
Asian Development Bank (ADB)	566,749,295	585,369,941
Japan International Cooperation Agency (JICA)	11,134,289,635	10,733,047,997
Kreditanstalt fur Wiederaufbau (KfW)	1,361,918,578	1,363,516,386
	22,951,863,236	20,907,457,753

The total foreign borrowings of P22,951,863,236 is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P14,529,862,463 are provided with foreign exchange risk cover (FXRC) by the National Government.

This has historical value of P14,820,234,026. 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 2016 range from 0.53 to 2.70 per cent and 0.75 to 4.75 per cent, respectively, while for 2015, the rates range from 0.71 to 2.70 per cent and 0.75 to 4.75 per cent, for foreign and domestic borrowings, respectively.

20. Unsecured Subordinated Debt

This account consists of:

	Issue Date	Maturity Date	Amount
Domestic	January 27, 2012	January 27, 2022	10,500,000,000

21. Other Liabilities

This account consists of:

	Group		Parent	
	2016	2015 As restated	2016	2015
Accrued interest, fringe benefits, taxes and other expense payable	3,789,817,883	4,101,260,604	3,694,835,040	3,977,173,119
Accounts payable	10,890,952,708	12,722,905,667	11,032,008,827	12,788,784,896
Due to Agrarian Reform Fund	206,742,900	242,406,604	206,742,900	242,406,604
Sundry credits	916,312,733	500,707,725	916,312,733	500,707,725
Unearned income	36,492,648	38,021,752	36,601,557	38,130,661
Withholding tax payable	276,535,509	318,482,447	274,195,133	317,161,940
Miscellaneous liabilities	3,429,780,765	3,651,652,110	3,724,218,339	3,820,253,049
Others	1,278,266,063	1,280,477,079	863,960,492	1,026,237,016
	20,824,901,209	22,855,913,988	20,748,875,021	22,710,855,010

22. Income and Other Taxes

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

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

FCDU offshore income (income from non-residents) derived by depository banks under the expanded foreign currency deposit system is exempt from income tax while gross onshore income (income from residents) from other FCDUs and other depository banks under the Expanded Foreign Currency Deposit System, including interest income from foreign currency loans, is subject to 10 per cent final tax. Interest income derived by resident individual or corporation on deposits with other FCDUs and Offshore Banking Units (OBU) are subject to 7.5 per cent final tax.

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

	Group		Parent	
	2016	2015 As restated	2016	2015
Current:				
Normal income tax (NIT)	845,567,740	279,039,631	746,801,450	171,859,954
Minimum corporate income tax (MCIT)	0	0	0	0
	845,567,740	279,039,631	746,801,450	171,859,954
Deferred	4,533,928	(8,581,513)	0	0
	850,101,668	270,458,118	746,801,450	171,859,954

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

	Group		Parent	
	2016	2015 As restated	2016	2015
Statutory income tax	4,485,618,320	4,275,642,314	4,379,498,118	4,155,378,106
Tax effects of:				
FCDU income	(839,624,870)	(810,012,347)	(839,624,870)	(810,012,347)
Tax exempt & tax paid income	(5,124,251,251)	(4,276,356,986)	(5,114,209,879)	(4,266,023,647)
Other deductible/Non-deductible expense	188,346,420	217,734,897	188,343,962	217,734,897
Non-deductible interest expense	1,828,120,028	1,570,353,764	1,828,120,028	1,570,353,764
Deferred tax asset	4,533,928	(8,581,513)	0	0
Others	307,359,093	(698,322,011)	304,674,091	(695,570,819)
	850,101,668	270,458,118	746,801,450	171,859,954

There was no deferred tax asset recognized by the Parent in CY 2016. Subsidiaries recognized deferred tax assets of P63,094,853 and P70,683,821 in CY2016 and CY2015, 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:

	2016	2015
Allowance for credit losses	12,503,639,633	12,837,793,754

Supplementary Information Required Under Revenue Regulations (RR) Nos. 19-2011 and 15-2010

Supplementary information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 (and as further amended by RR No. 2-2014 dated January 24, 2014) which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2016, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues	
Services/operations	24,270,787,424
Non-operating and taxable other income:	
Trading and securities gain (loss)	(93,025,045)
Service charges, fees and commissions	1,599,016,401
Profit from assets sold	406,437,809
Income from trust operations	167,923,049
Others	431,976,747
	2,512,328,961
Expenses	
Cost of services:	
Compensation and fringe benefits	6,651,630,839
Others	8,189,498,960
	14,841,129,799
Itemized deductions:	
Compensation and fringe benefits	1,978,620,152
Taxes and licenses	2,623,088,958
Security, messengerial and janitorial	633,791,751
Communications, light and water	386,714,519
Information technology expenses	463,664,537
Depreciation and amortization	348,840,596
Bad debts	218,182,071
Repairs and maintenance	117,070,199
Transportation and travel	206,310,013
Management and professional fees	174,921,910
Rent	21,363,934
Representation and entertainment	115,199,201
Others	3,387,081,252
	10,674,849,093

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 2016 are as follows:

Documents / transactions	DST Paid
Debt instruments, bonds, certificate of time deposits	3,078,869,954
Mortgages, pledges, deed of assignments/trust	63,958,960
Foreign bills of exchange, letters of credit	65,410,580
Acceptance of bills of exchange payable in the Philippines	23,871,188
Bank, checks, drafts and telegraphic transfer/others	3,856,773
	3,235,967,455

II. All other taxes, local and national, paid for 2016:

National	
Percentage taxes (GRT)	2,445,574,343
Fringe benefits tax	8,223,765
National taxes	554,715
	2,454,352,823
Local	
Real estate tax	87,981,381
Local business tax	34,715,334
Mayor's Permit/Municipal License/Other Regulatory Fees/License Permit	67,380,063
Other local taxes	9,101,888
	199,178,666
	2,653,531,489

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

Tax on Compensation and benefits	920,130,939
Creditable withholding taxes	135,503,744
Final withholding taxes	1,602,614,853
	2,658,249,536

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

Tax Credits against Income Tax	1,898,642,969
Tax Credits against Gross Receipts Tax	306,522,463
	2,205,165,432

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 2016 and 2015 amounted to P592,211,966 and P575,487,426, 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	
	2016	**2015**
Within one year	376,950,983	391,464,091
After one year but not more than five years	903,105,446	904,041,335
More than five years	348,199,927	515,070,759
	1,628,256,356	1,810,576,185

Operating lease commitments – as lessor

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

	Parent	
	2016	**2015**
Within one year	17,232,221	11,290,802
After one year but not more than five years	11,598,817	15,995,898
More than five years	3,522,472	12,779,915
	32,353,510	40,066,615

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, 2016 amounted to P67,434,480,229 of which P67,207,341,187 are government borrowings covered by BSP Circular No. 547.

