2011
ANNUAL REPORT

LANDBANK

Greening the Countryside
Growing Productivity, Spreading Opportunity

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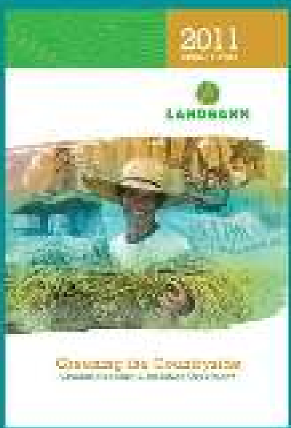

ABOUT THE COVER

The countryside is at the heart of LANDBANK. The Bank takes pride in laying the foundations for an abundant life for our people especially in the rural areas. Through various products and services, LANDBANK paves the way for a greener country thriving with growth and opportunities for our fellowmen.

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VISION

LANDBANK shall be the dominant financial institution in countryside development, committed to the highest standards of ethics and excellence in the service of the Filipino people.

MISSION

We shall continue to provide timely financial and technical support for our farmers, fisherfolk and other priority sectors.

We shall deliver innovative products and services that are consonant with ecological enhancement and effectively address our clients' needs.

We shall embody professionalism and integrity, providing our employees with a work environment that encourages growth and rewards excellence.

LANDBANK is committed to improving the lives of all its stakeholders and working with them to lead the country to economic prosperity.

FINANCIAL HIGHLIGHTS

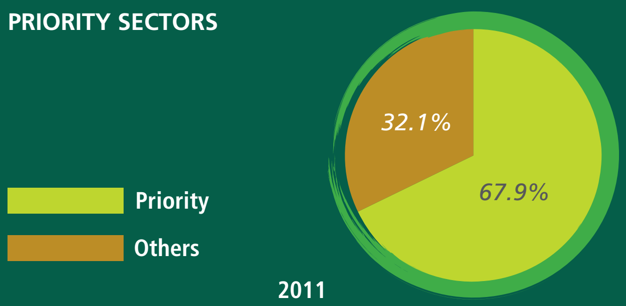
GROUP (AUDITED)

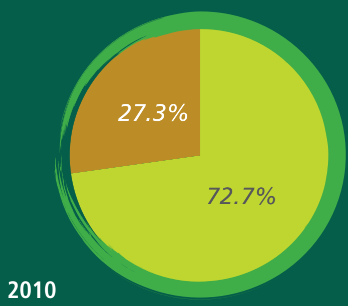
(In Billion Pesos)	2011	2010	2009	2008	2007
Total Resources	645.8	570.9	515.6	437.7	385.3
Loans	334.0	247.1	241.0	227.8	173.1
Treasury Loans	56.1	12.4	26.6	36.6	43.6
Regular Loans	249.6	205.5	187.0	174.9	121.6
Other Loans and Receivables	28.3	29.2	27.4	16.3	7.9
Investments (Net)	196.0	201.0	174.7	118.1	124.1
Deposit Liabilities	507.2	433.2	396.3	333.4	287.2
Demand	211.2	162.5	157.0	128.1	102.6
Savings	270.1	247.6	217.3	191.8	169.0
Time	25.4	22.6	21.5	13.0	15.6
LTNCD	0.5	0.5	0.5	0.5	-
Capital	77.7	68.4	53.1	40.8	43.1
Gross Revenues	34.5	34.8	31.6	29.0	28.3
Interest Income on Loans	17.1	16.9	14.5	12.4	11.4
Income on Investments	12.3	12.8	11.4	12.0	6.8
Net Income (in P M)	9,056.2	8,221.7	6,818.5	5,174.1	4,378.8

GROSS LOAN PORTFOLIO (In Billion Pesos)

	2011*		2010*	
Sectors	**Amount (₱ B)**	**%**	**Amount (₱ B)**	**%**
Farmers and Fisherfolk	31.4	12	24.1	11
Microenterprises and SMEs	21.2	8	22.3	11
Agri-business	21.4	8	22.7	11
Agri-infrastructure (LGUs)	32.2	13	30.9	15
Agriculture-Related Projects (GOCCs)	40.3	16	30.2	14
Livelihood Loans	5.5	2	5.0	2
Environment-Related Projects	6.5	3	4.7	2
Socialized Housing	6.7	3	8.0	4
Schools and Hospitals	6.9	3	7.2	3
Total Priority Sector Loans	**172.1**	**68**	**155.1**	**73**
Other LGU Loans	9.0	4	8.7	4
Other GOCC Loans	23.2	9	5.8	3
Infrastructure Development	10.6	4	9.9	4
Housing	2.3	1	1.7	1
Others	36.4	14	32.0	15
Total Other Sector Loans	**81.5**	**32**	**58.1**	**27**
Total Loan Portfolio	**253.6**	**100**	**213.2**	**100**

SHARE OF LOANS TO PRIORITY SECTORS





LOANS TO PRIORITY SECTORS

2001	42.1%
2002	49.8%
2003	56.0%
2004	60.5%
2005	66.0%
2006	68.3%
2007	72.8%
2008	72.7%
2009	68.0%
2010	72.7%
2011	67.9%

MESSAGE FROM THE PRESIDENT OF THE PHILIPPINES

LANDBANK, whose services enable the expansion of our priority sectors, propel development in the countryside, and elevate the conditions of communities across the archipelago.

My warmest greetings to the board, administration, and staff of the Land Bank of the Philippines on the publication of the LANDBANK 2011 Annual Report.

These past two years have seen the Philippines rise steadily among the ranks of our region's top economies; consistent quarterly growth and confidence in our governance and reforms have resulted in upgraded credit ratings that make our business environment even more favorable to investors. This success is reinforced by the accomplishments of government financial institutions such as LANDBANK, whose services enable the expansion of our priority sectors, propel development in the countryside, and elevate the conditions of communities across the archipelago.

May you be steadfast as you build on your gains which have surpassed the previous year's milestones, and reap the harvest of LANDBANK's financial assistance in our growing agriculture and fisheries sector. Let us continue working together towards our goal of equitable progress, and secure a future of stability and prosperity for every Filipino.

President Benigno S. Aquino III
Republic of the Philippines

CHAIRMAN'S AND PRESIDENT'S REPORT

The Philippines in 2011 took to task the challenging tones that marked the country's political, social, and economic landscapes. In both broad and light strokes, the nation's strength was able to prevail, with an increase of 3.7 percent of the Gross Domestic Product (GDP) from the past year's performance.

In the home front this year, LANDBANK's institutional strength is manifested with our sound financial performance. Our viability translated to furthering the cause for national growth and success.

As the year 2011 came with the promises of rewarding change for the country and for LANDBANK, we focused our efforts on our thrust of "Greening the Countryside through Food Production and Infrastructure Development.

As the year 2011 came with the promises of rewarding change for the country and for LANDBANK, we focused our efforts on our thrust of "Greening the Countryside through Food Production and Infrastructure Development." LANDBANK has forged ahead with the longstanding commitment to excellence and sustainable development as guided by our institutional core.

As a government financial institution, we seek to attain all three of our business goals-- embodied in our day-to-day operations as a bank that rises to meet the expectations of our clients, partners and supporters. In 2011, LANDBANK pursued these goals and exceeded some targets with significant impact. The Bank made a strong showing in serving various government agencies as well as in playing a vital role in linking the national government's socio-economic programs to the target beneficiaries.

Pursuit of Mandate

Moving towards efficient management of our loan portfolio, we proceeded to rise to the challenge of directing a greater part of our resources to our priority sectors, namely small farmers and fisherfolk; micro, small and medium enterprises (SMEs); livelihood; agri-business; agri-infrastructure development of local government units; projects related to agriculture by government-owned and -controlled corporations; as well as environment-related projects; socialized housing; and schools and hospitals.

The loans released to our mandated sector of farmers and fisherfolk in 2011 stood at ₱40.5 billion. This amount represents a 25 percent increase from the ₱32.3 billion provided in 2010. Other priority sectors benefited from the 67.9 percent of LANDBANK's total regular loan portfolio of ₱253.6 billion. This is beyond the 65 percent target we have set for the year.

Institutional Viability

Showcasing resiliency in our financial performance, LANDBANK was able to hit a record ₱9.1 billion in net income. Our dividend remittance this year has added ₱5 billion to the national government's coffers, responding to its campaign for revenue generation.

LANDBANK's net income of ₱ 9.1 billion in 2011 marks a 10 percent increase from its 2010 net income of ₱8.2 billion. Our strong performance was complemented by our total assets which posted a 13 percent increase to ₱645.8 billion from the ₱570.9 billion registered in 2010. In addition, capital expanded by 14 percent to reach ₱77.7 billion from the ₱68.4 billion last year.

We have also made conscious efforts to revitalize the government's fight against poverty with the continuous support for the Food Supply Chain Program (FSCP) in partnership with the Department of Agriculture and the Department of Finance. Through the FSCP launched in late 2010, the Bank released ₱9.5 billion in loans to hundreds of anchor firms, cooperatives, and SMEs. FSCP provides avenues for productivity and income by providing credit and technical support, and facilitating market linkage, forming sustainable food supply chains — from production to retail among producers and buyers.

Enhanced Customer Service

LANDBANK is making constant enhancements to keep us at par with global banking practices as evident with our successful run for the ISO 9001:2008 certification in operations concerning lending and financial services, loans, and branch banking.

For more efficient services, new branches have been opened with other extension offices being upgraded into full service branches. We likewise saw growth in our client base and ATM users, to which we responded with further increases in our ATM locations, as well as improvements in our e-banking products and services. LANDBANK also took strides in improving our IT infrastructure to better align with our operational needs.

Putting premium on responsible banking translated into efforts to reinforce our risk management, governance and transparency, and environmental policies.

Moreover, we continued to recognize the significant role of LANDBANK's most vital assets in the overall success of our operations – our people. That is why more programs and assessments that zero in on the leadership and management skills of our workforce were given priority this year. We also provided other activities for the physical and spiritual wellness of our employees. It is our belief that the ability of the institution and its people to handle expectations and deliver excellence go hand in hand with our efforts to achieve and maintain a stable and strong institution.

Looking forward to a greener countryside, LANDBANK shall remain a catalyst of change with vibrant and promising hues set toward the nation's canvas of sustainable development.

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Sec. Cesar V. Purisima
Chairman

Gilda E. Pico

Gilda E. Pico
President and CEO

LIMCOMA MPC: MILLING FOR PROGRESS

Reminiscent of old-world charm with a rich history of diverse culture and coffee trade is the city of Lipa in Batangas. As townsfolk and visitors alike are guided by landmarks of religious devotion and natural landscapes, it is also home to the Limcoma Multi-Purpose Cooperative, a pioneer in the feed milling industry in this southern part of Luzon.

The early 1960s saw the city of Lipa and neighboring towns of Batangas regaining their economic footing after the destruction of their citrus plantation, which was the primary source of livelihood. Farmers with the entrepreneurial spirit focused their efforts toward raising poultry and other livestock instead. As this particular industry flourished in the coming years, so did the prices of feeds necessitated by industry demand and competition.

With the inflation, small scale growers found it difficult to afford market prices for livestock feeds. Without a viable mechanism to keep small scale growers afloat, community members knew an inevitable demise of the industry would follow. Hence, the birth of the Lipa City Multi-Purpose Cooperative Marketing Association, or LIMCOMA in 1970. Finding its roots among 77 livestock producers, the cooperative was established in 1970 with ₱57,000 as initial capitalization.

Mission at hand, the organization set up the basics—to mill and produce their own feeds and (feed) supplements, respectively. The co-op started manual operations wherein the pala-pala system called for workers to use spades in a leased rice mill in Lipa. From there, Limcoma's high quality products, performance

and dedicated manpower have allowed the cooperative to expand operations.

The changing times have seen Limcoma go through its own progressive shifts. These days, the organization goes simply by the name Limcoma from its official name change to Limcoma Multi-Purpose Cooperative in 1992. With regular members standing at 4,524 and associate members at 2,470 as of end-December 2011, it now conducts business in CALABARZON, Mindoro, Western Visayas, Bulacan, and Camarines Sur.

It has also become a prominent figure in the Department of Agriculture's Food Supply Chain Program (FSCP). Being a client of LANDBANK for about a decade has opened opportunities for Limcoma. Through the Bank's Development Assistance Center, the cooperative became convinced to participate in the FSCP. Aside from having access to loans to support working capital, meetings and eventual supply and purchase agreements with corn producers became easy for the cooperative. This positive avenue complemented Limcoma's agricultural production line (from LANDBANK) for its hog fattening and feed subsidy projects.

When asked about their future plans, such as with expansion and new partnerships, Limcoma President Joselito Lingao seems to adopt a roll-with-punches attitude. However, it should not be easily mistaken for complacency. He is well aware of a solid mindset when it comes to keeping the organization in its best shape ever, but does not disregard the fact that supply and demand of any goods or service is never a stationary environment.

This is why Limcoma is definite with its continuous efforts of being a well-recognized agriculture cooperative in the feed milling business with the manufacture and sale of animal feeds at the core of its operations. Management does have high hopes of venturing into other profitable undertakings in the future, not just for financial profit but for their members and communities around them.

If a clear commitment to quality and excellence, and awards received are indications of lasting success, including being the first agri-cooperative to receive an ISO 9001:2000 Certification in the country, then Limcoma Multi-Purpose Cooperative is ahead of the curve.

BOUNTY FROM BOHOL

Famous for the smallest primate in the world known as the Tarsier, and the over a thousand cone-shaped hills called Chocolate Hills, the island province of Bohol has been one of the top travel destinations in the country. Known for its white sand beaches, scenic countryside, old houses and ancient churches, it is home to Marcela Farms, Incorporated (MFI).

Named after the matriarch of the Uy family, MFI traces its humble beginnings from prawn farming back in 1996. Seeing the need to provide farm fresh produce and reasonably-priced food products for the Boholanos, MFI tapped the vast potential of the agricultural land by expanding to a piggery, poultry and dressing plant, corn production and rice and feed milling. A Bank client since its inception, LANDBANK helped make the company's development projects possible---from acquisition of assets, purchase and expansion of farmlands, procurement of machineries, equipment and other fixed assets, to enhancement of its manpower.

Seeing the potential of MFI to make greater impact to the food supply industry in the province by working synergistically with other players, the senior officers and representatives from the Development Assistance Center and the Bohol Lending Center of LANDBANK enticed the company to take part on the Food Supply Chain Program (FSCP). Through the FSCP, MFI was able to maximize credit assistance from LANDBANK to improve production efficiency and in turn, allowed more consumers to access the products they produced. Also, through the program, MFI was able to seal marketing agreements with the Bohol Bayanihan MPC, Señor San Isidro Labrador MPC, Carmen MPC and Timgas MPC for the production and marketing of corn, as well as

with various irrigators' associations in several municipalities in Bohol for the production and marketing of palay.

Apart from credit assistance and market linkaging, LANDBANK played a major role in program coordination by visiting farms and providing technical support through the conduct of seminars on fund management, marketing and buying schemes.

MFI practices a fully integrated supply chain for its products from production to packaging and distribution for sale in its groceries and malls in the Provinces of Bohol and Cebu.

MFI has a penchant for turning challenges into opportunities. Due to the absence of a commercial piggery in Bohol, MFI ventured into the hog fattening project. When the company noted a remarkable increase in demand for chicken meat, MFI expanded into broiler production. At present, MFI is dominating the hog and chicken meat business in the province, one with their vision of a self-sufficient Bohol and an abundant food supply for the Boholanos.

In response to the rising costs of energy and oil, MFI invested in a wastewater treatment facility that better dispose pig manure and capture methane to generate electricity. MFI's biogas plant is the first LANDBANK-financed project to be included in the Programme of Activity for piggeries under the Methane Recovery from Waste Project registered with the United Nations Framework Convention on Climate Change.

MFI's achievements and success all the more inspire its officers and employees to work on becoming one of the top agribusinesses in the country. By maintaining the quality of their products and the acquisition of state-of-the-art technologies, MFI knows that this goal is not far-fetched.

Now and in the years to come, MFI vows to help boost agriculture, uplift the standards of living of Boholano farmers and ensure that households have access to quality and affordable food. MFI envisions that Bohol be known not just for its natural beauty but also for its agricultural bounty.

DEVELOPMENT CATALYST IN DAVAO

Davao City has carved a name in the archipelago as a business, investment and tourism hub in the southern part of the Philippines.Comprising this booming city are flourishing enterprises like Ana's Breeders Farms, Incorporated (ABFI).

It was in 1975, when Mr. Rogelio Suy started a backyard piggery business. His wife, Ana, saw the potential in poultry and enticed his husband to also invest on it, thus the birth of Ana's Poultry Farm. With an initial capital of ₱6,200, the poultry farm operated in a rented lot with 2,000 broilers and three employees.Through the years, Ana's Poultry Farm expanded its operations as a contract grower of San Miguel Foods, Incorporated (SMFI). It was then renamed as Ana's Breeders Farms, Inc.

The couple's eldest child, Jonathan, and his wife, Aileen, eventually took over the management of the business. Realizing the limited growth potential of ABFI if it will only depend on the requirements of SMFI, the company developed its own facilities for the complete supply chain for dressed chicken which they branded as "Farmers Fresh Chicken". At present, 70 percent of dressed chicken they produce is distributed in Davao, 15 percent in Tacloban, 10 percent in Zamboanga and five percent in Cotabato.

From being SMFI's exclusive egg hatching facility, ABFI ventured into poultry raising, contract growing/ breeding, and dressing plant operations as well as marketing of its own product. It became a LANDBANK client in 2007 through a working capital loan which was used to expand its operations. The Bank also financed its poultry and hatchery buildings as well as the purchase of an incubator and other equipment for the new hatchery.

Believing that they have to be efficient in order to be competitive, ABFI put up a fully automated and climate-controlled battery-type broiler house to meet the increasing demand for quality chicken.It can accommodate up to 50,000 birds with a harvest time of 28 to 30 days.

LANDBANK's Davao Lending Center saw the promising capabilities of ABFI so they invited the company to attend an orientation seminar on the Food Supply Chain Program (FSCP). ABFI didn't think twice about participating in the FSCP knowing very well that it is aimed at ensuring food security in the country, specifically in their area of operations in Mindanao.

From three employees back in 1975, ABFI now employs over 600 workers to whom the Suy couple is very grateful. The couple recognizes the support of their employees in making ABFI a trailblazer in the poultry business in Davao City.

Apart from ABFI, Mr. and Mrs. Suy also runs the Jomaray Pulp Packaging Industry (JPPI) which is engaged in the production of environment-friendly packaging for high quality industrial, agricultural and household products, and the Subzero ice and cold storage plant which supplies the tube ice requirement of the dressing plant.

ABFI aims to be the biggest poultry supplier and distributor in Davao City and be the first in Mindanao to export to Singapore.In the pipeline are the construction of its fourth breeder farm, expansion of its hatchery to a 2.4 million capacity every month and the construction of its own feed mill that will handle the feed requirements of the poultry business. By continuously expanding its operations, ABFI is able to lower its production cost.

The hard work and efforts of Mr. and Mrs. Suy have not only been rewarded with profitable enterprises. They have also been conferred with various awards from GoNegosyo, Globe, Ernst and Young and the Davao City Chamber of Commerce and Industry, Inc. The couple also received the SME Maka-kalikasan award for JPPI in LANDBANK's Gawad sa Pinakatanging Entrepreneur in 2010.

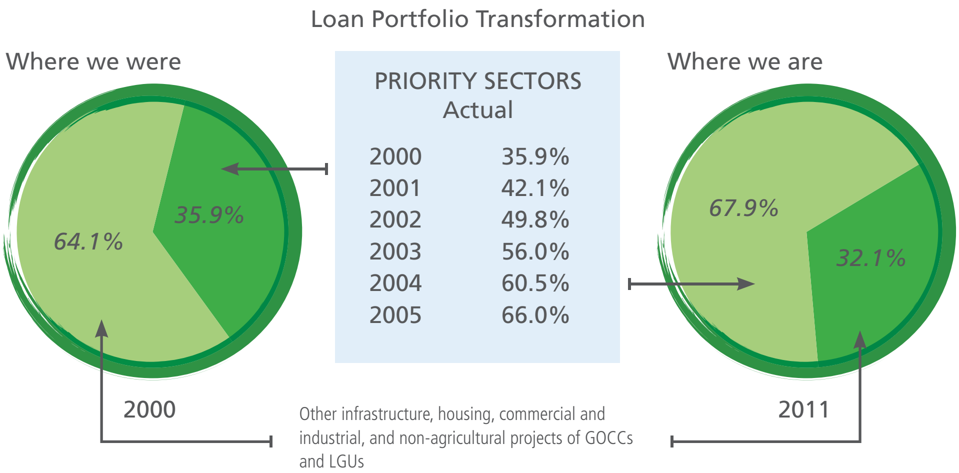
PURSUIT OF MANDATE

LANDBANK remains at the forefront of promoting countryside development through the provision of credit and technical support to the mandated clients including small farmers and fisherfolk; and other priority sectors such as micro-enterprises, small and medium enterprises; agri-business, agri-infrastructure projects of local government units, agriculture-related projects of government-owned and -controlled corporations, livelihood projects of salaried individuals, environment-related projects, socialized housing and schools and hospitals. Cognizant of its developmental function, and the need to provide adequate development interventions, LANDBANK shifted its loan portfolio in favor of its mandate and the priority sectors.

In 2011, LANDBANK's loans to the mandated and priority sectors amounted to ₱172.1 billion, or 68 percent of its total loan portfolio of ₱253.6 billion. This is a significant improvement from the 36 percent share of the said sectors in 2000.

LOAN PORTFOLIO EXPANSION FOR THE PRIORITY SECTORS:
Small farmers and fisherfolk, Micro-enterprises and SMEs, livelihood loans, agribusiness, agri-infrastructure, agri-related and environment-related projects, socialized housing, schools and hospitals

STRATEGIC THRUST (2000-2011)



LOANS TO THE PRIORITY SECTORS

Support for the Mandated Sector

- Loans for Small Farmers and Fisherfolk

In 2011, loan releases to small farmers and fisherfolk reached ₱40.5 billion, 25 percent higher than the ₱32.3 billion released in 2010. These loans were channeled through 979 accredited farmers and fisherfolk cooperatives and 367 countryside financial institutions or CFIs (rural banks, cooperative banks, and development banks). More than 900,000 small farmers and fisherfolk nationwide benefited from these loans.

As of end-2011, loans outstanding to small farmers and fisherfolk expanded by 30 percent and reached ₱31.4 billion. These represented 12 percent of the Bank's loan portfolio. The bulk of these loans were used for crop production, particularly palay, corn, coconut, sugarcane and high-value crops. LANDBANK also financed other activities such as fishery, livestock, post-harvest facilities, irrigation, manufacturing, and wholesale and retail trading.

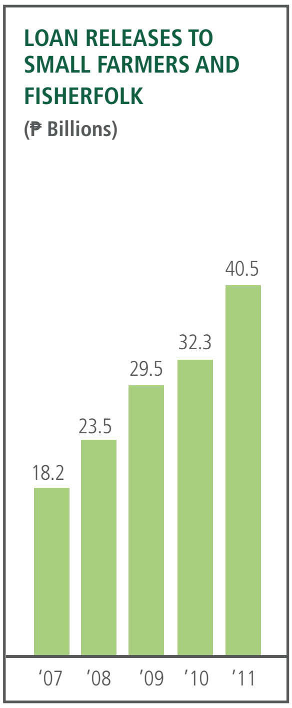
- Unsecured Subordinated Debt Facility for Countryside Financial Institutions

The Unsecured Subordinated Debt Facility for Countryside Financial Institutions is a unique development program where LANDBANK subscribes to the Tier 2 offering of accredited CFIs. With LANDBANK's subscription, the CFIs are able to improve their capital base and expand their agri-lending operations in the countryside. As of end-2011, outstanding balance stood at ₱791.0 million to 13 CFIs.

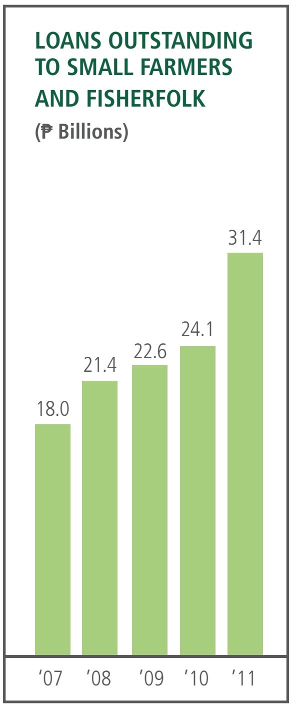
Support for Agriculture and Fisheries

- Loans for Agri-business

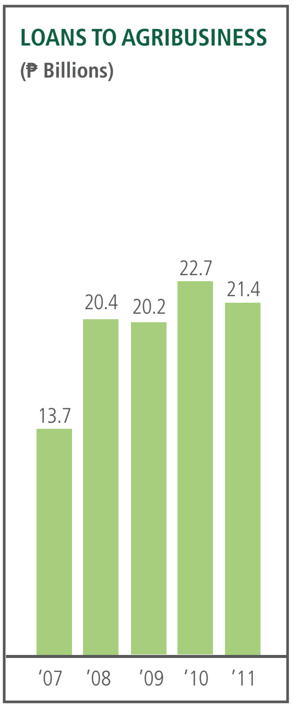
To help promote agricultural development and job generation in the agricultural sector, LANDBANK supports private business enterprises that are engaged in agri-processing, manufacturing, packaging, storage and other agri-related services. These activities provide value addition to the produce of farmers, and help create labor in the countryside. In 2011, LANDBANK's outstanding loans to agribusinesses amounted to ₱21.4 billion representing eight percent of the Bank's loan portfolio.



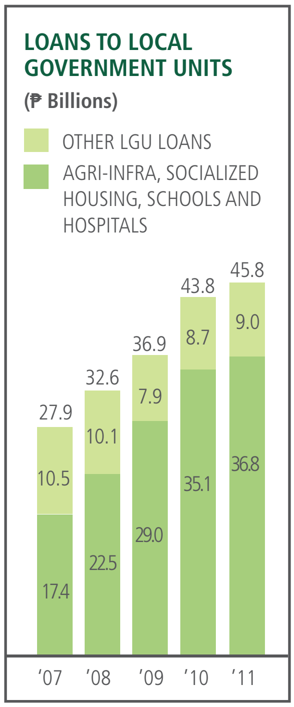
LOAN RELEASES TO SMALL FARMERS AND FISHERFOLK
(₱ Billions)



LOANS OUTSTANDING TO SMALL FARMERS AND FISHERFOLK
(₱ Billions)



LOANS TO AGRIBUSINESS
(₱ Billions)



LOANS TO LOCAL GOVERNMENT UNITS
(₱ Billions)

- Loans for Agri-infrastructure Projects of Local Government Units

Since agri-infrastructure is a key component of the value chain, LANDBANK continues to support the financing of agricultural infrastructure and other agri-related and developmental projects of local government units (LGUs).

In 2011, total outstanding LGU loans reached ₱45.8 billion, five percent higher than the ₱43.8 billion in 2010. The total outstanding LGU loans of ₱45.8 billion loans represented 18 percent of the Bank's total loan portfolio.

Of the ₱45.8 billion, loans for agri-infrastructure, socialized housing, and school and hospital projects amounted to ₱36.8 billion while ₱9.0 billion were for other developmental projects.

These loans benefited 854 LGUs covering 47 provinces, 82 cities and 725 municipalities nationwide.

Projects financed for agri-infrastructure and other agri-related projects of LGUs include the construction of farm-to-market roads, irrigation systems, bridges, public markets, transport and commodity terminals, waterworks and drainage systems, abattoirs and slaughterhouses.

- Loans for Agri-related Projects of Government-owned and -controlled Corporations

Consistent with the National Government's thrust to support the agricultural sector, LANDBANK extends financial assistance in support of the agri-related projects of government-owned and –controlled corporations such as the National Food Authority, Philippine Coconut Authority, Local Water Utilities Administration, Metropolitan Waterworks and Sewerage System and the Power Sector Assets and Liabilities Management.

In 2011, total loans outstanding of GOCCs amounted to ₱40.3 billion, 33 percent higher than the ₱30.2 billion in 2010. These loans comprised 16 percent of the Bank's loan portfolio.

Support for National Government Priority Programs

- Food Supply Chain Program

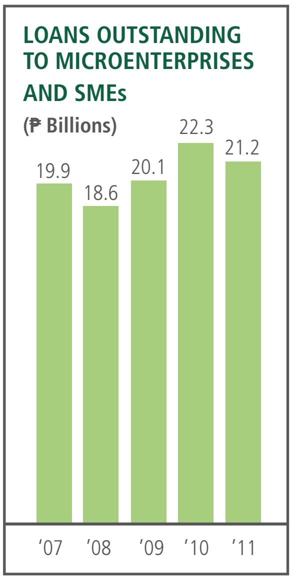
In support of the National Government's thrust to promote food security and increase agricultural productivity and income of farmers, LANDBANK, in partnership with the Department of Agriculture and the Department of Finance, launched the Food Supply Chain Program on October 4, 2010. The program extends technical interventions and financial support to all segments of the value chain.

Specifically, the program provides the following:

- Credit assistance to key players in the food system such as agricultural producers, service providers, consolidators, processors and various market players;
- Market linkages between agricultural producers and processors; and
- Capacity-building support to strengthen farmers' organizations and enable them to meet product requirements of anchor firms.

LANDBANK has earmarked ₱50 billion for the program to support the financial requirements for crop, livestock and fishery production, working capital and acquisition of processing and other fixed assets.

As of end-2011, a total of ₱9.5 billion was released for 140 projects participated by 381 conduits (farmer cooperatives and associations and non-government organizations) and 140 anchor firms which benefited 78,050 farmer-beneficiaries nationwide. These projects involved integrated rice, corn and vegetable production; processing and marketing; integrated fish, poultry and livestock production, fattening and marketing; integrated prawn/shrimp culture; integrated canned fish processing; integrated pineapple, banana cardava; tomato fruit and paste; oil palm production and processing; organic muscovado sugar production; onion production; cold storage and marketing; and asparagus growing.



Loans for Micro-enterprises and Small and Medium Enterprises

As of end-2011, credit support to micro-enterprises and small and medium enterprises (SMEs) reached ₱21.2 billion or eight percent of the Bank's regular loan portfolio. Of the ₱21.2 billion loans, ₱5.8 billion were lent to micro-enterprises through accredited conduits and ₱15.4 billion to SMEs.