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

	2016				2015			
	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	14,240,547	2,056,762,078	67,420,239,682	69,491,242,307	29,366,825	1,920,835,558	71,934,072,499	73,884,274,882
Deposit liabilities	0	352,129,723	0	352,129,723	0	367,542,242	0	367,542,242
Other liabilities	0	664,282,958	0	664,282,958	0	566,170,232	0	566,170,232
	14,240,547	3,073,174,759	67,420,239,682	70,507,654,988	29,366,825	2,854,548,032	71,934,072,499	74,817,987,356

The following are the percentage of DOSRI loans:

	2016	2015
DOSRI to Total Loans	13.79%	16.52%
Unsecured DOSRI to Total DOSRI	3.29%	5.14%
Past due DOSRI to Total DOSRI	0	0
Non-performing DOSRI to Total DOSRI	0	0

The following are the significant transactions with subsidiaries:

	2016	2015
Sales/(Purchases)	(50,089,161)	(27,996,821)
Interest income	62,729,684	77,714,114
Interest expense	(120,560,858)	(156,760,579)
Lease expense	(46,140,175)	(45,236,905)
Other income	17,826,349	1,468,308
Other expenses	(342,779,942)	(344,944,265)

Transactions with other related parties:

Compensation of key management personnel:

	Group		Parent	
	2016	2015 (As restated)	2016	2015
Short-term employee benefits	99,042,860	149,466,121	81,219,717	129,662,548
Post-employment benefits	20,994,781	32,184,805	20,667,833	31,844,139
Other long-term benefits	31,750,375	53,320,367	31,750,375	53,320,367
	151,788,016	234,971,293	133,637,925	214,827,054

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, 2016 and 2015, 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 P101,607,181,197 and P69,241,998,618 as at December 31, 2016 and 2015, respectively.

Summary of Assets under Management is as follows:

	2016 (Unaudited)	2015 (Audited)
Special Purpose Trust	772,214,891	1,602,937,108
Other Fiduciary Accounts	58,178,627,791	14,757,580,664
Agency	32,993,894,750	25,586,625,262
Trust	9,662,443,765	27,294,855,584
	101,607,181,197	69,241,998,618

In compliance with the requirements of the General Banking Law, government securities with total face value of P850,000,000 in 2016 and P850,000,000 in 2015 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, 2016, the outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P34,638,430,000 with market value of P34,571,950,655.

Over the Counter Interest Rate Option Contract Bought

As of December 31, 2016, the outstanding notional amount of the debt warrants bought to mature on November 29, 2032 amounted to P76,618,607 with market value of P92,655,060.

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, 2016, the outstanding notional amount of the FX risk cover amounted to JPY6,704,591,679.

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	
	2016	**2015**
Trust Department accounts	101,607,181,197	69,241,998,618
Commitments	68,006,353,434	76,136,294,550
Standby/commercial letters of credit	31,005,280,619	23,186,750,555
Derivatives	37,467,182,586	21,849,619,710
Outstanding guarantees	727,783,209	824,682,129
Spot exchange contracts	198,880,000	3,873,156,496
Late deposits received	612,047,865	732,085,717
Outward bills for collection	113,060,539	108,308,511
Liability Indemnity Fund	38,746,232	32,775,170
Others	591,970,101	406,550,184
	240,368,485,782	196,392,221,640

29. Financial Performance

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

	2016	2015
Net interest margin ratio	3.08%	3.26%
Return on average assets	1.07%	1.24%
Return on average equity	15.72%	17.71%

30. Equity

As of December 31, 2016, the Parent's authorized capital has reached P200.0 billion composed of 2 billion common shares with par value of P100.0 per share. The increase in the Bank's authorized capital from P25 billion as of end-2015 was based on Executive Order No. 198 issued on February 04, 2016. Paid-up capital likewise increased to P17.8 billion with P5.8 billion aggregate capital infusion from the National Government in 2016.

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).

However, the Parent has requested for exemption from declaring cash dividends to the National Government on its net income for 2016.

Capital Management

The overall capital management objective of the Group is to create a more efficient capital structure while ensuring compliance with externally imposed capital requirements.

The Group manages its capital by maintaining strong credit ratings and healthy capital ratios to support its business and sustain its mandate. Adjustments to the Group's capital structure are made in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

Under existing BSP regulations, the Parent's compliance with regulatory requirements and ratios is determined based on the amount of the Parent's unimpaired capital (regulatory net worth) as reported to the BSP.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10 per cent for both stand-alone basis (head office and branches) and consolidated basis (Parent and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from

BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The Bank adopted BASEL 3 CAR computation pursuant to BSP Circular No. 781 effective January 31, 2014. INMES and AFS Equity were included as regulatory adjustments/deduction to Tier 1 capital.

	Group		**Parent**	
	2016	**2015**	**2016**	**2015**
	(Amounts in Millions)			
Tier 1 Capital	85,486	80,004	85,486	80,004
Tier 2 Capital	4,970	15,092	4,950	15,070
Gross Qualifying Capital	90,456	95,096	90,436	95,074
Less: Required Deductions	25,219	28,940	26,524	30,403
Total Qualifying Capital	65,237	66,156	63,912	64,671
Risk Weighted Assets	572,060	513,059	569,219	510,174
Adjusted Tier 1 Capital ratio	10.54%	9.95%	10.36%	9.72%
Total Capital Adequacy Ratio (CAR)	11.40%	12.89%	11.23%	12.68%

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

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

31. Financial Risk Management

LBP RISK MANAGEMENT PHILISOPHY AND CULTURE

Risk Management (RM) goes hand-in-hand on co-equal footing with Parent's business strategy. It is an integrative component of good governance which the Parent Board through the Risk Oversight Committee (RISKCOM) and Senior Management ensure adequacy of framework, policies, internal controls, RM systems and procedures to manage risks.

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

The Parent's RM completes the triumvirate of audit and compliance functions which focus at the risk controls of the Bank. Together with internal audit and compliance, the synergy of the three functions provides credence to the role of the Parent's corporate governance in implementing an effective RM framework.

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

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

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

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

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

In 2016, the notable accomplishments of RMG includes the approval of the Credit Risk Frameworks Rating Models and Implementing Guidelines as part of the Parent's commitments to Governance Commission for GOCCs (GCG) Sector, the setting and review of market risk limits and retention of treasury risk limits, the issuance of guidelines on monitoring of match trade transactions, off-market rates, deposit concentration, pre-settlement risk and voice loggers, among others. Regular review and revision of risk guidelines and manuals were conducted in accordance with regulators' policies and industry best practices and the shock absorption capabilities of the Parent were ascertained through the regular conduct of credit and treasury risk stress testing.

The Operational RM Framework of the Parent was strengthened through the Service Level Agreement (SLA) between Business RM Department (BRMD) and Internal Audit Group (IAG) to address common audit issues on Operational RM implementation. A People RM Framework (PRMF) was developed in coordination with the Human Resource Management Group (HRMG) and the Bank's Business Continuity Management (BCM) was enhanced with the development of Business Continuity Risk Assessment (BCRA) and Business Continuity Plans (BCPs) for each BU of the Parent.

Management of information security risks was strengthened by widening scope of risk assessment to include people holding key positions and sensitive information. This is institutionalized through the updating of the corresponding guidelines. For information technology oversight, new electronic programs and channels were reviewed for possible compromise on confidentiality, integrity, and availability of the Parent's assets.

Moreover, the turn-over of final report on ERM Phase III to RMG by SyCip Gorres Velayo (SGV) & Co. and the preparation and submission of the Parent's 2016 Internal Capital Adequacy Assessment Process (ICAAP) document and Recovery Plan (RP) to Bangko Sentral ng Pilipinas (BSP) within the prescribed cut-off.

Regular and special market, credit and operational risk reports were prepared and presented to the RISKCOM which substantiate that appropriate RM tools are embedded in the Parent's processes to ensure compliance with regulatory and internal risk control measures. Credit policies and guidelines were prepared and presented to ILC including, but not limited to (1) limits on the Parent's total lending exposures to different industries/sectors, (2) terms and conditions for each type of credit accommodation, (3) remedial measures such as restructuring and (4) foreclosures, dacion en pago and other settlement options.

CREDIT RISK MANAGEMENT

Credit risk arises from the failure of a counterparty to meet the terms of any contract with the Parent or otherwise perform as agreed. Credit risk is not limited to the loan portfolio and is found in all Parent activities where success depends on counterparty, issuer, or borrower performance. It arises any time Parent funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. The Parent considers its loan portfolio as the major source of credit risk; however, other sources of credit risk exist throughout the activities of the Bank, including the banking and trading book and On- and Off-Balance Sheet transactions.

Maximum Credit Risk Exposure

The table below shows the Group's maximum exposure to credit risk, before and after considering eligible collateral held or other credit enhancements.

On-Balance Sheet Items	2016 (In Millions)							
	Net Exposures	0%	20%	50%	75%	100%	150%	Credit RWA
Cash on Hand	27,872	27,872	0	0	0	0	0	0
Checks and Other Cash Items	319	0	319	0	0	0	0	64
Due from Bangko Sentral ng Pilipinas	355,466	355,466	0	0	0	0	0	0
Due from Other Banks	11,650	0	71	11,536	0	43	0	5,825
Available-for-Sale (AFS) Financial Assets	271,213	238,823	0	26,528	0	5,862	0	19,126
Held-to-Maturity (HTM) Financial Assets	153,753	144,160	0	4,401	0	5,192	0	7,392
Unquoted Debt Securities Classified as Loans	10,679	0	0	501	0	10,178	0	10,428
Loans and Receivables	433,055	0	3,481	16,311	62,661	348,248	2,354	407,626
1. Interbank Loans Receivables	29,122	0	3,481	12,083	0	13,536	22	20,306
2. Loans & Receivables - Others								
a. LGUs & Public Sector Entities	31,006	0	0	0	0	31,006	0	31,006
b. Government Corporation	1,922	0	0	0	0	1,922	0	1,922

On-Balance Sheet Items	2016 (In Millions)							
	Net Exposures	0%	20%	50%	75%	100%	150%	Credit RWA
c. Corporates	274,664	0	0	0	0	274,664	0	274,664
d. Micro/Small & Medium Enterprise	62,661	0	0	0	62,661	0	0	46,996
e. Loans to individuals	31,104	0	0	4,228	0	26,876	0	28,990
3. Defaulted Exposures	2,576	0	0	0	0	244	2,332	3,742
Other Loans and Receivables 1/	14,806	14,795	0	11	0	0	0	6
Sales Contract Receivable (SCR)	945	0	0	0	0	307	638	1,264
Real and Other Properties Acquired	4,249	0	0	0	0	0	4,249	6,374
Total Exposures Excluding Other Assets	1,284,007	781,116	3,871	59,288	62,661	369,830	7,241	458,105
Other Assets	13,175	11	0	0	0	13,164	0	13,164
Total RW OBS Assets not covered by CRM	0	0	0	0	0	0	0	45
Total On-Balance Sheet Exposures	**1,297,182**	**781,127**	**3,871**	**59,288**	**62,661**	**382,994**	**7,241**	**471,314**

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

Off-Balance Sheet Items	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	Credit RWA
A. Direct credit substitutes	6,599	0	0	0	0	6,599	0	6,599
B. Transaction-related contingencies	34,196	0	0	0	0	34,196	0	34,196
C. Trade-related contingencies	1,743	0	0	1,154	0	589	0	1,166
Total Off-Balance Sheet Exposures	**42,538**	**0**	**0**	**1,154**	**0**	**41,384**	**0**	**41,961**
Counterparty RWA In The Trading Book	**Credit Equivalent Amount**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Credit RWA**
Derivative Exposures	323	0	68	11	0	244	0	263
Total Exposures	**1,340,043**	**781,127**	**3,939**	**60,453**	**62,661**	**424,622**	**7,241**	**513,538**

Credit Exposures and Credit-Related Commitments

As of December 2016, the Group's Gross Loans and Receivables amounted to P433,055 million, net of credit risk mitigation which consists mainly of primary collaterals such as deposit holdout, government securities (GS) and sovereign guarantees. The bulk of net Loans and Receivables went to Corporates at P274,664 million (63.42%), followed by Micro, Small & Medium Enterprises (MSMEs) at P62,661 million (14.47%), loans to individuals at P31,104 million (7.18%), and government entities at P31,006 million (7.16%). The Group also holds substantial receivables arising from repurchase agreements aggregating P14,806 million. For net Off-balance Sheet exposures of P42,538 million, the credit equivalent amounts are computed considering their respective Credit Conversion Factors (CCFs). These accounts are composed mainly of general guarantees of indebtedness (e.g., financial standby letters of credit - domestic and foreign), performance bonds and warranties related to particular transactions, and contingencies arising from movement of goods and trust transactions. Outstanding derivative exposures are mainly over-the-counter (OTC) foreign exchange (Fx) option contracts.

The Group's Gross Loans and Receivables reflected a Credit Risk Weighted Assets (RWA) of P407,626 million following the Standardized Approach in Credit RM. This represents 79.38 percent of the Total Credit RWA of P513,538 million. However, the Total Credit RWA increased by P54,317 million or 11.83 percent, from P459,221 million in 2015 to P513,538 million in 2016. The Total Credit RWA represents 89.77 percent of the Group's Aggregate RWA of P572,060 million.

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 2016, the Parent's qualifying capital covering credit risk is P63.912 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P20.650 billion for direct lending and P28.911 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 2016 and 2015, the Parent does not have credit concentration in any particular industry.

As of December 31, 2016 and 2015, information on the concentration of credit as to industry based on carrying amount is shown below:

	Parent			
	2016		**2015**	
	Amount	%	Amount	%
Financial intermediation	41,499,841,256	8	42,831,937,600	10
Agriculture, hunting and forestry	82,848,337,774	17	73,458,377,726	17
Real estate, renting and business activities	51,448,278,099	11	52,348,093,045	12
Public administration and defense	43,684,643,149	9	41,542,098,234	9
Manufacturing	35,062,538,415	7	28,112,973,990	6
Community, social and personal services	12,480,366,557	3	9,499,963,124	2
Electricity, gas and water	77,787,367,744	16	67,931,970,305	16

	Parent			
	2016		2015	
	Amount	%	Amount	%
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	41,239,331,755	8	35,917,670,451	8
Transport, storage and communication	39,356,260,435	8	33,380,261,640	8
Construction	28,760,843,760	6	24,274,201,400	5
Private households	20,989,139,302	4	15,778,544,062	4
Hotel and restaurant	3,241,279,187	1	2,612,311,316	1
Others	10,677,208,313	2	7,882,451,966	2
	489,075,435,746	**100**	**435,570,854,859**	**100**
Allowance for losses	**(5,077,435,761)**		**(4,434,160,030)**	
	483,997,999,985		**431,136,694,829**	

Management of Credit Risk

Credit RM aims to adequately manage the risk of financial loss arising from the failure of borrowers or counterparties to settle their obligations in accordance with the terms and conditions of the duly approved contractual agreement.

This involves the identification, measurement and monitoring of actual or potential losses and the implementation of appropriate measures, including the setting-up of applicable limits to keep credit risk exposures within the Parent's risk appetite or the acceptable level of credit risk that it is willing to accept in pursuit of its lending plans and programs. The Parent also needs to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. It also considers the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to RM and essential to the long-term success of the Parent.