OFW Reintegration Program

In August 2011, LANDBANK and the Overseas Workers Welfare Administration (OWWA) entered into a partnership to provide returning Overseas Filipino Workers (OFWs) economic opportunities to engage in livelihood projects or business enterprises on a sustainable basis. Along this thrust, the Bank earmarked ₱1.0 billion to finance the viable projects of OFWs and their families.

Under the program, an OFW who is certified and endorsed by OWWA, may avail of financial assistance to support eligible projects provided said projects will generate a monthly net income of at least ₱10,000. The loan amount will depend on the project to be funded with a minimum and maximum amount of ₱300,000 and ₱2.0 million, respectively. Loans made under the program are tacked an interest rate of 7.5 percent per annum fixed for the duration of the loan.

In 2011, LANDBANK released a total of ₱75.1 million to 166 OFW-borrowers generating 643 jobs. The projects financed under the program include rice trading, duck-raising, poultry and egg production, meat processing, internet café, transportation operation, health and beauty services and grocery/retail stores.

LANDBANK seals memorandum of agreement with the OWWA for the OFW Reintegration Program.

Loans for Environment-related Projects

Cognizant of its mission to promote development that is consonant to ecological principles, LANDBANK offers special financing windows to encourage enterprises to invest in cleaner production and environment-friendly projects.

In 2011, outstanding loans on environment-related projects amounted to ₱6.5 billion or three percent of the Bank's total loan portfolio. Projects financed were sanitary landfills, mini-hydro power plants, wastewater management and energy efficiency, among others.

Loans for Livelihood

LANDBANK provides loans to government and private employees for their livelihood projects and business endeavors. This is in support of the overall government's thrust to encourage entrepreneurship outside of the workplace. Under the program, qualified employees can borrow up to six months of their basic salary but not to exceed ₱80,000. Officers can borrow up to six months of their basic salary but not to exceed ₱150,000. Livelihood loans have a minimum term of 12 months to a maximum of 36 months.

In 2011, LANDBANK's loan outstanding on livelihood loans reached ₱5.5 billion or two percent of the Bank's loan portfolio.

Loans for Socialized Housing

In 2011, LANDBANK's outstanding loans for socialized housing reached ₱6.7 billion or three percent share to the Bank's loan portfolio. The socialized housing loan facility was implemented as part of the government's overall effort to make housing accessible and affordable.

Loans for Schools and Hospitals

LANDBANK extends loans for the construction and maintenance of educational institutions, hospitals and other medical services. These are vital installations which are necessary for a community to grow and develop.

In 2011, outstanding loans for schools and hospitals reached ₱6.9 billion or three percent of the Bank's loan portfolio.

AGRICULTURAL CREDIT EXPANSION PROGRAM

Grassroots Development Program

The Grassroots Development Program (GDP) was introduced in 2011 to address the financial and technical support requirements of small farmers and fisherfolk (SFFs) in unserved areas or municipalities. The GDP aims to expand banking services in the identified unserved areas of the Bank to reach out to more SFFs and micro-entrepreneurs through the setting up of grassroots-enabling partners (GEPs), such as agri-business entities and NGOs.

The credit component of the program, which provides for a three-year term loan working capital to participating CFIs and MFIs, was issued on May 5, 2011 per Executive Order No. 10, series of 2011. An initial amount of ₱500 million was allocated by the Bank for the credit component of the GDP. Likewise, an initial amount of ₱50 million was earmarked by LANDBANK as technical assistance fund for capacity development, livelihood training and organization-building of qualified CFIs and MFIs to aid them in extending banking services.

Sikat-Saka Program

As a measure to address the financing needs of farmers who are not members of a LANDBANK-accredited cooperative, the LANDBANK and the Department of Agriculture (DA) forged a partnership for the implementation of the Sikat-Saka Program. The program aims to provide financial assistance to small palay farmers who are mostly members of irrigators associations. Under the agreement, LANDBANK shall provide financial assistance and manpower to complement, manage and monitor the program implementation. The loan proceeds of the farmers will be credited to their special LANDBANK Sikat-Saka ATM card.

Initially, LANDBANK and DA earmarked ₱200 million each for loans to palay farmers in four major rice-producing provinces – Isabela, Nueva Ecija, Iloilo and North Cotabato.

LANDBANK DEVELOPMENT ASSISTANCE PROGRAM

Developing Partnership through Key Cooperatives

LANDBANK also taps strong LANDBANK-assisted municipal lead cooperatives development partners to assist small farmers and fisherfolk and other priority underserved sectors. These strong co-ops, which are classified as Class A and B under the Bank's Cooperative Accreditation Criteria, are called Key Cooperatives (KCs).

The Key Cooperative's roles include absorbing good paying members of disenfranchised cooperatives, engaging in inter-cooperative business complementation, and establishing linkage with government and private institutions. As an incentive for a key cooperative to sustain its good performance and absorb more farmer members, LANDBANK provides for a one percent reduction of interest rates on loans, subsidized training programs and recognition under the Bank's annual Gawad Pitak program.

As of end-December 2011, the Bank was able to accredit a total of 221 KCs nationwide.

Operations Review

As part of the continuing development assistance to the Bank-assisted cooperatives, LANDBANK conducts a periodic review of the cooperatives' operations. The review is meant to determine the operational strengths and weaknesses of the Bank-assisted cooperatives and recommends to the management of the cooperative the appropriate interventions to address the identified weaknesses.

The operations review covers six areas of a cooperative's operations namely - Organization and Management, Business Operations, Financial Stability, Cashiering, Lending and Credit Advances, and Bookkeeping and Other Security Measures.

Awards and Recognition

Cognizant of the contributions of the Bank's conduits and clients in promoting countryside development, LANDBANK annually recognizes the outstanding performance of its development partners. The Bank gives awards to partner cooperatives, countryside financial institutions and small and medium enterprises.

Gawad sa Pinakatanging Kooperatiba (Gawad PITAK)

Gawad PITAK is LANDBANK's recognition program for outstanding cooperatives that have positively and significantly influenced their respective members and their communities through sustained and excellent performance. Now on its 21st year, the selection of winners in the Gawad PITAK is done in partnership with the Committee on Cooperatives of the Philippine Congress (Senate and House of Representatives), Department of Agriculture, Department of Agrarian Reform, Cooperative Development Authority, Polytechnic University of the Philippines and the Philippine Partnership for the Development of Human Resources in Rural Areas.

In 2011, the following Bank-assisted cooperatives were accorded the Gawad PITAK:

AGRI-BASED CATEGORY	
First Place	- Catmon Multi-Purpose Cooperative (Sta. Maria, Bulacan)
Second Place	- Bagumbayan Primary Multi-Purpose Cooperative (Llanera, Nueva Ecija)
Third Place	- Baug CARP Beneficiaries MPC (Magallanes, Agusan del Norte)
Fourth Place	- Kabalikat Para sa Diyos at Bayan MPC (Odiongan, Romblon)
Fifth Place	- Leon Small Coconut Farmers MPC (Leon, Iloilo)
Hall of Fame	- San Joaquin Multi-Purpose Cooperative (Sarrat, Ilocos Sur)

NON-AGRI-BASED CATEGORY	
First Place	- Dingle Government Workers Development Cooperative (Dingle, Iloilo)
Second Place	- Sta. Cruz Savings and Development Cooperative (Sta. Cruz, Ilocos Sur)
Third Place	- Iwahori Multi-Purpose Cooperative (Mariveles, Bataan)
Fourth Place	- Escalante Public and Private School Teachers and Employees MPC (Escalante, Negros Occidental)
Fifth Place	- San Pedro de Alcantara Kilusang Bayan sa Pagpapaunlad (SPAKBPI) (Bocaue, Bulacan)

COOPERATIVE RURAL BANK CATEGORY	
Hall of Fame	- Cooperative Rural Bank of Bulacan (Plaridel, Bulacan)


The Catmon MPC from Sta. Maria, Bulacan bagged the first prize in the Agri-based category of the Gawad PITAK 2011.


The Dingle Government Workers Development Cooperative from Dingle, Iloilo landed on first place in the Gawad PITAK 2011 Non-agri-based category.


Sps. Cristina and Mario Nicolas of MN Electro Industrial Supply and Services clinched the Entrepreneur of the Year award for 2011.

Gawad Entrepreneur

LANDBANK also gives recognition to outstanding Bank-assisted small and medium enterprises (SMEs) under its annual Gawad Entrepreneur. The program is now on its 8th year. The awardees serve as the Bank's partners in encouraging potential entrepreneurs in pursuing socially responsible undertakings that contribute to the growth of the society.

For 2011, the following SMEs were given recognition:

ENTREPRENEUR OF THE YEAR
Sps. Cristina and Mario Nicolas MN Electro Industrial Supply and Services (Carmen West Rosales, Pangasinan)

OUTSTANDING AGRI-BASED ENTREPRENEUR
Sps. Severina and Benjamin Velos Velomer Poultry and Hog Farms (Malaybalay, Bukidnon)

OUTSTANDING NON AGRI-BASED ENTREPRENEUR
Sps. Criselda and John Ma. Chumacera John and Cel Hardware and Construction Supply (Tagkawayan, Quezon)

D' Asian Hills Bank, Inc. from Bukidnon was named the most outstanding partner CFI in the national category for 2011.

Outstanding Countryside Financial Institutions

The Countryside Financial Institutions' (CFIs) contribution in the delivery of credit in the countryside is likewise recognized. Yearly, LANDBANK identifies partner rural banks that have significantly contributed to the Bank's objective of expanding financial assistance in the rural areas. On its 13th year, LANDBANK conferred 12 regional winners, five national winners, one Hall of Fame winner and seven special awardees to partner rural banks.

National Winners:

First Place	- D' Asian Hills Bank, Inc.	Region X
Second Place	- Cantilan Bank, Inc. (A Rural Bank)	Caraga
Third Place	- Agribusiness Rural Bank, Inc.	Region II
Fourth Place	- Rural Bank of Goa, Inc.	Region V
Fifth Place	- Zambales Rural Bank, Inc.	Region III
Hall of Fame	- Peoples Bank of Caraga, Inc.	Caraga

OTHER SUPPORT PROGRAMS FOR AGRICULTURAL CREDIT

Considering the risk associated in lending to the sectors LANDBANK is mandated to serve, LANDBANK has tapped and used various credit enhancements as a risk mitigating measure. These credit enhancements include guarantee/insurance coverage from the Agricultural Guarantee Fund Pool (AGFP), the Philippine Crop Insurance Corporation (PCIC) Insurance Coverage and the Credit Surety Fund (CSF).

LANDBANK likewise participates in various industry undertakings, in partnership with other institutions and agencies, if only to ensure the strengthening of the agriculture sector. Some of the programs which LANDBANK is part of are the Strengthening Program for Cooperative Banks (SPCB) and the Countryside Financial Institution Enhancement Program (CFIEP).

Agricultural Guarantee Fund Pool

The Agricultural Guarantee Fund Pool (AGFP) is a program of the Department of Agriculture which is jointly administered by the Agricultural Credit Policy Council of the Department of Agriculture and the Land Bank of the Philippines. The AGFP is a pool of funds which is used to guarantee the food production loan portfolio of financial institutions. The AGFP was set up to encourage financial institutions and other credit conduits to lend to small farmers in support of the government's agricultural productivity program.

Philippine Crop Insurance Corporation

The Philippine Crop Insurance Corporation (PCIC) is a government-owned and -controlled corporation attached to the Department of Agriculture whose principal mandate is to provide insurance protection to farmers against losses arising from natural calamities, plant diseases and pest infestations of palay and corn crops as well as other crops. The PCIC also provides protection against damage to/loss of non-crop agricultural assets including, but not limited, to machineries, equipment, transport facilities and other related infrastructures due to peril insured against. The Philippines is vulnerable to natural disasters which cause devastation on crops and miseries to agricultural producers and lenders of agricultural credit.

An LBP-PCIC Crop Insurance Team was created by virtue of Joint LBP-PCIC Order No. 2008-01 to serve as venue to discuss and propose solutions to crop insurance problems and issues encountered by LANDBANK offices. The LBP-PCIC Crop Insurance Team likewise, identifies and recommends policy improvements to expand and accelerate crop insurance coverage of farmers.

- Credit Surety Fund

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

- Strengthening Program for Co-op Banks

The Strengthening Program for Co-op Banks (SPCB) aims to strengthen the cooperative banking system through mergers and consolidation or acquisition of weak cooperative banks by strong partners called Strategic Third Party Investor. The SPCB is a joint undertaking by the BSP, PDIC and LANDBANK which was established through a Memorandum of Agreement signed on November 16, 2011. Fifteen co-op banks signified their intention to participate in the program.

- Countryside Financial Institutions Enhancement Program

The Countryside Financial Institutions Enhancement Program (CFIEP) is a program jointly supported by the BSP, PDIC and LANDBANK. The program aims, among others, to strengthen the rural banking sector through the provision of appropriate interventions. The CFIEP came about as a condition of the US$150-million loan Countryside Loan Fund extended by the World Bank to LANDBANK in 1991. The program was formally launched with the issuance of CB Circular No. 1315 dated October 29, 1991. To upgrade the financial literacy and capacities of CFIs especially the weak rural banks, the CFIEP in 2011, conducted six training programs focusing on loan portfolio management, financial reporting package, and corporate governance and risk management which benefited 155 CFI participants.

SUPPORT TO THE COMPREHENSIVE AGRARIAN REFORM PROGRAM

As an implementing agency of the Comprehensive Agrarian Reform Program (CARP), LANDBANK undertakes the valuation of covered lands, compensates owners of acquired private agricultural lands, assists landowners or bondholders in their various concerns, collects land amortizations from farmer-beneficiaries, and provides financial and technical assistance to ARBs.

Under Republic Act No. 6657 or the Comprehensive Agrarian Reform Law of 1988, owners of private agricultural lands are paid 30 percent in cash and 70 percent in 10-year Agrarian Reform Bonds earning interest aligned with 91-day Treasury bill rates. CARP farmer-beneficiaries pay in 30 annual amortizations at six percent interest per annum for lands awarded to them.

- CARP Land Transfer Operations

In terms of land valuation, 1,553 land transfer claims covering 13,814 hectares were approved for payment in 2011. The total value of approved land transfer claims amounted to ₱1.3 billion.

LANDBANK signs Strengthening Program for Co-op Banks agreement with BSP and PDIC.

Landowners Compensation and Assistance

As the financial intermediary of CARP, the Bank paid ₱4.3 billion as compensation to owners of CARP-covered private agricultural lands in 2011. The cash component was ₱2.0 billion, while redeemed bonds pertaining to principal and interest payments amounted to ₱2.0 billion and ₱341.2 million, respectively.

The Bank also assisted CARP-covered landowners and bondholders in the encashment of their CARP bonds for various financing needs. In 2011, more than 1,284 bondholders or landowners were assisted by the Bank in selling ₱456.5 million worth of Agrarian Reform Bonds.

Land Amortization Collections from CARP Farmer-Beneficiaries

In 2011, land amortization collections from Agrarian Reform farmer-beneficiaries amounted to ₱502.5 million, 29 percent higher than the ₱390.1 million collected in 2010.