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

To effectively monitor and maintain the quality of its loan portfolio, the Bank conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves. As of December 2016, the Parent's net Non-Performing Loan (NPL) stood at P2,096 million or 0.43 percent of the total regular loan portfolio.

Credit Risk Rating

The Parent's Credit Risk Engine System (CRES) serves as the main platform for the generation of automated credit ratings of Bank borrowers to help determine their credit worthiness. The Bank undertakes continuing development and implementation of the automated CRES scoring facility to provide support to its ongoing initiatives for the adoption of applicable banking regulations and global best practices and approaches in Credit RM.

The Parents's CRES facility generates Probability of Default (PD) which form part of the risk components required to calculate the Expected Credit Loss (ECL) in accordance with the provisions of BSP Circular 855, dated 29 October 2014 (Guidelines on Sound Credit RM and Practices) as well as the Philippine Financial Reporting Standards (PFRS) 9 which is scheduled for implementation in 2018. These are also considered for the eventual adoption of the advance approaches in Credit RM under the Basel Committee on Banking Supervision (BCBS) principles on sound Credit RM.

Toward this end, the Parent approved in CY2016 the implementation of the following automated credit scoring models and their corresponding rating guidelines:

- Application Scoring Model for Individual Home Buyers
- Application Scoring Model for Salary Loan Availers
- Behavioral Scoring Model for Existing Salary Loan Availers
- Behavioral Scoring Model for Local Government Units (LGUs)
- Behavioral Scoring Model for Small Medium Enterprises (SMEs)
- Behavioral Scoring Model for Corporates
- Behavioral Scoring Model for Countryside Financial Institutions (CFIs)
- Behavioral Scoring Model for Cooperatives

Nonetheless, the Parent shall continue to use the expert-based credit rating system for loan portfolio with low default or with insufficient data until such time that a statistically-based credit scoring model be made available.

Credit Risk Monitoring

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

Collateral and Other Credit Enhancements

The required amount and type of loan collateral depend on borrower type and assessment of the credit risk of the borrower. The Bank's Credit Manual and CPIs provide the guidelines on the acceptability of loan collateral and maximum valuation for each type of collateral. The primary collaterals accepted by the Bank are Holdout on Deposits, GS, Real Estate Mortgage (REM) and Chattel Mortgage (CM).

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

Credit Stress Test

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

MARKET RISK MANAGEMENT

Market Risk Management Framework

The Parent 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, foreign exchange (Fx) and other securities, as well as, in derivatives or financial instruments that derive their values from price, price fluctuations and price expectations of an underlying instrument (e.g., share, bond, Fx or index). Parent's exposure on derivatives is currently limited to currency swaps and currency forwards to manage Fx exposure. The Bank is also exposed to derivatives that are embedded in some financial contracts, although, these are relatively insignificant in volume.

The Parent uses a combination of risk sensitivities, Value-at-Risk (VaR), stress testing, CAR and capital metrics to manage market risks and establish limits. The LANDBANK Board, RISKCOM and the Asset & Liability Committee (ALCO) a Management-level Committee 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 as well as the Asset & Liability Management Group (ALMG) which manages the Bank's liquidity and reserve positions, conducts risk-taking activities within limits at all times and ensures that breaches are escalated to Senior Management for appropriate action.

A management alert is activated whenever losses during a specified period equal or exceed specified management alert level. LANDBANK controls and minimizes the losses that may be incurred in daily trading activities through the VaR and Management Action Triggers (MATs). Positions are monitored on a daily basis to ensure that these are maintained within established position limits to control losses. Position limits are subordinated to MATs and VaR limits. Macaulay and Modified Duration are used to identify the interest rate sensitivity of the Bond Portfolio of the Parent.

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

Market Risk Weighted Assets

As of 31 December 2016, the Group's Total Market RWA stood at P4,064 million, broken down as follows:

Particulars	**Amount** (In Millions)
Interest Rate Exposure	860
Equity Exposure	5
Fx Exposure	284
Options	2,915
Total Market RWA	**4,064**

The Total Market RWA represents 0.71 percent of the Group's Aggregate RWA of P572,060 million.

Managing Market Risk Components

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

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

1. Interest Rate Risk in the Trading Book

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

2. Equity Price Risk Management

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

PARTICULAR	DAILY LIMIT (In Millions)		MAT
	POSITION	VaR	
Equity	1,000.00	15.00	YTD Gain Erosion Income Target

   YTD: Year-to-Date

3. Foreign Exchange Risk Management

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

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

PARTICULAR	DAILY LIMIT In $ Millions		MAT
	POSITION	VaR	
Fx Trading	50.00	0.36	YTD Gain Erosion
FS	20.00	0.20	Income Target

FS: Foreign Securities

The Parent had the following significant exposures denominated in foreign currencies as at 31 December 2016:

In $ Thousand

PARTICULAR	USD	JPY	EUR	AUD	Others	Total
ASSETS						
FCNCH/COCI	21,649	174	96	10	44	21,973
Due from banks	216,953	4,167	10,919	262	1,164	233,465
Held for Trading	1,864	0	0	0	0	1,864
Available For Sale Investment	916,386	0	0	0	0	916,386
IBODI	505,921	0	0	0	0	505,921
Interbank Loans Receivable	313,000	0	0	0	0	313,000
Loans & Receivables	262,924	61,796	0	0	0	324,720
Investment in Subsidiaries	0	0	1	0	923	924
Other Assets	24,024	836	0	0	0	24,860
Gross Fx Assets	2,262,721	66,973	11,016	272	2,131	2,343,113
LIABILITIES						
Deposit Liabilities	1,214,415	1,207	6,228	0	7	1,221,857
Bills Payable	271,220	297,618	27,392	0	0	596,230
Others	140,483	1,113	5,085	0	0	146,681
Gross Fx Liabilities	1,626,118	299,938	38,705	0	7	1,964,768
Fx Purchases						
Spot Fx Purchases	(2,000)	0	0	0	0	(2,000)
Forward Fx Purchases	(15,000)	(57,023)	0	0	0	(72,023)
Gross Fx Purchases	(17,000)	(57,023)	0	0	0	(74,023)
Fx Sales						
Spot Fx Sales	2,000	0	0	0	0	2,000
Forward Fx Sales	680,000	0	0	0	0	680,000
Gross Fx Sales	682,000	0	0	0	0	682,000

Market Risk Measurement and Validation Tools

1. Value-at-Risk 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 percent confidence level, assuming a static portfolio.

The Parent uses the internally developed Historical Simulation Model in computing VaR of Equities, Fx Net Open Position, GS and FS trading portfolios. The Parent continuously pursues initiatives to improve processes in preparation for the Parent's migration towards an Internal Model Approach for capital charging. The VaR disclosure is intended for external disclosure and for regulatory purposes. The Parent monitors VaR both at portfolio and across portfolio level. Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management. The over-all VaR limit for Parent Treasury's trading activities was set at P202 million throughout 2016.

2. Stress Test

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

Stress Test is an RM tool used to determine the impact on earnings of market movements considered “extreme”, i.e., beyond “normal” occurrence. Stress Tests are Parent's measures of risks to estimate possible losses which the VaR does not capture.

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

Results of PSA are also simulated in the CAR computation to be able to assess its impact on the CAR compliance set at 10 percent and the Common Equity Tier (CET) 1 ratio of at least 8.5 percent set by BSP with conservation buffers.

3. Back-Test

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

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

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

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

4. Model Validation

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

INTEREST RATE RISK MANAGEMENT

Interest Rate Risk in the Banking Book

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

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

The Parent manages interest risk based on approved policies and guidelines, established limit setting procedures and interest rate risk limits, application of interest rate risk measurement models and reporting standards such as Re-pricing Gap/Earning-at-Risk (EaR), Economic Value of Equity (EVE)-at-Risk and Bond Duration Report.

The two interest rate risk perspectives adopted by the Parent in measuring interest rate risk in the banking book are as follows:

a. Earnings Perspective: The Parent uses the EaR Model to estimate changes in Net Interest Income (NII) under a variety of rate scenarios over a 12 month horizon. To determine the actual behavior of Non-Maturing Deposits (NMDs) and capture the actual interest rate risk exposure, the Parent analyzed its deposit base to estimate the proportion of core and non-core deposits and determine how actual maturity or re-pricing behavior may vary from the contractual terms.

Core Deposits are NMDs which are unlikely to re-price even under significant changes in interest rate environment while Non-Core (Volatile) Deposits are NMDs that are characterized by 'activity' as manifested by the behavior based on withdrawal patterns, computed through statistical analysis of net withdrawal levels. Non-Core NMDs are re-bucketed based on net withdrawal pattern for the past five years and Core NMDs are allocated in the 'more than five years'.

Excluded at the moment in the analysis of actual maturity or re-pricing behavior for the determination of Re-pricing Gap are fixed rate loans subject to prepayment risk and term deposits subject to early redemption risk. Prepayment of loans and early withdrawal of maturing deposits are considered isolated cases which will have minimal effect in the Parent's interest rate risk estimation.

The following table sets the Re-pricing Gap position of the Parent as at 31 December 2016 and the increase/decline in earnings for upward and downward interest rate shocks in the banking book:

In Millions

PARTICULARS	Within 1 month	> 1 month to 3 months	> 3 months to 6 months	> 6 months to 12 months
Financial Assets				
Due from BSP	88,735	132,948	44,444	28,939
Total Loans	1,792	6,282	5,948	5,661
Total Investments	125,857	0	0	0
Sales Contract Receivables	22	12	1	11
Total Financial Assets	216,406	139,242	50,393	34,611
Financial Liabilities				
Deposits	909,716	125,717	21,275	17,923
Bills Payable	3,531	631	13,037	0
Others	0	0	0	0
Total Financial Liabilities	913,247	126,348	34,312	17,923
Off-Balance Sheet				
Derivatives	(32,567)	(497)	0	0
Commitments	0	0	0	(25,992)
Total Off-Balance Sheet	(32,567)	(497)	0	(25,992)
Re-pricing Gap	(729,408)	12,397	16,081	(9,304)

Change in Interest Rates - in basis points (bps)

In Millions

EaR	-300/-15	-200/-10	-100/-5	-50/-2.5	+50/+2.5	+100/+5	+200/+10	+300/+15
	P18,652	P12,434	P6,217	P3,109	(P3,109)	(P6,217)	(P12,434)	(P18,652)

b. Economic Value Perspective: The Parent uses the EVE-at-Risk Model to assess the potential long-term effects of changes in interest rates over the remaining life of the Parent's holdings. This model also measures the change in the Parent's EVE for specified changes in interest rates.

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

Change in Interest Rates - in bps

In Millions

EVE-at-Risk	-300	-200	-100	-50	+50	+100	+200	+300
	P11,441	P7,570	P3,756	P1,871	(P1,857)	(P3,700)	(P7,346)	(P10,937)

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

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

LIQUIDITY RISK MANAGEMENT

Liquidity Risk Management Framework

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

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

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

The Parent Board exercises oversight through RISKCOM and delegated the responsibility of managing the overall liquidity of the Parent to the ALCO. The ALCO and the TIBS are responsible for the daily implementation and monitoring of relevant variables affecting Parent's liquidity position. The ALCO reviews the Parent's assets and liabilities position on a regular basis and, in coordination with the TIBS, recommends measures to promote diversification of its liabilities according to source, instrument and currency to minimize liquidity risks resulting from concentration in funding sources.

The ALCO meets twice a month or more frequently as required by prevailing situations. The RMG, through the Treasury Risk Management Department (TRMD), is responsible for the oversight monitoring of the Parent's liquidity risk positions and ensures that reports on the Parent's current risk are prepared and provided to ALCO and RISKCOM in a timely manner. Although the Parent pursues what it believes to be a prudent policy in managing liquidity risk, a maturity gap does, from time to time, exists between the Parent'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.

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

Liquidity Risk Measurement Models

The Parent manages the liquidity risk using the following tools:

1. Liquidity Gap Report

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

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

PARENT						
	In Thousands					
	2016			2015		
PARTICULARS	Due within one year	Due more than one year	Total	Due within one year	Due more than one year	Total
ASSETS						
Cash & Other Cash Items	28,250,784	0	28,250,784	26,889,156	0	26,889,156
Due from BSP	355,405,020	0	355,405,020	314,934,580	0	314,934,580
Due from Other Banks	11,620,068	1,692	11,621,760	5,781,050	1,685	5,782,735
Interbank Loan Receivable	15,562,360	0	15,562,360	17,799,877	0	17,799,877
Security Purchased Under Agreement to Resell	14,803,584	0	14,803,584	83,654,000	0	83,654,000
Loans & Receivables	175,805,122	324,151,602	499,956,724	155,403,886	293,642,674	449,046,560
Investments	41,770,353	410,897,766	452,668,119	30,652,845	254,175,401	284,828,246
Other Assets	1,747,689	19,743,357	21,491,046	2,106,127	18,026,935	20,133,062
Total Assets	**644,964,980**	**754,794,417**	**1,399,759,397**	**637,221,521**	**565,846,695**	**1,203,068,216**
LIABILITIES						
Deposits						
Demand	558,645,451	0	558,645,451	474,739,429	0	474,739,429
Savings	621,493,284	0	621,493,284	533,308,804	0	533,308,804
Time	43,741,305	1,097,295	44,838,600	26,735,535	444,090	27,179,625
LTNCD	0	11,000,000	11,000,000	0	11,000,000	11,000,000
Bills Payable	8,678,194	21,357,140	30,035,334	1,882,262	19,467,669	21,349,931
Unsecure Subordinated Debt	0	0	0	0	10,500,000	10,500,000
Due to BTr, BSP, & MCs/PCIC	1,626,972	165,894	1,792,866	2,240,728	163,469	2,404,197
Due to Local Banks	1,723	0	1,723	16,758	0	16,758
Other Liabilities & Payable	300,931	41,432,087	41,733,018	336,966	35,988,549	36,325,515
Total Liabilities	**1,234,487,860**	**75,052,416**	**1,309,540,276**	**1,039,260,482**	**77,563,777**	**1,116,824,259**

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

- Non-Maturing Deposits: Regular savings (Total savings less High Yield Savings Accounts and Easy Savings Plus) and demand deposits are NMDs. 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 NMD amount under the different tenors.

The following table sets forth the asset-liability gap position over the detailed time period for the Parent at carrying amounts as at 31 December 2016 based on contractual repayment arrangements which take into account the effective maturities as indicated by Parent's deposit retention history.