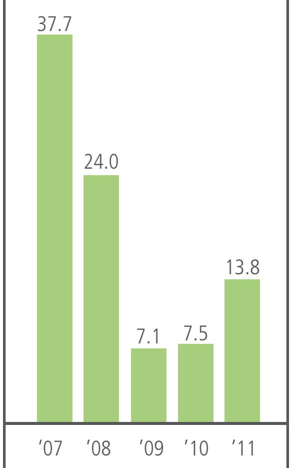
LANDBANK-administered Agrarian Reform Fund for CARP

In 2011, LANDBANK received ₱2.3 billion from the Bureau of the Treasury (BTr) for bond servicing requirements on 10-year CARP bonds under the automatic appropriation.

LANDBANK also received ₱7.9 billion from the Department of Budget and Management representing LBP-CARP budget for 2010 (₱3.97 billion) and for 2011 (₱3.97 billion).

CARP LAND TRANSFER OPERATIONS PRIVATE AGRICULTURAL LANDS

(In thousand Hectares)



CUSTOMER SERVICE

As part of its thrust to provide quality service to its customers and stakeholders, LANDBANK continues to expand and innovate on its products and services to make banking convenient and improve efficiency and delivery of service.

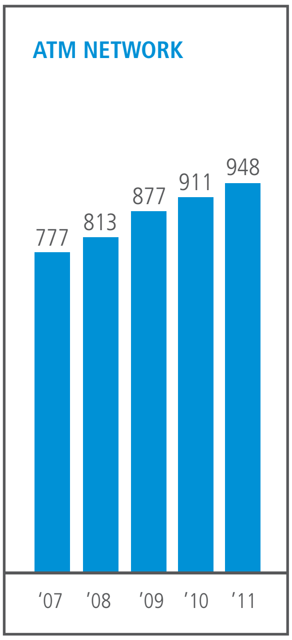
EXPANSION AND WIDENING OF DELIVERY CHANNELS

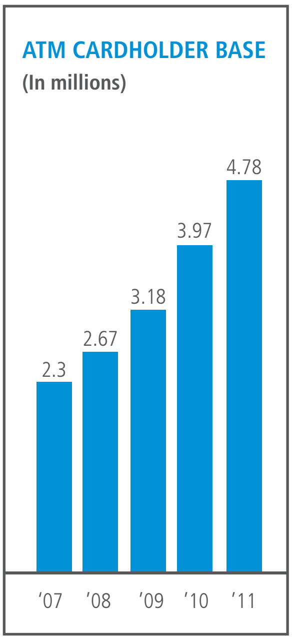
New Branches

In order to serve and make banking services available to more clients, LANDBANK opened three new branches in 2011. These new branches are in Polangui (Albay), Taguig City Hall, and Elliptical Road Branch. LANDBANK likewise upgraded two of its extension offices to full service branches in order to provide clients and customers a wide array of bank products and services, bringing the total number of frontline offices (branches and extension units) to 328 in 2011.

In the banking industry, LANDBANK has the most extensive branch network with presence in 79 of the country's 80 provinces. Of the total branches, 209 branches are located in Luzon - 77 of which are in the National Capital Region - while 52 branches are in the Visayas and 67 branches are in Mindanao.

Aside from its branches, LANDBANK likewise operates eight tellering booths, eight foreign exchange booths, and 32 Lending Centers to serve the banking needs of customers.





New ATMs

For the past years, LANDBANK has vigorously pursued its ATM deployment program to provide a more customer-oriented delivery of basic banking services. For the year 2011, the Bank installed additional 39 new ATMs in various locations nationwide, replaced 15 old ATM units, and de-installed for disposal two unserviceable ATM units.

With a total of 948 ATMs as of year-end 2011, LANDBANK maintained its ranking as the fourth largest bank in terms of ATM network. These ATMs were distributed nationwide with 274 (29 percent) in the National Capital Region, 157 (17 percent) in Northern and Central Luzon, 155 (16 percent) in Southern Luzon, 168 (18 percent) in the Visayas and 194 (20 percent) in Mindanao.

From 83.6 percent in 2010, the Bank's ATM availability rate has improved to 86.8 percent in 2011. The improvement in the availability of ATM was largely due to the initiatives undertaken in 2011 which include the provision of training to branch personnel on ATM First Level Maintenance. Regular monitoring of ATMs and compliance with the Service Level Agreement by the service provider were also pursued in 2011.

LANDBANK's membership with Expressnet and interconnection with Megalink and Bancnet enabled the Bank's ATM cardholders to have access to additional 10,523 ATMs of other banks nationwide.

The debit cardholders comprising of ATM and cash cardholders, continued to grow each year. In 2011, LANDBANK ranked third in the banking industry in terms of cardholder base registering a 20 percent growth rate from 3.97 million cardholders in 2010 to 4.78 million in 2011.

Conduit Banks

In 2011, LANDBANK maintained correspondent banking relationships with 951 partner banks which enhanced the service capabilities of the Bank in many areas locally and globally. Of the 952 correspondent partner banks, 39 are local while 913 are international.

In addition, LANDBANK partnered with 318 rural financial institutions to expand its market reach and deliver basic banking services in the countryside. The conduit banks which LANDBANK partners with include rural banks, cooperative banks and thrift/development banks.

Cooperatives

In order to service the financing requirements of farmers and fisherfolk in many un-banked and underbanked areas, LANDBANK continues to accredit cooperatives as development partners. To effectively expand its reach to more beneficiaries, the Bank lends wholesale to accredited cooperatives nationwide. These cooperatives, in turn, on-lend to their members for their various financial needs. As of year-end 2011, the Bank has established partnerships with 1,649 cooperatives.

Remittance Tie-ups/Partnerships

In 2011, LANDBANK generated US$720.5 million in inward remittances from the Asia Pacific, Middle East, Europe, USA, Canada, and from domestic manning agencies. This is 5.6 percent higher than total remittances of US$682.0 million in 2010.

To further expand its remittance network in Japan, Korea and Abu Dhabi, LANDBANK in 2011, forged new remittance tie-ups with Speed Money Transfer Japan K.K and Shinhan Bank, and a partnership with Delma Exchange. Likewise, four new shipping/manning agencies were added to the Bank's list of remittance clients.

CONVENIENCE AND ACCESS TO BANKING SERVICES

Phonebanking – Phone Access

The LANDBANK Phone Access is a 24/7 telephone banking service for ATM and current account depositors. By simply dialing telephone number 405-7000 in NCR and toll-free number 1-800-10-405-7000 outside NCR, a depositor can perform banking transactions such as bills payment, fund transfer, balance and last debit/credit transaction inquiries, checkbook requisition, bank statement request, check status and check deposit inquiries and report on lost or stolen card.

By the end of 2011, the accounts enrolled under Phone Access totaled 2,320,279 representing 88 percent of the total number of eligible accounts. The phonebanking transactions processed during the year reached 2,404,836 or an average of 6,589 daily transactions.

Express Payment System

One feature of the LANDBANK ATM card is its usability as a debit card for the convenience of the cardholder. Through the Express Payment System (EPS), cardholders can pay for purchases by swiping the ATM card in the point-of-sale (POS) terminals of accredited establishments nationwide and a key-in of the cardholder's personal identification number. These actions will automatically debit the cardholder's account and credit the establishment's account.

In 2011, EPS transactions recorded a very significant increase of 65 percent to 2.7 million from 1.6 million in 2010. This high volume of EPS transactions was attributed to the POS interconnection of Expressnet, Bancnet and Megalink in the last quarter of 2010.

Retail Internet Banking – iAccess

The iAccess is an e-banking innovation of LANDBANK to further expand delivery channels and to provide banking convenience to our individual depositors. By logging on to www.lbpiaccess.com, an enrolled depositor can perform a wide range of financial and non-financial transactions, such as fund transfer, bills payment, checkbook requisition, account summary, account history, check status inquiry, returned check deposit inquiry and report on lost or stolen ATM card.

In 2011, iAccess enrollment reached 230,510 bringing the total iAccess enrollees to 519,484 or a 27 percent increase from the 2010 enrollees of 182,134.

On the other hand, the volume of iAccess transactions processed in 2011 totaled 7,497,943 amounting to ₱683 million. This is 77 percent and 188 percent higher than the 2010 figures of 4,245,501 transactions and ₱237 million, respectively. These significant improvements affirm that iAccess has been widely accepted by individual depositors due to its proven convenience and reliability.

Institutional Internet Banking – weAccess

The weAccess is another facility that gives the Bank's institutional customers, both in the private and government sectors, internet/on-line banking convenience. To avail of the weAccess, customers can log on to www.lbpweaccess.com. Through weAccess, various banking services can be transacted online, such as balance inquiry, account statement, fund transfer, fund sweeping, bills payment, auto debiting, auto crediting, payroll, check status inquiry and loan information.

In 2011, weAccess enrollment and utilization showed significant improvements. Enrollment during the year totaled 2,030 institutions or 51 percent growth from 1,344 institutions in 2010, bringing the total enrollment to 3,794 institutions. Relatedly, the total amount of transactions passing through the weAccess facility reached ₱31.4 billion in 2011.

OFW Cash Card

To provide faster and cheaper remittance service for Overseas Filipino Workers (OFWs), LANDBANK, in partnership with SMART Communications, Inc., developed the OFW Cash Card. It is an electronic debit card linked to a Smart mobile phone that serves as a remittance channel through which OFWs can transfer funds to their beneficiaries' accounts in a speed of a text message.

The OFW Cash Card is available for OFWs bound for the Middle East, Asia-Pacific, North America and Europe. For the year 2011, there were 20,507 OFW cash cards issued with total credits of ₱42.4 million.

CUSTOMER-FOCUSED BANK PRODUCTS AND SERVICES

Bank Products

■ Loans

In support of its mandate, LANDBANK offers various credit facilities that will answer the requirements of its clientele. For its development conduits such as cooperatives, rural banks, cooperative banks and other organizations, LANDBANK extends wholesale facilities in the form of rediscounting and working capital loans to address the short term agricultural production requirements of small farmers and fisherfolk. Long-term credit facilities are also extended to qualified conduits that operate common processing facilities for the farmers. These facilities may include dryers, rice mills and other post-harvest and processing facilities.

For SMEs, corporate and public (local government units, GOCCs, government agencies) sector borrowers, LANDBANK extends loans on a direct basis. For these sectors, LANDBANK offers loans that will address the specific funding requirements of the clients.

■ Investment Products

The Bank provides a range of investment banking services to the public and private sectors, such as equity and debt underwriting, financial advisory, project finance and debt syndication.

In 2011, the Bank was involved in various investment banking transactions with government agencies that included, the Bureau of the Treasury, Power Sector Assets and Liabilities Management Corporation, National Food Authority and the Metropolitan Waterworks and Sewerage System, among others. The Bank was also engaged with private companies such as the Private Infra Development Corporation, Maynilad and DMCI Homes. In 2011, the Bank's participation in investment banking transactions reached an aggregate value of approximately ₱76.1 billion.

■ Trust

The Trust Banking Group (TBG) regained its footing by the end of 2011 after the highly liquid market conditions of the previous year impacted on TBG's performance.

By year-end 2011, TBG's asset under management (AUM) reached ₱67.5 billion, higher by ₱18.1 billion or 36.6 percent from the 2010 level. This improved TBG's industry ranking to 11th place from 12th spot in 2010. With the sustained liquidity in the market, the number of investment management accounts increased by 44 percent during the year. The volume of newly-opened accounts contributed an increase of 9.5 percent to the total AUM while additional funds generated from the existing accounts reached ₱13.9 billion. Gross income from trustee fees grew by 10.3 percent from 2010 to 2011. This is much higher than the minimal growth of 0.9 percent during the comparable period 2009 to 2010.

In September 2011, TBG secured approval from the BSP to offer the new LANDBANK Money Market Fund, bringing the total number of LANDBANK UITFs to four in 2011. The Money Market Fund is suitable for conservative investors who are looking for short-term investments that provide decent returns.

TBG continued to gear up its operations with an enhanced back-room automated system and implemented policies and procedures aligned with the new regulatory requirements involving risk management and governance.

Services (Existing and New)

■ Customer Care Center

The LANDBANK Customer Care Center provides 24/7 customer assistance and 8/5 iAccess and weAccess helpdesks. It is staffed by phonebankers and helpdesk agents who answer the calls and emails of clients concerning their deposit accounts, credit card and internet banking transactions.

For the year 2011, the Customer Care Center handled a total of 99,788 transactions, covering Phone Access, iAccess and weAccess transactions.

■ Pre-Departure Seminars

In 2011, LANDBANK entered into a joint undertaking with the Commission on Filipino Overseas (CFO) for the implementation of various programs for Filipino emigrants, particularly on handling lectures on financial literacy in the CFO's Pre-Departure Orientation Seminars (PDOS) and Community Education Programs.

MIAA tapped LANDBANK to establish point-of-sale terminals at the Ninoy Aquino International Airport.

In coordination with the LANDBANK Countryside Development Foundation, Inc., the Bank conducted PDOS to OFWs at the LANDBANK Head Office.

Point-of-Sale Payment of NAIA Terminal Fees

On November 22, 2011, a Memorandum of Agreement was entered into by LANDBANK and the Manila International Airport Authority (MIAA) in order to facilitate the payment of terminal fees by passengers. In relation to this, the MIAA engaged LANDBANK to establish point-of-sale (POS) terminals at the Ninoy Aquino International Airport (NAIA) for the convenience of domestic and international passengers.

In December 2011, LANDBANK installed eight units of POS terminals in NAIA which processed 2,985 transactions amounting to ₱3.5 million.

SEC Registration of Corporations

In support of the other initiatives of the National Government, LANDBANK signed a Memorandum of Agreement in July 2011 with the Securities and Exchange Commission (SEC) where SEC engaged the Bank's services and facilities to receive and pre-process registration applications of corporations. Likewise, LANDBANK was commissioned by SEC to accept payments for SEC registration fees that allowed SEC applicants to transact business with SEC without going to their head office or regional offices.

For 2011, LANDBANK received a total of 21 SEC registration applications, of which, three have been approved by SEC. After SEC's approval, the Bank also handles the release of the Certificates of Registration to the corporations.

CASH MANAGEMENT SERVICES TO THE NATIONAL GOVERNMENT

Modified Disbursement Scheme

As the National Government's primary depository bank, LANDBANK services the disbursement system of government funds through the Modified Disbursement Scheme (MDS). The MDS is done in coordination with the Department of Budget and Management and the Bureau of the Treasury.

In 2011, LANDBANK branches processed a total of 4.3 million checks amounting to ₱972.1 billion, or 84 percent of the total disbursements of the Philippine government. These disbursements included payments and fund releases of the government for development projects, operating expenses and salaries of government personnel.

Continuous Form Checks

LANDBANK handles the encashment of Continuous Form Checks (CFCs) issued by government agencies and instrumentalities for payment of personnel salaries and other monetary benefits. In 2011, LANDBANK processed 1.18 million CFCs amounting to ₱11.16 billion, benefiting 13 agencies.

Revenue Collection Services

LANDBANK performs an important role in revenue generation for the government through the collection of taxes. In 2011, the tax collection of the Bank for the government totaled ₱120 billion. For the Bureau of Internal Revenue, LANDBANK processed and remitted a total of ₱96.8 billion in taxes involving 4.18 million transactions.

For the Bureau of Customs, on the other hand, LANDBANK collected a total of ₱23.3 billion in tariffs and duties involving 39,082 transactions.

Conditional Cash Transfer Program

In coordination with the Department of Social Welfare and Development (DSWD) and the local government units, LANDBANK acts as the distribution channel for the Conditional Cash Transfer (CCT) Program - a poverty-reduction scheme of the National Government which provides cash grants to extremely poor households.

In support of the program, LANDBANK issued cash cards to the beneficiaries who have been identified by DSWD. The cash cards are credited with the monthly cash grants, which amounts, can be withdrawn through the ATM. In order to expand the distribution channel, the Bank tapped the Globe G-Cash and Bank-assisted countryside financial institutions, cooperatives and NGOs as program conduits. To ensure smooth implementation of the CCT, a CCT Program Management Office was created by LANDBANK.

In 2011, LANDBANK disbursed a total of ₱18.1 billion to two billion household beneficiaries all over the country.

A LANDBANK employee assists a CCT beneficiary in withdrawing her cash grant.

Government Collection Services

LANDBANK also serves as the collection arm of the Philippine Health Insurance Corporation, Social Security System, Home Development Mutual Fund, National Home Mortgage and Finance Corporation, Social Housing Finance Corporation, Philippine Economic Zone Authority, and the Quezon City Government. Total collections by the Bank from these government institutions reached ₱1.9 billion in 2011.

EXPANDING QUALITY MANAGEMENT SYSTEMS IN LANDBANK's CORE PROCESSES

LANDBANK is among the 45 government entities that have successfully earned ISO 9001 certification for the years 2010 and 2011. For this, LANDBANK received a plaque of recognition from the Government Quality Management Committee (GQMC) during its 3rd ISO 9001 recognition ceremony at the Malacañan Palace. After successfully securing its ISO 9001 Quality Management certification in 2010 in three core banking processes: lending and financial services operations of the Public Sector Department; loan operations of the Pampanga Lending Center; and branch banking operations of the PEZA-Roxas Boulevard branch, the Bank in July 2011 launched the third phase of its ISO-Quality Management System (QMS) program. The third phase expands the scope of the certified branch banking processes to cover all 77 Metro Manila branches.

Also, in 2011, the three LANDBANK units that have been certified were subjected to customer satisfaction surveys which showed positive results. The units implemented enhancements in their service delivery that resulted in shorter processing time.

The ISO-QMS Road Map for Phase III includes seminars on QMS, documentation requirements, internal quality audit trainings, implementation workshops, seminars on basic quality and productivity approaches and certification audit by a third party certification body.

INFORMATION TECHNOLOGY SUPPORT AND BANK PROCESSES AUTOMATION

In pursuing operational efficiencies and to better serve the clients, LANDBANK continues to automate processes and procedures. In 2011, the Bank completed numerous IT projects, and started new ones.

IT Projects Completed in 2011

Subsidiary Ledger System

The Subsidiary Ledger System is an automated system that handles recording of accounting entries and details of Subsidiary Ledger (SL) accounts of Head Office and Field Accounting Units for all types of transactions and currencies.

The system provides a consistent, reconcilable, and auditable set of SLs for both statutory and management reporting. It generates the necessary month-end, year-end and other SL reports that may be required, thus improving business transaction efficiency, effectiveness, and transparency.

The initial implementation of the SL System started in June 2011 and targeted for full implementation in 2013.

Financial Reporting Package System

In June 2011, the Bank implemented the Financial Reporting Package System (FRPS) in compliance with Bangko Sentral ng Pilipinas (BSP) Circular No. 512, as amended, aligning BSP reportorial requirements with the provisions of the Philippine Financial Reporting Standards/ Philippine Accounting Standards (PFRS/PAS).

FRPS is a web-based application used by all accounting units of the Bank to facilitate timely submission of accurate financial statements and schedules. The FRPS has two components: (1) the SOLO basis which comprises 137 schedules for combined financial statements

President Benigno S. Aquino III confers the plaque of recognition from the Government Quality Management Committee to LANDBANK President and CEO Gilda Pico during the awarding ceremony at the Malacañan Palace.

of Head Office units and branches; and (2) the CONSO basis which comprises 80 schedules for combined financial statements of parent bank and financial allied subsidiaries. Since its implementation, the Bank has successfully submitted accurate FRP reports or schedules within the prescribed deadline.

Loans Origination System

The Loans Origination System (LOS) is an end-to-end workflow loan system which covers online processing of loans from initiation up to approval. With LOS, processing of loan application will be efficiently done by the Bank's lending units, thus, significantly reducing the loan processing time. LOS was initially implemented in July 2011.

Symbols Loan System Enhancements Phase 3

The SYMBOLS Loan System is an online system that handles processing and booking of loan transactions. It has functionality for account monitoring from credit initiation to litigation, and consolidates loan information for profitability analysis and performance reporting.

For Phase 3, the Bank implemented priority enhancements in the system to address the data requirements per BSP Circular 512 (as amended by BSP Circular 568), and to enable interface with the Financial Management System. These priority enhancements were implemented in July 2011.

Electronic Modified Disbursement System

The Electronic Modified Disbursement System (e-MDS) is a web-based system developed by LANDBANK that allows its government clients to initiate and process Modified Disbursement System (MDS) transactions online.

MDS is the process by which the Philippine Government disburses funds to the line agencies through the government servicing banks. MDS transactions include Advice of Checks Issued and Cancelled (ACIC), processing of payment of accounts payable to internal creditors, transfer of fund allocation, and request for checkbook. With the 24x7 accessibility of e-MDS, the Department of Budget and Management, Bureau of Treasury, and other MDS clients no longer need to go to LANDBANK branches for an MDS transaction, thus making it more convenient for them. The e-MDS was implemented in July 2011.

Data Warehouse IT Infrastructure Analysis

In October 2011, the Data Warehouse IT Infrastructure Analysis was undertaken in preparation for the plan to upgrade the components of the Data Warehouse (DW) System and the prospective requirements of the DW, Anti-Money Laundering System and Credit Risk Engine System Projects.

As of end-2011, the DW with its Deposits Module (Module 1) was able to service at least 35 bank offices and branches (including the Assets and Liabilities Committee), by providing them deposit reports on a regular basis and as requested according to their need.

The Loans MIS (Module 2) is targeted to be available before the end of 2012. Upgrading of the components of the DW is essential in sustaining the provision of accurate and timely information to management to aid in making informed decisions.

Total Investment Accounting and Portfolio Management System (TAPS) Phase 3

The Total Investment Accounting and Portfolio Management System (TAPS) is a web-based trust banking application system of LANDBANK for back-office investment administration and investor accounting for wealth management services.

The partial implementation of TAPS Phase 3 (upgrade and enhancement) in December 2011, made LANDBANK compliant with the BSP's Financial Reporting Package for Trust Institutions per BSP Circular No. 609, series of 2008 (as amended by BSP Circular 641, series of 2009).

Acquisition of Additional Security Devices

In December 2011, the Technology Management Group acquired and operationalized a web application firewall that monitors and potentially blocks the input, output, or system service calls that do not pass the Bank's configured firewall policy.

The acquisition of a database security firewall aims to protect databases from attacks, data loss and theft is underway.

IT Projects that have been started in 2011

ATM and ATM-related Projects

The Consumer and e-Banking Group initiated various ATM and ATM-related projects with the end view of being at par with the industry, reducing operational expense, and increasing the Bank's revenue.

- International Debit Card Project

The International Debit Card Project is consistent with the Electronic Commerce Act of 2000 and Joint Department Administrative Orders No. 2-2006 and 10-2010 issued by the Department of Finance and the Department of Trade and Industry aimed at promoting the use of electronic channels for international and domestic dealings especially for government transactions.

This project is expected to tap potential overseas market, reduce cash handling and operational expense on ATM management, and improve ATM availability.

- Inter-Bank Fund Transfer

The Inter-Bank Fund Transfer is a feature that will allow real-time transfer of funds (debit and credit) from one account to any destination account maintained in another financial institution for settlement purposes in an e-commerce transaction. While LANDBANK will benefit from lower operational cost than the over-the-counter transaction, still the Bank's clients can enjoy faster and more convenient fund transfer service.

- Real-Time Debit of Inter-Bank Balance Inquiry Service Charge

With the Real-Time Debit of Inter-Bank Balance Inquiry Service Charge, the Bank will be able to collect service charge for balance inquiry in real time.

- Remote ATM Reading

Remote ATM Reading is a system feature which allows remote transferring of copy of ATM terminal reading per cassette and Electronic Journal (EJ) from ATM to the LBP Host or main server, and then transfer from the main server to the branches through the Integrated Documents and Reports Archival and Retrieval System (IDRARS) daily after batch. This feature reduces the cost attributed to ATM terminal reading, downloading, and facilitates timely and accurate reporting of the Bank's cash position. At the same time, it maximizes the efficiency of branches in serving Bank clients by reducing the downtime to about five minutes per day per ATM unit.

Credit Risk Engine System Phase 2

The Credit Risk Engine System (CRES) is an automated credit rating system capable of scientifically analyzing behavioral patterns of clients by segments to come up with calculations of Probabilities of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Effective Maturity (M) as inputs towards determination of risk weights of assets (credit) for the calculation of the Capital Adequacy Ratio (CAR). The system which has Credit Rating and PD Models for five streams (namely Retail, Corporate, LGU, SME and Cooperative) was handed over to the Credit Policy and Risk Management Department in July 2010.

The Phase II of the project was started in April 2011 and aims to enable the automated calculation of Credit Risk Weighted Assets (CRWA) under the Foundation Internal Ratings Based approach. The data infrastructure shall be built up starting with the Local Government Units' (LGU) portfolio, thus minimizing the capital charges on this portfolio. This savings may be allocated to further expand the Bank's loan and investment portfolios.

Human Resource Information System Enhancement

The Human Resource Information System (HRIS) is an integrated solution for managing human capital of the Bank. With SAP ERP Human Capital Management as the official product name, it automates the three key human resource processes – talent management, workforce process and workforce deployment. In March 2011, proposed enhancement was approved to include Time and Attendance module in the operational HRIS.

Enhancements on LANDBANK Cash Card

During the first semester of 2011, the Consumer and e-Banking Group introduced the following enhancements to the LANDBANK Cash Card to better serve the cardholders:

- Automatic mass reactivation of expired Cash Cards and automatic debit of reactivation fee, thus saving time by eliminating the tedious manual reactivation by branches;

- Aggregation and linking of issued Cash Cards per customer to track cash card issuances to common cardholders and consolidate the total amount loaded, thereby monitoring compliance with aggregate monthly load limit; and,

- Creation of Mainframe Batch Top Up for an economical and faster processing of large volume of transactions.

INSTITUTIONAL VIABILITY

LANDBANK continuously exerts efforts to make its operations better and more efficient not only to improve the delivery of its services but also to ensure operation efficiency, reduce cost of operations, and optimize earnings.

CORPORATE GOVERNANCE STRUCTURE

Board Composition

The Land Bank of the Philippines is wholly-owned by the Philippine National Government. As such, all members of the LANDBANK Board of Directors are appointed by the President of the Philippines with none of the Board members having a shareholding in the Bank.

The LANDBANK Board is composed of nine members – five ex-officio and four private sector representatives. The ex-officio members are the incumbent Secretaries of the Department of Finance, Department of Agriculture, Department of Agrarian Reform and the Department of Labor and Employment. Of the four private sector representatives, two represent the Agrarian Reform Beneficiaries.

The LANDBANK Board is chaired by the Secretary of Finance with the LANDBANK President and CEO as vice chairperson. In 2011, the following served as members of the LANDBANK Board:

- Honorable Cesar V. Purisima
  Secretary, Department of Finance and Chairman
  DOF Undersecretary Jeremias N. Paul, Jr.
  (alternate director)
- Gilda E. Pico
  LANDBANK President and CEO and Vice Chairperson
- Honorable Proceso J. Alcala
  Secretary, Department of Agriculture
  DA Undersecretary Antonio A. Fleta
  (alternate director)
- Honorable Virgilio R. de los Reyes
  Secretary, Department of Agrarian Reform
  DAR Undersecretary Anthony N. Paruñgao
  (alternate director)
- Honorable Rosalinda D. Baldoz
  Secretary, Department of Labor and Employment
  DOLE Undersecretary Danny P. Cruz (alternate director)
- Director Domingo I. Diaz
  Representative, Private Sector
- Director Tomas T. de Leon, Jr.
  Representative, Private Sector
- Director Crispino T. Aguelo
  Representative, Agrarian Reform Beneficiaries
- Director Victor Gerardo J. Bulatao
  Representative, Agrarian Reform Beneficiaries

An independent director, as defined in the BSP's Manual of Regulations, should not be an officer or a majority stockholder of the Bank; should not be related to any director or officer of the Bank; and must not be retained as a professional adviser, consultant or counsel of the Bank. For 2011, the Bank's independent directors were Victor Gerardo J. Bulatao and Tomas T. de Leon, Jr..

The Functions of the Board of Directors

As with private corporations, the LANDBANK Board sets the tone from the top. The LANDBANK Board establishes the overall policies and strategic directions which serve as the guidepost of the management and operating units in the overall operation of the Bank. The LANDBANK Board serves as an oversight and ensures that the Bank remains accountable to its various stakeholders. Also, and in the furtherance of its mandate, the LANDBANK Board champions good corporate governance that requires, among others, strong adherence to ethical standards and strict compliance with legal, institutional and regulatory requirements.

Board Performance and Attendance

As a corporate governance initiative, LANDBANK continues to implement the Annual Performance Rating System for its Board of Directors. This initiative, which was started in 2009, is a self-rating performance assessment of the Board and the four Board-level committees, namely, the Audit Committee; the Risk Management Committee; the Trust Committee; and the Corporate Governance Committee. The rating system, developed in coordination with the Institute of Corporate Directors, regularly monitors and gauges the director's performance against internationally-accepted principles of corporate governance and industry best practice. The implementation of the rating system boosted the Bank's standards of corporate governance and improved business performance.

The self-rating instrument assesses the effectiveness of the Board and the four Board-level committees in the performance of their principal duties and responsibilities as an individual director as well as a collegial body.

The development of the performance rating system for the newly-created Board-level committee – the Agri-Agra Social Concerns Committee – will be undertaken in 2012.

In 2011, the LANDBANK Board held 25 regular meetings and one special meeting. Perfect attendance was logged by LANDBANK President and CEO Gilda E. Pico and Director Victor Gerardo J. Bulatao. The average attendance rate for 2011 of the whole Board was 88 percent.

Board Committees

For an efficient discharge of its oversight functions, the LANDBANK Board delegates specific functions and responsibilities to the five Board-level committees. These Board-level committees effectively assist the LANDBANK Board as a body in the exercise of its duties and responsibilities. These Board-level committees are the: Corporate Governance Committee, the Audit Committee, the Risk Management Committee, the Trust Committee and the Agri-Agra Social Concerns Committee.

Each Board-level committee has a charter which provides for the composition, authority, duties and responsibilities of the committee. Remuneration of the Board members is in accordance with the GOCC Governance Act of 2011 (Republic Act 10149). The four non-ex-officio members receive a per diem of ₱40,000 for every Board session attended.

Moreover, the directors are entitled to receive honorarium for every Board meeting attended.

The Agri-Agra Social Concerns Committee

Among the five Board-level committees, the Agri-Agra Social Concerns Committee is the newest having been created in April 2011. The creation of the Agri-Agra Social Concerns Committee bespeaks of the Board's prioritization of the Bank's agri-agra thrust.