	In Millions					
Particulars	**Due within 3 months**	**Due more than 3 months to 6 months**	**Due more than 6 months to 1 year**	**Due more than 1 year to 5 years**	**Due more than 5 years**	**Total**
Financial Assets						
Cash & Due from Banks	337,897	0	57,379	0	1	395,277
Total Loans	108,669	69,984	27,518	155,237	168,915	530,323
Total Investments	17,747	5,948	18,075	164,075	246,823	452,668
Other Assets	1,132	0	615	0	19,744	21,491
Total Assets	**465,445**	**75,932**	**103,587**	**319,312**	**435,483**	**1,399,759**
Financial Liabilities						
Deposits	34,081	1,190	1,991	603	1,198,112	1,235,977
Borrowings	3,955	3,737	986	6,969	14,388	30,035
Other Liabilities & Unsecured Subordinated Debt	1,629	0	301	0	41,598	43,528
Total Capital	0	0	0	0	90,219	90,219
Total Liabilities & Capital	**39,665**	**4,927**	**3,278**	**7,572**	**1,344,317**	**1,399,759**
Asset & Liabilities Gap Position	**425,780**	**71,005**	**100,309**	**311,740**	**(908,834)**	**0**

As at 31 December 2016, the Parent has in its possession a comfortable level of highly liquid assets to cover for liquidity risk that may arise in the earlier tenor buckets. Most assets (particularly loans and investments) have long term maturities. Cumulative gap after contingent accounts is positive in all buckets except in the 'more than 5 years' bucket. Maximum Cumulative Outflow (MCO) limit was not breached in the entire time bucket within the one year horizon.

The Parent has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk, consistent with the nature and complexity of its business activities, overall level of risk and its risk appetite.

The MCO limit set by the Parent Board is one of the tools used to manage and control the liquidity risk in the gap report of the Parent. It is a measure of the liquidity gap between maturing assets and liabilities. MCO limits put a cap on the total amount of negative gaps in the '1 day to 1 year' time buckets.

2. Financial Ratio Analysis

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

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

In Millions except when expressed in percentage				
	31 December			
PARTICULARS	**2016 (Unaudited)**	**2015 (Audited)**	**2014 (Audited)**	**2013 (Audited)**
Liquid Assets (*)	867,227	722,850	625,897	502,535
Financial Ratios:				
Liquid Assets to Total Assets	62.16%	60.08%	50.23%	59.33%
Liquid Assets to Total Deposits	70.15%	69.09%	68.55%	71.38%

*Note: Liquid Assets include the following:

1. Cash and other Cash Items
2. Interbank Loans
3. Government Securities
4. Tradable non-Government securities and commercial paper

3. Liquidity Stress Test

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

Result of Stress Test analysis helps the Parent 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 Parent in the limit setting process for the MCO and various financial ratios.

4. Liquidity Coverage Ratio

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

The Parent computes the LCR using the BSP prescribed formula:

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

Where:

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

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

As at 31 December 2016, the Parent's LCR is higher than the 90 percent minimum requirement for the CY 2018 and maximum LCR trigger alert of 100 percent targeted for the CY 2019.

5. Liquidity Contingency Plan (LCP)

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

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

Although deposit liabilities remain to be the major source of fund, the Parent identifies the different alternative funding sources like cash from operations, stock of marketable assets, government and retail deposit sources, and various credit lines from Banks, among others which are available within one day to six months.

OPERATIONAL RISK MANAGEMENT

BSP issued on 18 January 2016 the Circular 900 or the Guidelines on Operational RM. The Parent continued to take steps to strengthen the Operational RM Framework to fully adhere to the regulatory requirements. BRMD conducted complementation session with the IAG to address common issues and concerns regarding the implementation of Operational RM tools with the BUs.

Among the major initiatives to strengthen the Operational RM Framework is the revision of the RCSA Guidelines. Salient features of the revised guideline covers:

- Definition of the scope and coverage of self-assessment for process risk
- Inclusion of Property Valuation & Credit Information Department (PVCID) Field Teams and Area Legal Units to prepare RCSA
- Identification of Risk Owners (i.e. Primary and Secondary Risk Owners)
- Adjustment of timeline in the preparation and submission of RCSA from January to October of each year
- Additional provisions on BRMD's validation process, reporting of RCSA results and IAG's independent on-site assessment; and
- Changes in the definition of some terms

Another improvement introduced to adhere to BSP Circular 900 dated 18 January 2016 is the PRMF. It was developed in coordination with the Human Resource Management Group (HRMG). The PRMF is aligned with Section 7 of BSP Circular 900, "Management of Human Resource-related Risk". The framework aims to establish and implement RM strategies and best practices to effectively address and manage people risk that are embedded in the day-to-day operations.

Similarly, the BCM Framework of the Parent was also enhanced with the development of BCPs for each BUs of the Parent. On top of that, the bank-wide BCP is being reviewed, updated and tested annually. The BCP was reinforced with the establishment of back-up/alternate sites for critical operations of the Parent. A BCRA for each location of the Parent's FUs was also instituted to identify, prioritize and control risks that could potentially disrupt the delivery of services to its clients.

The Parent has also supported the continuing education of officers and staff from the RMG through the certification program of the American Academy of Finance and Management (AAFM), where five employees were duly admitted and licensed the charter of a Certified Risk Analyst (CRA).

Embedding of Operational RM across the institution is manifested with the BUs 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 strengthens governance and enhances the oversight over these risks. BUs conduct self-assessment using various RM tools such as RCSA, BIA, BCQ, heat maps, and hazard maps to quantify potential operational losses which serve as their dashboard in monitoring operational risk. RMG regularly monitors and escalate to RISKCOM and Management Committee (MANCOM) the actual losses versus estimated losses.

Operational Risk Exposure

The Parent uses the Basic Indicator Approach for calculating the capital charge for operations risk under Pillar 1. The Parent uses the average Gross Revenues of the Bank for the last three years to calculate the Operational RWA. Gross Revenues of the Bank continue to grow relative to its expanding business operations and as a result of which, Operational RWA is expected to increase annually.

As at 31 December 2016, the Group's Total Operational RWA using the Basic Indicator Approach was P54,458 million or 9.52 percent of the Group's Aggregate RWA of P572,060 million.

Cognizant that Gross Revenues (BSP proxy data) is but a shadow indicator of operational risks in the Basic Indicator Approach calculation, Parent conducts a simulation of the computation of the estimated losses using actual historical losses of the Parent and estimated probability of occurrence to determine the variance from the Basic Indicator Approach model. Self-risk assessment of the five sub-risks of operational risk (people, process, systems, event and legal risks) shows that the total estimated loss is way below the Total Operational RWA under the Basic Indicator Approach. Among the five components of operations risk, event risk registered the highest estimated loss.