The coverage and functions of the Agri-Agra Social Concerns Committee include the following– (i) formulation of non-credit policies to improve the delivery of services on CARP and other agri-agra matters; (ii) clearing house for LANDBANK's CARP-related non-credit programs; and (iii) monitoring of the status of implementation of the Bank's various non-credit agri-agra and social concerns programs.

The Committee is chaired by Director Victor Gerardo J. Bulatao with the LANDBANK President and CEO, Gilda Pico as vice chairperson. The members of the Agri-Agra Social Concerns Committee are the Secretaries of Agriculture and Agrarian Reform, and Director Crispino T. Aguelo.

The Agri-Agra Social Concerns Committee held a total of eight meetings in 2011. The attendance rate for 2011 was 80 percent.

Of the five members, three were able to attend all eight meetings in 2011. These members were the chairman, Director Victor Gerardo J. Bulatao, LANDBANK President and CEO Gilda E. Pico, and DAR Secretary Virgilio R. de los Reyes.

The Audit Committee

In behalf of the LANDBANK Board, the Audit Committee oversees the material and substantive aspects of the Bank's reporting control and audit functions. It makes good on its oversight responsibilities in the protection of the integrity of the Bank's financial statements; in ensuring LANDBANK's compliance with the legal and regulatory requirements; establishment of the internal auditors' qualifications and independence; and the checking of the performance of the Bank's internal audit functions and compliance.

The Audit Committee is composed of five directors, specifically – the DAR and DOF Secretaries and three representatives. The DAR Secretary sits as the Audit Committee's chair with the DOF Secretary as vice-chair. The rest of the committee members are Directors Domingo I. Diaz, Victor Gerardo J. Bulatao and Crispino T. Aguelo.

In 2011, the Audit Committee approved the Internal Audit Group's (IAG) plans and programs for the year, the IAG Risk Scoring System for 2012 including its override policies, and the decision tree for the reporting of Crimes and Losses. Also, the Audit Committee approved the terms of reference and budget for the engagement of third-party service providers for the review of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and Business Continuity Plan, the independent model validation of market risk models, and the conduct of external quality assessment of the IAG. The amendment of the IAG Charter was also approved in 2011.

Two Bank units, the Koronadal Accounting Center and the Puerto (Cagayan de Oro) Branch, presented to the Audit Committee their initiatives which were effective in the attainment of their "exemplary" ratings in 2011. Likewise, the action plans of Bank units which failed in the risk based internal audit were presented to the Audit Committee.

There were 13 meetings conducted by the Audit Committee in 2011. The attendance rate was 88 percent. Directors Victor Gerardo J. Bulatao and Crispino T. Aguelo attended all meetings in 2011.

The Risk Management Committee

The Risk Management Committee provides the oversight on all matters pertinent to risk management including the development of risk strategies, policies, guidelines, procedures and systems. The Committee ensures that the Bank's risk exposures are recognized and that appropriate risk-mitigating measures are adequately established.

The Risk Management Committee also oversees the system of authority limits delegated by the LANDBANK Board to management and, if breaches occur, immediately recommends corrective actions. It also establishes the system for the reporting and disclosure of risk information to the LANDBANK Board which approves various guidelines and procedures on risk measurement and validation, business continuity monitoring, liquidity risk approving authorities, risk appetite statement and risk dictionary, among others.

The Risk Management Committee is composed of five directors. These are the Finance and Agriculture Secretaries and three representatives with Director Tomas T. de Leon, Jr. as chairman, and the DOF Secretary as vice chairman. The rest of the Committee members are Directors Domingo I. Diaz and Crispino T. Aguelo and the Agriculture Secretary.

The Risk Management Committee held 21 meetings in 2011 with an attendance rate of 74 percent.

The Corporate Governance Committee

The Corporate Governance Committee is primarily responsible for the formulation, review and assessment of the Bank's corporate governance policies and practices as well as the review of policies on employee benefits, compensation and remuneration of the LANDBANK Board and senior management, promotions and other key human resource concerns.

In addition, the Corporate Governance Committee was tasked by the Board with the oversight function for the ICAAP's overall implementation. This function entails the monitoring of the Bank's capital level and structure, and the endorsement of new measures and programs that will enhance the ICAAP and its compliance system.

The five members of the Corporate Governance Committee are the Finance Secretary as chairman, the Labor Secretary, the Agrarian Reform Secretary, the LANDBANK President and CEO, and one representative. In 2011, Director Victor Gerardo J. Bulatao was the fifth member of the Corporate Governance Committee.

The Corporate Governance Committee had eight meetings in 2011 with an attendance rate of 83 percent. Among the members of the Corporate Governance Committee, LANDBANK President and CEO Gilda E. Pico and Director Victor Gerardo J. Bulatao had a perfect attendance.

The Trust Committee

The Trust Committee directly supervises the Trust Banking Group (TBG). The Trust Committee formulates the broad investment strategies to be adopted by the TBG, and oversees its investment activities. The Committee annually reviews all trust and fiduciary accounts and recommends the retention or disposition of such trust or fiduciary assets. The Trust Committee is authorized to accept and close trust and fiduciary accounts as well as evaluate and approve the investment, reinvestment and disposition of funds or property, counterparty lines investment limits.

The ex-officio members of the Trust Committee are the DOLE and DA Secretaries, the LANDBANK President and CEO and the Trust Banking Group Head. The Labor Secretary is the Chairman of the Trust Committee. Director Tomas T. de Leon, Jr. completes the five members of the Trust Committee.

For 2011, the Trust Committee held 11 meetings with an average attendance of 71 percent. The Head of the Trust Banking Group registered a perfect attendance in 2011.

Units under the Board

The Internal Audit Group

The Internal Audit Group (IAG) is an independent unit in the Bank that is under the functional supervision of the Audit Committee. IAG's primary role is to ensure that significant controls, internal audit systems, policies and procedures are in place to properly manage the Bank's various risks.

One of IAG's activities during the year involved the conduct of assurance services to the following Bank units (see table):

Key Result Areas	Head Office and Systems Technology Audit Department	Credit Review Department	Field Operations Audit Department	Audit Services Team
Full scope	39	14	137	17
Limited scope	8	7	94	1
Special Audit	4	1	1	17
TOTAL	51	22	232	35
Post-Implementation Review	4			
Applications Audit	8			
Desk Audit	2			
TOTAL	14			

In support of the Bank's Environmental Management Systems' (EMS) initiatives, the validation of EMS Good Practices in Field Units was incorporated in the IAGs assurance services. Also included in the assurance services is the conduct of the Customer Survey on Branches in support of the Bank's Quality Management System (QMS) initiatives, and as source of relevant data to properly manage the Client Relationship Risk.

In 2011, audit methodologies and systems were enhanced. IAG undertook several projects such as the improvement of the Risk Scoring System for auditable units which will be implemented in 2012, the development of the audit parameters for 13 auditable units (nine for HOSTAD and four for CRD Auditable Units), the development of audit support tools such as Risk Assessment tool at unit level, and enhancement of the Data Analytics Tools.

Also in 2011, IAG facilitated the conduct of a third-party review of LANDBANK's ICAAP and Business Continuity Management as well as the independent validation of the pricing and risk measurement models.

After undergoing the mandatory procurement process, the SGV & Co./ Ernst & Young undertook the project which also included the provision of technical training to selected Bank's personnel and knowledge transfer of the methodology to IAG counterpart teams.

Preparations for the conduct of the External Quality Assessment on IAG in 2012 were also started in 2011. The process for the hiring of a service provider in compliance with Republic Act 9184 commenced in 2011. The conduct of Competency Building Programs for IAG personnel was carried through 2011. Training needs of IAG personnel were identified and attendance to these identified seminars was recommended. Moreover, IAG personnel were encouraged to undergo certification programs such as the Certified Information Systems Auditor (CISA), Certified Fraud Examiner (CFE), and Certified Internal Auditor (CIA).

In 2011, IAG was manned by 110 personnel. These include, among others, eight Certified Internal Auditor (CIA); five Certified Information Systems Auditor (CISA), one Certified Information Security Manager (CISM), two Certified Internal Controls Auditor (CICA), and four Accredited Quality Assessor of the Internal Audit Activity.

The Compliance Management Office

The Compliance Management Office (CMO), headed by the Bank's Compliance Officer, oversees the overall implementation and coordination of the Bank's compliance system.

The CMO is in charge of ensuring LANDBANK's compliance to all pertinent laws and regulations including the Anti-Money Laundering Act. As an independent unit, the Audit Committee performs functional supervision over the CMO.

During the year, the CMO engaged in activities aligned with its primary role to effectively manage the Bank's compliance risks. The year saw the issuance of 233 regulations disseminated to all business units. The CMO continued monitoring the Bank's reporting activities to various regulatory and oversight bodies such as the Bangko Sentral ng Pilipinas, the Commission on Audit and the Philippine Deposit Insurance Corporation.

The CMO also monitored the Bank's compliance to the reportorial requirements of the Securities and Exchange Commission relative to the Bank's underwriting license and Government Securities Eligible Dealer responsibilities. The conduct of the Compliance Testing on regulatory issuances using the Compliance Risk Assessment Matrix was undertaken during the year.

Other initiatives pertinent to ensuring the Bank's compliance to the Anti-Money Laundering Act include the posting of an updated AML Questionnaire in the LANDBANK website, submission of the SEC AML Compliance Form (pursuant to SEC Memorandum Circular No. 2, series of 2010).

The Risk Management Group

As an independent unit, the Risk Management Group (RMG) plays a critical role in supporting the risk oversight functions of the Risk Management Committee.

Under RMG's supervision are three departments which functions are focused on specific risk areas as follows: Credit Policy and Risk Management Department (CPRMD); Treasury Risk Management Department (TRMD); and Business Risk Management Department (BRMD) for operations risks, including system, legal, technology and other risks.

Specifically, the formulation and review of credit policies and their implications on the Bank's lending activities are handled by CPRMD. It also reviews credit ratings and facilitates the development of the Bank's risk models for credit risk identification, measurement and monitoring. TRMD manages the risk measurement and analysis of the Bank's liquidity, market, interest rate and treasury-related credit risks. It generates various reports (liquidity gap report, earnings-at-risk report, market risk profile) to inform management of the Bank's liquidity position and significant movements in foreign exchange and interest rates that will have impact on the Bank's operations. The management of the Bank's business operations risks is undertaken by BRMD to ensure the continuity of business through the effective implementation of the Bank's Business Continuity Plan and IT Business Plan. It also facilitates programs for developing the Bank's risk culture and deepening risk awareness among employees.

The Trust Banking Group

The Trust Committee oversees the Trust Banking Group (TBG) which administers all trust, other fiduciary and investment management accounts of the Bank. TBG supervises three departments namely: Trust Marketing Department (TMD); Trust Portfolio Marketing Department (TPMD); and Trust Operations Department (TrOD).

In particular, TMD handles the development, review, and marketing of trust products and services, and provides legal and financial advice on trust transactions. The trading and asset management of trust and investment management accounts and evaluation of equities and fixed income securities for investment and divestment decisions are managed by TPMD. TrOD, on the other hand, maintains the accounting and management information system for all trust and fiduciary accounts, performs cashiering functions and safekeeps securities and other vital documents.

REPORT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS

As provided in its Charter, which was approved by the Board of Directors, the Audit Committee oversees the Bank's internal audit and compliance functions. Among others, the Audit Committee provides the oversight to the management's activities and performance, and monitors and evaluates the adequacy and effectiveness of the Bank's internal control and compliance management systems.

In particular, the Audit Committee (a) monitors the adequacy and effectiveness of the Bank's governance, operations, information systems to include reliability and integrity in financial reporting, effectiveness and efficiency in operations, safeguarding of assets and compliance with rules, regulations and contracts; (b) provides assurance that the Bank is in reasonable compliance with pertinent laws and regulations; is conducting its affairs ethically; and is maintaining effective controls against employee conflict of interest and fraud; (c) reviews and assesses reports coming from the Internal Audit Group with regard to the risk-based audit conducted on all auditable units of the Bank; (d) reviews and assesses reports coming from the Compliance Management Office with regard to the Bank's compliance to the directives from all regulatory bodies pertinent to LANDBANK's operations; (e) provides assistance to the Board of Directors in carrying out its responsibilities pertinent to the Bank's systems of internal control for detecting, accounting and reporting financial errors, fraud and defalcations, legal violations and non-compliance with the corporate code of conduct; (f) establishes and maintains mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action; thereby, ensures that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

In compliance with the Audit Committee Charter, we confirm that:

- The Audit Committee is composed of five members of the Board of Directors.
- We had13 meetings during the year 2011.
- We have reviewed and discussed the internal audit reports and management's responses to ensure that appropriate corrective actions are taken especially on significant audit findings.

Based on the reviews and discussions made by the Audit Committee, and subject to the limitations on our roles and responsibilities referred to in the Charter, we recommend to the Board of Directors that the audited financial statements be included in the Annual Report for the year ended 31 December 2011.

CRISPINO T. AGUELO
(Member)

VICTOR GERARDO J. BULATAO
(Member)

DOMINGO I. DIAZ
(Member)

CESAR V. PURISIMA
Secretary
Department of Finance
(Vice Chairman)

VIRGILIO R. DE LOS REYES
Secretary
Department of Agrarian Reform
(Chairman)

External Audit

Consistent with its mandate to exercise audit oversight over all government institutions, the Commission on Audit (COA) conducts an annual audit of the operations of the Bank. The COA thus serves as the Bank's external auditor.

As part of its audit functions, the COA looks at the Bank's financial statements to check for accuracy, completeness and conformity with the regulatory requirements of the BSP, and compliance with the Philippine Financial Reporting Standards (PFRS).

Based on COA's opinion, the Bank's financial statements in 2011 conform to the PFRS, with no significant or adverse findings.

In 2011, the COA assigned 183 representatives on a full time basis to handle the audit of the Bank's head office and field units.

STRENGTHENED THE COMPLIANCE FRAMEWORK IN SUPPORT OF GOOD GOVERNANCE PRACTICES

In 2011, the LANDBANK's Compliance Program was further strengthened with the implementation of the Board-approved Compliance Risk-based Methodology. Embodied in a manual, this serves as the process-level support system which guides the business units in identifying, prioritizing, and assessing their compliance requirements as well as in the reporting of compliance monitoring and evaluation. The manual contains the methodologies, processes and responsibilities to be carried out by all business units in the performance of all bank functions under the compliance function.

During the year, the Compliance Management Office (CMO), pursued activities and initiatives to ensure that the established risk-based compliance framework is properly executed.

One of these activities focused on the continuing education and guidance of all individuals involved in the compliance function. The Bank facilitated a training on "Certificate Course on Strategic Compliance for the Banking Industry" for 100 designated compliance coordinators (selected from business units) to help them gain a higher understanding of the banking perspective of the compliance function, and enhance their collaborative compliance skills and assistance to CMO. To complement this activity, the Bank also conducted 18 separate Compliance Awareness sessions for the senior management, heads of units and employees covering the topics on general principles and responsibilities of the compliance function including its support process-level activities.