The following are controls and risk management tools to address event risk which are currently implemented by Management:

- BCQ and Validation Form
- Creation of CMC and Business Continuity Committee (BCC)
- Geo-Hazard Maps
- Emergency Evacuation Drill activities
- Personnel and Building Safety Plan for LANDBANK Plaza and FUs' Emergency Preparedness and Proper Response Plan
- Emergency Preparedness Measures
- Security Measures
- Communication During Emergencies/Disasters
- Building Maintenance
- Transfer of risk through insurance
- Controls and measures against Card Skimming
- Conduct of regular internal and external audits

Also, the Parent started to embark on other initiatives to mitigate event risk such as:

- Use of Infoboard in disseminating information on weather bulletins including other activities at LANDBANK Plaza
- Procurement of emergency sling bag for each FU and Floor Emergency Response Team (FERT)
- Provision of hard hats for all FUs personnel
- Installation of solar panel to additional nine bank-owned buildings
- Conduct of electrical audit in additional 10 bank-owned buildings
- Procurement of Abloy lock for top covers of lobby type Automated Teller Machine (ATM)
- Procurement of C-Plate as protection for deep-insert skimming
- Implementation of ATM Whitelisting solution that will allow valid ATM programs to run

Further, emergency drills are regularly executed and the Management ensures that sufficient amount and appropriate type of insurance are in place. The Parent is confident that substantial loss on operational risk can be mitigated because the existing controls and preparedness measures are in place.

INFORMATION SECURITY AND TECHNOLOGY RISK MANAGEMENT

A significant achievement of the Parent in 2016 was the strengthening of Information Security and Technology Risk. The Information Security and Technology Risk Management Unit (ISTRMU) was spun-off from BRMD into an office through the creation of the Information Security and Technology Risk Management Office (ISTRMO).

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

- Implementation of Information Technology (IT) governance
- Enhancement and implementation of the Bank's IT RM System
- Enhancement of IT standards
- Full compliance to information security policies
- Enhancement of BCP and Disaster Recovery Plan (DRP) for IT
- Creation of the IT-Quality Management Office (QMO)
- Strengthen the function of the ISTRMO under the RMG
- Upgrading of ATMs
- Compliance with Europay Mastercard VISA (EMV)
- Continued upgrading of IT infrastructure
- Conduct of full cycle testing
- Observance of strict procurement process and monitoring of the performance of service providers
- Conduct of internal audit, vulnerability assessment, penetration testing, and compromise assessment
- Insurance coverage for fixed assets and electronic crimes
- Monitoring and oversight by the Senior Management, ITCOM and RISKCOM

With the prevalent cyber security risks, the Parent intensified the upgrading of its IT infrastructure and network security to mitigate system risk. Initiatives include acquisition of Data Loss Prevention (DLP) system, implementation of additional end-point anti-malware protection system, and anti-Distributed Denial of Service (DDoS) solution.

ENTERPRISE RISK MANAGEMENT

Risk Categories

As the Parent continues to embark on Enterprise RM (ERM), the RSA process participated by Senior Management was utilized to define critical risks of the Parent. Pre-selected Mission Critical Risks were defined as fundamental risks that a bank must address as it continues to function as financial institution, as follows:

1. Credit Risk: Inability to review and analyze the credit quality of potential/existing borrowers to serve as a basis for loan approval (at application) and to determine the probability of default (on an ongoing basis) could lead to economic losses.

2. Market Risk: Failure to anticipate and manage fluctuations in the values of the Bank's investments could lead to economic losses.

3. Liquidity Risk: Failure to properly manage the Bank's cash flows and have sufficient available alternative fund sources at reasonable cost to enable the Bank to meet its obligations as they fall due.

4. Interest Rate Risk: Inability to appropriately plan for and react to fluctuations in interest rates leads to market losses on investment securities or cash flow shortfalls resulting from re-pricing of loans or obligations.

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

Emerging risks were also identified which considered business issues that have surfaced as important areas of concern over the course of doing executive interviews with Senior Management. A major factor in identifying the Parent's emerging risks considered the merger of Land Bank of the Philippines and Development Bank of the Philippines. These risks are as follows:

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

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

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

4. Client Relationship Management: Inability to effectively identify and address the customers' needs may negatively affect the Bank's reputation and relationship with its customers.

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

6. Organizational Structure: Lack of responsive organizational structure may prevent the achievement of the Bank's strategic goals and objectives in an efficient manner.

7. Business Continuity Planning: Failure to undertake the appropriate advanced planning related to critical business functions/processes may result in the Bank's inability to recover and maintain business operations in the event of a disruption due to natural events or terror and malicious acts.

8. Socio-Political Risk: Failure to understand, address and anticipate political mandates will affect the Bank's plan in its execution of the merger.

9. Strategic Planning: Failure to develop, implement and monitor institutional strategies and direction will threaten the Bank's overall viability and growth prospects.

10. Vision & Direction, Communication Management: Failure to establish, align and communicate a vision and direction for the Bank and its major initiatives, including services, products and programs, may hamper the achievement of the Bank's objectives and strategies.

11. Asset Quality & Valuation Risk: Failure to conduct comprehensive due diligence on assets and liabilities that will be absorbed by the Bank, including commitments and contingencies on unrecorded assets and liabilities, might cause financial losses.

Through the RSA process under the ERM, Senior Management prioritized critical risks in terms of inherent impact and opportunities for risk management improvement.

The risk profile of the Parent is subjected to regular review and the RSA yielded the risks that needed to be addressed in light of the impending merger and consolidation of Parent and DBP.

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

Risk Management Framework Assessment

Part of the Bank's ERM, RM Framework Assessment (RMFA) was conducted in sessions with Senior Management as participants, to re-assess the maturity of Parent's RM Framework and to provide recommendation regarding enhancements on the Parent's RM capabilities. The result provided an assessment on the design of the Parent's RM Framework and the consistency of its application across the Bank.

RM Framework elements are composed of five items with corresponding sub-items:

1. Governance & Organization

   - Executive Sponsorship
   - RM Organization
   - Ownership & Accountability
   - Supervision & Oversight

2. RM Strategy

   - Alignment to Business Objectives
   - Risk Tolerance & Appetite
   - Policies & Procedures
   - Risk Language, Categorization, Identification or Assessment

3. Reporting & Communication

    - Reporting (external or internal)
    - Escalation procedures

4. Tools & Technology

    - Data Repositories or Workflow Support Tools
    - Early Warning Systems or Issues Tracking & Remediation
    - Analytical & Modeling Tools

5. Culture & Capability

    - Skills & Identification
    - Training
    - Measurement & Reward
    - Behavior (Integrity or Ethics)

After completing the evaluation of each sub-element, Senior Management assessed the maturity level based on their knowledge and using the criteria given, as described:

MATURITY LEVEL		MANAGEMENT'S SELF-ASSESSMENT AGAINST THE MATURITY MODEL
5	Leading	RM activities are representative of leading practices in design, consistently applied, integrated and well-coordinated across the organization. The activities are viewed as leading practice both internally and externally by other organizations.
4	Advanced	RM activities are advanced in design, relatively consistent in application and for the most part, well-understood by management and relevant employees across the organization. Limited opportunities for enhancement remain.
3	Established	RM activities are established in design, yet not consistently applied or fully understood by management and relevant employees in key functions or business areas. Moderate opportunities for enhancement remain.
2	Evolving	RM activities are evolving in design, but are inconsistently applied or fully understood by management and relevant employees in key functions or business areas. Moderate opportunities for enhancement remain.
1	Basic	RM activities are evolving in design, but are inconsistently applied and well-understood only by management and the relevant employees in limited business areas. Significant opportunities for enhancement remain.

The RMFA resulted to a broader recognition and understanding of the leading risk management practices as well as key recommendations and opportunities for improvement of each element of the Parent's RM framework.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

For 2016, the Bank conducted a thorough and comprehensive Internal Capital Adequacy Assessment Process (ICAAP) process to determine the quality and adequacy of the Group's capital, given the existing risks exposure as well as future risks arising from growth, new markets and expansion of the product portfolio. The BoD and the Senior Management performed collaborative governance and provided directions to enhance the RM process and strengthen the capital position of the Parent.

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

Enhancement of Risk Assessment

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

- Review and enhancement of the Risk Appetite Statement (RAS) and Materiality Threshold for Pillar 2 risks on an annual basis
- Inclusion of Event and Legal Risk under the Operational Risk in addition to People, Process, System in compliance with BSP Circular 900
- Linking the Bank's ERM Framework with ICAAP Model by relating the forward-looking risk assessment with the Risk Driver Maps containing the corresponding strategies
- Adopting the enterprise-wide view of risk, cross risk analysis & identification and management of emerging risk across the institution.
- Linking the RCSA process in determining risk drivers and potential losses
- Institutionalizing the ICAAP Communication Process
- Implementation of the "ICAAP Quarterly Monitoring Report"
- Defining the primary and secondary risk owners

ICAAP Culture

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

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

Strengthening Capital Planning

For 2016, the Parent has sufficient and strong capital to deliver its mandated services and to cover the risk inherent in its operations. Under the most probable scenario, the Parent estimated the 2016 year-end CAR at 12.4 per cent vs. 10 per cent minimum regulatory requirement for CAR. The actual CAR recorded as at 31 December 2016 was 11.4 per cent implying a very objective risk assessment and capital planning. Similarly the actual CET 1 ratio of 10.54 per cent as at 31 December 2016 was not too far from the 11.54 per cent projected CET 1 ratio. The actual CAR and CET 1 ratios of the Bank were more than the BSP minimum requirements of 10 percent CAR and 9 percent CET 1 ratio and were compliant with Basel III requirements.

The projected ICAAP ratios of CAR and CET 1 being near the actual values of these ratios at the end of December 2016 indicate that the ICAAP process has been conducted diligently and appropriately.

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

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

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

To address capital concerns on a more permanent basis, the Parent requested the National Government for P20 billion additional equity infusion for the Bank in the 2016 General Appropriations Act (GAA). This will give the Parent enough capital buffer to support the national development programs and expand loans to the mandated and priority sectors.

LANDBANK as Domestic Systemically Important Bank

Under the Basel III framework implemented beginning January 2014 in the Philippines, a higher quality of capital and capital ratio level was required by the BSP.

BSP Circular 856 issued on 29 October 2014 contained the Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks (DSIBs) under Basel III. Banks identified as DSIB are required to have Higher Loss Absorbency (HLA). HLA shall be met with CET 1 capital ranging from 1.5 percent to 3.5 percent depending on which bucket they are classified.

On 30 June 2015, the BSP informed the Parent that it has been classified as DSIB under Bucket 1. Accordingly, the Parent is required to have an additional 1.5 percent CET 1 capital. Compliance therewith shall be phased-in beginning 1 January 2017, with full compliance on 1 January 2019. This is on top of the existing CET 1 minimum of 6 percent and the capital conservation buffer of 2.5 percent.

DSIBs whose capital ratio falls below their corresponding regulatory minimum will be subject to constraints in the distribution of their income.

Recovery Plan

On June 2016, the Parent submitted the supplemental document to the Bank's ICAAP in compliance with BSP Circular 904 dated 10 March 2016 or the Guidelines on Recovery Plan (RP) of a DSIB which requires all DSIBs to come up with a concrete, reasonable and implementable RP that sets out the actions it would take to restore its viability in cases of significant deterioration of its financial condition in different stress scenarios. Thus, the RP as a supervisory measure is established not just to minimize the impact of a DSIB on the entire financial system but primarily to reduce the probability of a DSIB's failure.

The BoD and the Senior Management performed collaborative governance and provided directions to establish Early Warning Indicators (EWIs) or internal limits that may trigger activation of the RP and set recovery options or courses of actions that the Bank could implement to address destabilizing events and/or scenarios, and restore it to its financial strength and viability.

The Parent's RP is focused on the stress scenarios specific to the bank as well as its economic and external condition. It sets out various recovery options considering capital, liquidity and interest rate risks to address future events or crises that would bring down the Parent to the Point of Non-Viability (PNV). For 2017, the RP will be an integral part of the Parent's ICAAP document.

RISK OVERSIGHT COMMITTEE

The RISKCOM is primarily responsible for the Parent's RM framework, policies and guidelines and ensures the alignment of RM objectives with the Bank's overall business strategies and performance goals.

The RISKCOM oversees the RM program of the Parent ensuring that RM systems are in place, limits and tolerances are observed, system of limits remain effective and immediate corrective actions are taken whenever there are breaches.

The Committee is chaired by Director Tomas T. de Leon, Jr. with the Finance Secretary represented by the alternate, Deputy Treasurer of the Philippines Christine L. Sanchez as Vice-Chair. Director Crispino T. Aguelo, Agriculture Secretary represented by USec Francisco M. Villano, Jr. and the Agrarian Reform Secretary represented by USec Luis Meinrado C. Pañgulayan complete the RISKCOM members for 2016. The Committee held 22 meetings with an average attendance of 82 percent wherein 254 regular and 28 special reports (i.e., credit, treasury, operational, information security & technology and enterprise-wide risk reports) were discussed including stress testing reports on the Bank's loan and investment exposures.

Major Parent initiatives and new or enhanced guidelines were approved by the RISKCOM, as follows:

1. Credit RM

    - Credit Risk Rating Models and Implementing Guidelines under BSP Circular 855 dated 29 October 2014 (re: Guidelines on Sound Credit RM Practices) and in compliance with GCG for 2016.

2. Market RM

    - Guidelines on monitoring of match trade transactions, off-market rates, deposit concentration and pre-settlement risk, among others
    - Setting and review of market risk limits, retention of treasury risk limits
    - Guidelines on the use of voice logger

3. Operational RM

    - Guidelines on outsourcing

4. Information Security & Technology RM

    - Guidelines for assessment of process risk and information technology & security risk

5. Enterprise RM

    - SGV's turnover of final report on ERM Phase III: RMFA

Also, as part of the continuing education of the RISKCOM an annual Directors' Retreat is being conducted by RMG to re-orient and provide updates on regulatory issuances to RISKCOM members on risk policies, guidelines and risk strategies relative to various operational aspects of the Bank.

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

INVESTMENT & LOAN COMMITTEE (ILC)

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

The ILC also evaluates and approves credit policies and guidelines including, but not limited to (1) limits on the Bank's total lending exposures to different industries/sectors, (2) terms and conditions for each type of credit accommodation, (3) remedial measures such as restructuring and (4) foreclosures, dacion en pago and other settlement options. In addition, the ILC reviews and recommends to the Parent's Board the approval of investment policies and guidelines that define the structure, eligible investments and management of investment portfolios.

Hence, the ILC is composed of Director Tomas T. De Leon, Jr. as Chair with Director Gerardo J. Bulatao as the Vice Chair and Director Crispino T. Aguelo, Director Domingo I. Diaz and LANDBANK President & CEO Gilda E. Pico as members. The Committee meets weekly and held a total of 46 meetings in 2016 with an average attendance of 88.19 per cent.

The ILC approved 409 loan accounts and endorsed 165 accounts to the Parent's Board for approval or confirmation. A total of 84 credit-related policies and programs were deliberated and approved for implementation. It likewise evaluated 14 investment accounts which were endorsed for approval of the Parent's Board.

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