ANTI-MONEY LAUNDERING (AML) AND TERRORIST PREVENTION

LANDBANK is highly committed to pursue stronger compliance with Anti-Money Laundering (AML) laws and regulations. The Bank operates an electronic anti-money laundering transaction monitoring system that automatically detects and monitors covered transactions (exceeding ₱500,000 per transaction) and suspicious transactions in accordance with the Anti-Money Laundering Act of 2001 (R.A. 9160 as revised) and BSP Circular 706 series of 2011. The Bank's Covered Transactions Report and the Suspicious Transactions Report are regularly monitored and evaluated by the AML unit. To ensure proper reporting to the Anti-Money Laundering Council (AMLC), these transactions are reported to the LBP AML Committee chaired by the President and CEO. This Committee reviews the Bank's AMLA policies and procedures against anti-money laundering and oversees the processes of the electronic AML System.

With the issuance of BSP Circular 706 during the year, the Bank developed the Money Laundering and Terrorist Financing Prevention Program (MLLP) to strengthen monitoring and detection processes against anti-money laundering, particularly funds diverted to terrorism and similar activities. The Bank designated an AML Compliance Officer to oversee the effective implementation of the MLLP and ensure strict compliance by the business units.

To keep pace with new AMLA regulatory requirements, issues and concerns, the Bank conducts an annual AML training program aimed at providing a continuing AML education across all levels in the organization. There were 99 participants to the AML trainors training programs conducted in 2011. Moreover, Board leadership was manifested through the LANDBANK Board's active participation during the AMLA sessions.

In 2011, a total of 68 seminars on AMLA were conducted for 6,128 Bank officers and employees. The Bank also conducted briefings to 425 participants from non-covered institutions which availed of the LANDBANK ATM Payroll Facility. This is in compliance with AMLC requirements for outsourcing from counterparties.

KEY CORPORATE GOVERNANCE INITIATIVES AND ACTIVITIES

Continuing Education for the Board

As part of the Bank's corporate governance initiatives and the directors' continuing education, the Organization Development Department facilitated the attendance of the LANDBANK Board in training programs. In 2011, among the seminars attended were the Corporate Governance Orientation Program, Corporate Governance and Risk Management, Forum on the Learning Organization Revolution with Peter Senge, Workshop on Risk Governance and the Board of Directors, Updating Seminar on Anti-Money Laundering, Professional Directors Program and the Seminar on Big Fast Results – Sharing of Malaysia's Government Transformation Experience.

Continuing Governance Efforts

As part of the Bank's continuing governance efforts, the LANDBANK Board took active participation in the following:

- Governance Self-Assessment

In 2011, the LANDBANK Board conducted its annual performance rating as a body and as individual members of the Board using a self-rating assessment and performance evaluation system. In like manner, four of the five Board-level Committees: Corporate Governance Committee, Audit Committee, Risk Management Committee, and Trust Committee completed their respective self-performance evaluation. The development of the performance evaluation for the Agri-Agra Social Concerns Committee will be outsourced to a third-party entity.

- Studies conducted by the Governance Commission for Government-Owned and-Controlled Corporations (GCG)

The LANDBANK Board participated in the discussions and evaluations made by the Governance Commission for Government-Owned or Controlled Corporations (GOCCs). The GCG, which was established based on the Governance Act of 2011 (R.A. 10149) has a mandate to study and evaluate, among others, the Qualification of Appointees to GOCCs, Performance Evaluation and Compensation and Classification System. The GCG determines the compensation, per diems, allowances and incentives to the governing bodies of GOCCs.

Validation of Risk Models and Risk Rating Mechanisms, Setting of Risk Appetites, and External Quality Assessment of LANDBANK audit processes

In 2011, the LANDBANK Board, through the various Board-level Committees participated in the validation of risk models and risk rating mechanisms, the setting up of risk appetite and the introduction of external quality assessment of LANDBANK audit processes.

The LANDBANK Board approved the engagement of the SGV and Co. to conduct a third-party review of the Internal Capital Adequacy Assessment Process (ICAAP) and the Business Continuity Management (BCM), and an independent validation of the pricing and risk measurement of the treasury risk models. Also, the Board approved the engagement of a third party service provider to review the audit processes of the Bank and see through the initiation of the automated credit risk rating models.

Accountability, Assessment and Compliance Management

The LANDBANK Board also took active participation in pursuing accountability and assessment among LANDBANK officers and staff. Through the Corporate Governance Committee, the Board ensures that LANDBANK is compliant with the provisions of pertinent laws and regulations such as R.A. No. 6713 (An Act Establishing a Code of Conduct and Ethical Standards for Public Officials and Employees), R.A. No. 3019 (Anti-Graft and Corrupt Practices Act), among others.

As a government institution, LANDBANK advocates utmost professionalism and integrity among its officers and employees. In relation to this, LANDBANK implements a Code of Conduct for which the employees are required to sign an annual certificate of recommitment to the Code.

The Board also ensures that compliance measures such as the Branch-wide compliance testing and the implementation of compliance risk-based methodology manual for Head Office are implemented and followed by the different units of the Bank.

FORTIFIED RISK MEASUREMENT TOOLS, PROCESSES AND CONTROLS AND BROADENED RISK MANAGEMENT OVERSIGHT

The practice of risk management and its contributions in achieving good governance could never be overemphasized. It is an essential component of corporate governance and a potent tool of operation in a risk-averse industry.

Risk management is an integral component of LANDBANK's strategic thrusts and operational goals. The Bank puts high premium on the role of risk management in ensuring adequacy of controls and in promoting accountability and transparency in every facet of bank operations. Recognizing that risk management is a continuing process of improving risk practices, it has become embedded in the Bank's corporate culture through the years.

In 2011, the overall focus of risk management was on enhancing the policies, processes and procedures related to the major risks of the Bank. The Bank broadened and reinforced its risk management oversight with the implementation of risk management programs for the Bank's subsidiaries and the Trust Banking Group. Likewise, existing systems were improved to enable the generation of management and regulatory reports in support of decision-making processes.

Risk education has become a continuing concern as the Bank strives towards the extensive diffusion of risk awareness among the LANDBANK Board, senior management and all employees.

Risk Management Structure

At LANDBANK, risk is managed using a top-down approach where the LANDBANK Board takes on a focal role - that of ensuring the effective and efficient installation of a risk management system that is integrated in the daily operations of the Bank. To give more emphasis and focus on the risk management functions of the Board, the Risk Management Committee (RISKCOM) is tasked to oversee all risk-related activities of the Bank. As the highest oversight body for risk management, the RISKCOM ensures that the Bank's risk management policies, processes and controls are effectively implemented to mitigate various risks.

Lending support to the Bank's overall risk management is the Risk Management Group (RMG), an independent unit under the functional supervision of the RISKCOM. RMG is headed by the Chief Risk Officer who directly oversees the development and execution of the Bank's risk management system and ensures its timely compliance with regulatory requirements. Directly under the RMG are three departments - the Credit Policy and Risk Management Department, the Business Risk Management Department, and the Treasury Risk Management Department. These departments handle specific risks functions covering credit risks, market and liquidity risks, and operations risks (system, legal, technology).

Processes, Controls, and Procedures

In its desire to establish a strong and sound risk management and control structure, the Bank in 2011 embarked on the review of its existing practices, policies and procedures and the formulation of new guidelines relevant to recent regulatory requisites. Foremost among the enhancements was the revision of the Internal Credit Risk Rating System (ICRRS) which incorporated policies to improve implementation of the internal credit rating of the corporate clients of the Bank. The credit rating models for various business lines which were developed under the Credit Risk Engine System (CRES), is periodically calibrated to determine relevance, soundness and applicability.

On the other hand, the Bank's market and liquidity risk models were subjected to independent validation by a third party to enhance the integrity of the various risk measurement tools. Among the risk measurement tools validated were Value-at-Risk (VaR), Earnings-at-Risk (EaR), Economic Value of Equity (EVE), Liquidity Gap Report/ Maximum Cumulative Outflow, Bond Duration and other valuation models.

LANDBANK RISK MANAGEMENT STRUCTURE

In 2011, the following processes and internal checks were initiated:

- Upgrading of processes in interest rate risk management
- Review of Guidelines on Classification Handling, Access and Disclosure of Information Assets
- Development and implementation of the legal risk framework
- Enhancement of the Business Continuity Management System

Expanded Risk Management Oversight

The risk management oversight function of the Bank was not limited within the confines of LANDBANK alone but was expanded to cover the Bank's four financial subsidiaries: LBP Leasing Corporation; LBP Insurance Brokerage; Inc.; LBP Resources Development Corporation; and the Masaganang Sakahan, Inc.. The Risk Management Program for the subsidiaries was developed and implemented utilizing the integrated approach or the Enterprise Risk Management.

The Trust Banking Group was also included in the risk management oversight with the design and implementation of the Trust Banking Group Risk Management Oversight Program. The program did not only formalize the risk management process but also developed mechanisms for the continuing enhancement of practices and methodologies being used.

Transparency through Risk Reporting

As an aid in decision-making and in the promotion of transparency, risk reports are regularly submitted to senior management and the RISKCOM. Whenever possible, reporting to the RISKCOM is done bi-monthly to better monitor compliance to limits and thresholds and to come up with risk mitigating measures in the event of breach occurrence. Risk reports are escalated to the LANDBANK Board for confirmation.

An indispensable element of risk reporting is the generation of reliable and timely information utilizing such systems as the Customer Information-Central Liability System (CI-CLS) and the Credit Risk Engine System (CRES). The CI-CLS became the source of disclosure reports on the Bank's large exposures and top borrowers which were submitted to the Bangko Sentral ng Pilipinas. Business intelligence reports were generated from the CRES which provided client status information that is necessary in managing and maintaining a robust loan portfolio. Management reports on loan portfolio and asset quality were regularly analyzed and reported to the LANDBANK Board.

Continuing Risk Education

Risk education is a continuing activity that is implemented Bank-wide on a top to bottom manner. As part of the overall effort to polish capabilities in managing the Bank's risks, and in compliance with regulatory requirements on continuing education for the LANDBANK Board, an annual Directors' Retreat was conceived and implemented in 2011. The retreat introduced the RISKCOM members to the major risks and risk management practices of the Bank, as well as, to current innovations and trends in risk management.

The implementation of new risk management programs came with roll-out schemes that involved training of Bank personnel. Thus, the implementation of the BIA, the InfoSec and the enhanced ICRRS, were all accompanied by the training of appropriate risk-taking units.

Knowledge and other information were disseminated through the conduct of regular risk forum that touched on innovative risk methodologies, risk issues and relevant banking developments. To allow wider diffusion of risk management know-how, an Information and Education Campaign (IEC) Program was developed and approved by the management and the RISKCOM.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) ANNUAL DOCUMENT

The LANDBANK Internal Capital Adequacy Assessment Process (ICAAP) Annual Document was prepared pursuant to the requirements of the Bangko Sentral ng Pilipinas (BSP) under BSP Circular No. 639. The document aims to ensure that the Bank's capital is sufficient to address the risks that are inherent in its business operations.

LANDBANK recognizes that the nine risks covered in the ICAAP guidelines represent the major risks faced by the Bank outside of the Basel II, Pillar 1 (Capital Adequacy) framework.

The ICAAP Annual Document 2011 explicitly details how LANDBANK Management established the 13 percent internal threshold for CAR (Capital Adequacy Ratio) and nine percent for Tier 1 ratio. The document articulates the Bank's definition of materiality of capital impact with the Bank taking a conservative stance in the recognition of materiality.

The development of the ICAAP Annual Document 2011 is a significant stride in widening and deepening risk and capital management. Based on the Bank's ICAAP framework, more risk scenarios (worst-case and severe) or events per risk category were identified, subjected to stress testing, and assessed as to the possible capital impact.

Based on the comprehensive assessment and stress testing conducted, as well as the projections on impact to capital and CAR, the overall conclusion is that current capital ratio and income generation capabilities will allow the Bank to withstand capital reduction resulting from the assumed risk scenarios.

The final ICAAP document was reviewed and approved by the Management Committee, Corporate Governance Committee and the LANDBANK Board.

ENHANCED HUMAN RESOURCE DEVELOPMENT THROUGH MANAGEMENT AND LEADERSHIP PROGRAMS AND ASSESSMENT OF THE INTEGRITY DEVELOPMENT REVIEW

LANDBANK continues to provide its human resources an array of opportunities for learning and growth as well as work-life balance.

LANDBANK considers employee development as a major priority. This is concretized by the implementation of short-term and long-term development programs designed to provide the employees with essential technical and behavioral competencies for effective job performance and career growth.

During the year, the Bank approved a Management and Leadership Development Framework, which serves as guide in career mapping and succession planning. In line with this, the Bank implemented various programs aimed at building the capabilities of high potential personnel to ensure their readiness as successors for key positions in the Bank. The Leadership Development Program (LDP) was conducted and participated in by 27 officers occupying department head to group head positions. The program was designed to reinforce the effectiveness and leadership of participants who hold crucial positions in the organization and have accumulated years of experience in their respective functional areas.

To deepen the talent bench for supervisory positions, the Management Training Program (MTP) was launched in the latter part of 2011 with 37 participants (17 internal and 20 external). The participants underwent a six-month intensive program to develop and hone their supervisory, technical and functional competencies. Also during the year, the conduct of Officers Development Program (ODP) was approved and scheduled for implementation in the first quarter of 2012. The conduct of the Professional Enhancement Program (PEP) was continued to provide incumbent supervisors and junior and middle management officers the opportunity for personal mastery specifically in terms of personal visioning, communication, and professional presence. The seminar on PEP was conducted in six batches in 2011 with 143 participants. In addition, a coaching and mentoring program was piloted and considered for future replication to the rest of the managers and supervisors.

In line with the thrust to foster and uphold a culture of professionalism within the Bank, two personality development and corporate urbanity programs were launched during the year, namely, the Professional Image Enhancement (PrImE) for front-line staff and the Seminar on Adding Your Charisma Quotient and Image Review (ACQuIRe) for supervisors and officers. In 2011, PrImE sessions were conducted in 16 batches and attended by a total of 480 participants while the seminar on ACQuIRe was held in 4 batches with 114 participants.

As a holistic approach to human resource development, LANDBANK also provides opportunities to promote individual wellness. iLiveWellness2011 – the 2011 theme for the Employee Wellness Program considers, of equal importance, the physical, mental, socio-emotional and spiritual health in the individual's overall development. This five-year old program aims to engage and empower employees in the active pursuit of their well-being, and instill among them the value of commitment to a healthy lifestyle. An extensive array of choices from sports competitions, health fora, learning sessions with various selection of relevant and interesting topics, workshops that develop employees' talents, and employee clubs were organized and conducted to support employee wellness, volunteerism, team spirit and healthy lifestyle.

The participants of the Management Training Program Batch 2011-2012.

Several initiatives advocating and instilling employee volunteerism were also held in 2011. LANDBANK and its employees fulfilled their commitment to support the scholars of the Tulong Aral High School and the Gawad Pag-aaral Tungo sa Maunlad na Buhay (GAWAD PATNUBAY) scholarship programs. In 2011, Bank employees demonstrated their generosity with 88 percent of the population or 6,064 personnel responding positively to the call for pledges to support corporate social responsibility activities. Bank employees donated amounts equivalent to at least one-hour compensation. Remarkably, total pledges from employees reached 11,950 hours (amounting to ₱2.54 million), a 145 percent increase from the previous year. Employees were also consistent in responding to calls for blood donations where a notable 27 percent increase in the number of blood donors was achieved compared to 2010.

Tulong Aral High School scholars during the leadership program facilitated by LANDBANK.

In its resolve and commitment to prevent the occurrence of graft and corruption, LANDBANK undertook during the year the Integrity Development Review (IDR), commonly known as PRIDE or Pursuing Reforms through Integrity Development. The first agency-initiated IDR since 2005 and a first among the government financial institutions, the program systematically assessed and identified the Bank's corruption resistance mechanisms and vulnerabilities through two phases, namely, Corruption Resistance Review (CRR), and Corruption Vulnerability Assessment (CVA). The IDR was conducted at the Head Office and selected regional areas through the assistance of the Development Academy of the Philippines.

FINANCIAL HIGHLIGHTS

LANDBANK recorded another strong performance in 2011 as it exceeded its targets in all major accounts.

During the year, the Bank booked its highest ever net income (after tax) at ₱9.1 billion. The amount is ₱834.5 million or 10 percent higher than the ₱8.2 billion net income recorded in 2010. The net interest income declined slightly to ₱19.3 billion from ₱19.8 billion in 2010. The decline was due to the prevailing low interest rate regime, which impacts on both revenues and interest expenses. Operating expenses, which include manpower costs, were effectively managed and is lower by ₱1.2 billion for the year.

Also, in 2011, the Bank recorded the fourth highest net income among all commercial banks. The sustained improvement in the annual net income was due to the Bank's faithful compliance to its business goals of pursuing its mandate, providing quality customer service and ensuring institutional viability.

By the end of 2011, the Bank's total resources reached ₱645.8 billion growing by ₱74.9 billion or 13 percent from ₱570.9 billion in 2010. The increase in resources was driven by the increase in loan portfolio and investments, particularly, the placements in the BSP's Special Deposit Accounts. On the other hand, the growth in the liability side came from deposits which increased by ₱74 billion or 17 percent - from ₱433.3 billion in 2010 to ₱507.3 billion in 2011. The unsecured subordinated debt is lower by ₱6.6 billion as of December 2011 as the Bank exercised its call option and fully settled the US$150 million subordinated debt in October 2011.

For several years including 2011, the Bank has consistently ranked 4th among commercial banks in terms of total resources, loans, deposit liabilities and capital. It has done so by growing organically through income and deposit generations, despite the built-in limitations of raising funds being a government bank.

CAPITAL MANAGEMENT

In 2011, the Bank's total capital grew by ₱9.3 billion or 14 percent - from ₱68.4 billion in 2010 to ₱77.7 billion in 2011. The increase is attributed to the higher retained earnings and comprehensive income realized in 2011. The higher capital reflects the ₱4.03 billion cash dividends for 2010 net income which was remitted to the National Government in 2011. The issued dividends are in compliance with the requirements of Republic Act No. 7656 which requires Government -owned and-controlled Corporations to remit 50 percent of their earnings as dividends.

The Bank's Capital Adequacy Ratio (CAR) as of December 2011 declined by 135 bps - from 17.82 percent in December 2010 to 16.47 percent at the end of 2011. The decline in CAR is due to the following reasons:

- Tier 1 capital dropped by ₱5.9 billion as LANDBANK exercised its call option on the US$150 million subordinated notes in October 2011; and
- Total risk-weighted assets (RWA) increased by ₱11.9 billion or 3.8 percent due to higher credit and operational RWAs resulting from the increasing loan portfolio and gross revenues, respectively.

The Bank's tier 1 ratio increased by 71 bps or six percent to 12.60 percent mainly due to improvement in retained earnings from record net income in 2011.

While the Bank's CAR is comfortably above the 10 percent regulatory requirement and within the industry average, the Bank has initiated measures to ensure that said situation would remain so in the foreseeable future. This includes the plan to issue ₱10.5 billion subordinated notes in January 2012 which will result in CAR improving to 19.99 percent.

MASAGANANG SAKAHAN, INC.

Masaganang Sakahan Inc. (MSI) has continuously pursued its mission of promoting and extending marketing support and services to small farmers, cooperatives, SMEs and their organizations in the countryside.

In 2011, MSI assisted 28 cooperatives and 36 SMEs in rice trading with a combined traded volume equivalent to ₱104.2 million. It also assisted LANDBANK in collecting loan payment amounting to ₱54.9 million, 28 percent higher than 2010's collection of ₱42.9 million under its Payment-In-Kind Program for palay.

With milled rice as its primary product, MSI focused its marketing effort in 2011 towards recruiting new clients and winning back old accounts. However, even with an aggressive marketing stance, MSI's gross revenues declined by two percent from ₱132.2 million in 2010 to ₱129.2 million in 2011. The decline was attributed to the reduced volume of traded milled rice. Some of the accounts were lost due to: 1) the preference of some clients to allocate cash instead of rice as employee benefit; 2) stiff competition in the market; and 3) high cost of milled rice production. MSI's gross profit, likewise, decreased by 10 percent from ₱18.3 million in 2010 to ₱16.5 million in 2011.

Despite the reduction in gross revenues, MSI registered a net income (after tax) of ₱5.7 million in 2011, a significant 51 percent increase from the ₱3.8 million registered the previous year due to prudent management of expenses.

In 2011, the resources of MSI reached ₱120.3 million, eight percent higher than the 2010 level of ₱111.1 million.

Also in 2011, MSI, with the assistance of LANDBANK's Development Assistance Department and the Agricultural Credit Support Program conducted its first ever organizational assessment survey and strategic planning. These activities, which were facilitated by Leader's Link Training and Consulting Center, were attended by members of MSI's Management Committee and Board of Directors. The results of the assessment survey were used as inputs in the MSI's Five-Year Strategic Plan.

LBP LEASING CORPORATION

LBP Leasing Corporation (LBP Lease) was created to provide the Bank's clients an alternative facility in the form of financial and operating lease. LBP Lease provides leasing services to government and private institutional clients through direct lease, sale-and-lease back, lease line, vendor lease arrangement and operating lease. LBP Lease can finance receivables or purchase orders from corporate clients of enterprises through a short-term credit line.

This facility enables the clients to: 1) liquidate receivables so clients can have additional capital and continue servicing their clients; 2) fund increasing level of operation; and 3) service abnormally large purchase orders or transactions. It also offers fleet financing where companies can acquire automotive vehicles needed in their marketing distribution or other requirements. This also enables companies to implement a car plan program for their officers and staff with little cash outlay. Mortgage loan facility provides medium or long-term financing secured by real estate or chattel mortgage to qualified borrowers that need to construct plants, buildings or increase permanent working capital.

In 2011, gross revenues of LBP Lease reached ₱340.7 million, realizing a 15 percent increase from the 2010 level of ₱295.3 million. The increase was due to the growth in the portfolio level to ₱2.8 billion from ₱2.4 billion in 2010. Total resources hit ₱3.0 billion, an increase of nine percent from ₱2.7 billion in 2010. With the expansion in portfolio, LBP Lease realized a net income (after tax) of ₱129.6 million, 20 percent higher than the ₱107.4 million earned in 2010.

LBP RESOURCES & DEVELOPMENT CORPORATION

The LBP Resources and Development Corporation (LBRDC) handles the Bank's construction and facility requirements particularly branch construction, relocation and renovation, and automated teller machines (ATM) booth construction. LBRDC also helps the Bank in the disposal of its non-performing assets by providing brokering services, real estate management and development of the Bank's foreclosed assets. It also engages in the business of janitorial and maintenance services.

In 2011, LBRDC completed the construction of five branches located in Alabel (Saranggani), Polangui (Albay), Buluan (Maguindanao), General Mariano Alvares (Cavite) and Muntinlupa City. It also finished the construction of six ATM booths and renovation of 20 field units including branches, extension offices, cash operations units and accounting centers nationwide. As an additional business line, and in order to contribute to its profitability, LBRDC offered its facility maintenance services to the Bank's Head Office and NCR Branches through an agency-to-agency arrangement.

In 2011, LBRDC achieved a net income (after tax) of ₱12.7 million, six percent higher than the ₱12.0 million recorded in 2010. The improvement in net income was driven by the 31 percent growth in construction revenues from ₱80.5 million to ₱105.4 million coupled with the effective management of construction and other operating expenses. Total resources stood at ₱429.7 million, four percent higher than the ₱412.4 million recorded in 2010.

Also, in 2011, LBRDC undertook activities aimed at enhancing operational efficiency and strengthening the organization. These activities include the procurement of new and more efficient construction equipment and tools, pilot testing of JD Edwards Accounting and Purchasing System, institutionalization of critical policies and procedures and upgrading of personnel skills and capabilities through training.

LBP INSURANCE BROKERAGE, INC.

The LBP Insurance Brokerage, Inc. (LIBI) was established by LANDBANK to service the insurance requirements of the Bank and its clients. It is engaged in the business of general insurance brokerage and management and consultancy services on insurance-related activities. Specifically, LIBI determines the essential and comprehensive insurance risks that the LANDBANK, its clients and government corporations need to be insured against, and sources the appropriate coverage from reputable and accredited insurance providers at a cost most advantageous to the insured. In the event of losses, LIBI assists the clients and insurance providers for an expeditious settlement of claims.

LIBI's business volume from insurance premiums amounted to ₱559.9 million in 2011, down slightly by three percent from ₱577.9 million in 2010. Among its product lines, the fire insurance business of LIBI remains the biggest source of revenue with overall contribution of ₱258.3 million. The life insurance business, on the other hand, contributed ₱106.9 million or 19 percent of the total premium payments. Miscellaneous insurance business from engineering, aviation, credit card, floater, pre-need lines, among others, comprised 19 percent or ₱106.4 million.

In 2011, LIBI assisted the insurance needs of LANDBANK clients consisting of 475 cooperatives, 19,424 salary loan accounts, personal accidents and MRI insurance, and 9,622 housing loan borrowers.

LIBI also engages in foreign exchange trading. The volume of US dollars traded in 2011 increased by 23 percent from US$90.46 million in 2010 to US$111.23 million.

Revenues generated in the form of service fees from its insurance business expanded by 13 percent. However, income from foreign exchange trading and other sources declined by 16 percent. Total revenues generated slightly went up to ₱123.6 million from ₱122.7 million in 2010. Likewise, LIBI's net income (after tax) improved slightly by three percent from ₱69.9 million in 2010 to ₱72.0 million in 2011.

LIBI's assets increased to ₱872.6 million in 2011 from ₱860.5 million in 2010 while liabilities declined by 15 percent to ₱101.0 million from ₱119.4 million in 2010.

LANDBANK COUNTRYSIDE DEVELOPMENT FOUNDATION, INC.

The LANDBANK Countryside Development Foundation, Inc. (LCDFI) is a non-stock, non-profit corporate foundation established in 1983. The Foundation undertakes and maintains programs and projects to promote and advance the lives of LANDBANK's key partners and priority sectors which include the small farmers and fisherfolk, agrarian reform beneficiaries, agricultural workers, other marginalized sectors, indigenous people and overseas Filipino workers.

In 2011, LCDFI conducted a total of 106 training sessions to some 3,133 participants coming from 47 Bank-assisted cooperatives involved in the Bank's Food Supply Chain Program (FSCP). These training sessions, which focused mainly on capability-building, discussed best practices on good governance, risk management, strategic planning, account management and credit administration, marketing fundamentals, and internal control. Twenty six seminars on business values orientation were also conducted and participated by 191 farmer associations under the FSCP.

LCDFI also extended 16 capability-building seminars to 249 micro-finance institutions program partners in order to help expand their outreach to small farmers and fisherfolk particularly those in the hard-to-reach areas.

In support of its training activities, LCDFI developed three training modules in 2011, namely: (1) Values Seminar on Enterprise Management for participants, conduits as well as grassroots clients of FSCP; (2) Financial Analysis for Good Governance of Cooperatives; and (3) Building Long-Term Client Relationships. The Foundation also undertook a study on business models implemented by successful LANDBANK Cooperatives.

The LCDFI also implements a scholarship program where 40 students who are dependents of agrarian reform beneficiaries were sent to school. These scholars were supported by LCDFI from primary education up to secondary level.

In 2011, LCDFI also implemented the Pre-Departure Orientation Seminars where a total of 2,016 OFWs have been assisted. It also conducted nine entrepreneurship seminars under the Bank's OFW Reintegration Program.

As part of its thrust to promote convergence of community-based programs, LCDFI partners with microfinance institutions under its Integrated Community Development Program (ICDP). The ICDP aims at providing livelihood training, access to clean water, electricity and sanitation, ecological and environmental protection and preservation, and development of local arts and culture, among others. In 2011, LCDFI implemented and co-sponsored 51 community programs. These include medical missions, livelihood seminars, construction of Ugnayan Centers, sanitation projects, training on composting, skills enhancement and organic farming.

BOARD OF DIRECTORS

Sec. Cesar V. Purisima
Chairman
(Secretary - Department of Finance)

Gilda E. Pico
President and CEO

Sec. Virgilio R. de los Reyes
Director
(Secretary - Department of Agrarian Reform)

Sec. Rosalinda D. Baldoz
Director
(Secretary - Department of Labor and Employment)

Sec. Proceso J. Alcala
Director
(Secretary - Department of Agriculture)

Mr. Crispino T. Aguelo
Director
(Representative - Agrarian Reform Beneficiaries)

Mr. Victor Gerardo J. Bulatao
Director
(Representative - Agrarian Reform Beneficiaries)

Mr. Domingo I. Diaz
Director
(Representative - Private Sector)

Mr. Tomas T. de Leon, Jr.
Director
(Representative - Private Sector)

Usec. Antonio A. Fleta
Alternate Director
(Department of Agriculture)

Usec. Danny P. Cruz
Alternate Director
(Department of Labor and Employment)

Usec. Anthony N. Paruñgao
Alternate Director
(Department of Agrarian Reform)

Usec. Jeremias N. Paul, Jr.
Alternate Director
(Department of Finance)

MANAGEMENT TEAM

EVP Wilfredo C. Maldia
Agrarian and Domestic Banking Sector

EVP Cecilia C. Borrromeo
Institutional Banking and Subsidiaries Sector

Gilda E. Pico
President and CEO

SVP Jocelyn D.G. Cabreza
Corporate Services Sector

EVP Andres C. Sarmiento
Operations Sector

EXECUTIVE SECTOR AND UNITS UNDER THE BOARD

From Left to Right: *AVP Annalene M. Bautista, VP Randolph L. Montesa, FVP Teresita E. Cheng VP Noel B. Marquez, VP Ricardo S. Arlanza*

From Left to Right: *VP Felix L. Manlangit, SVP Alan V. Bornas, VP Noemi P. dela Paz SVP Julio D. Climaco, Jr., FVP Reynauld R. Villafuerte*

ADBS BRANCH GROUP AND SUPPORT UNIT HEADS

From Left to Right: FVP Marilyn M. Tiongson, FVP David P. Camaya, SVP Ma. Victoria A. Reyes FVP Daisy M. Macalino, FVP Joselito P. Guitierrez

From Left to Right: VP Leticia P. Villa, VP Leila C. Martin, FVP Liduvino S. Geron, FVP Wesly C. Magnaye, VP Ana S. Concha

AREA AND REGIONAL HEADS

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VP Manuel Jose Mari S. Infante
VP Filipina B. Monje
VP Ruel Z. Romarate
AVP Lolita M. Almazar
AVP Virgilio C. Paranial

From Left to Right:
VP Camilo C. Leyba
AVP Marilou L. Villafranca
AVP Cesar G. Magallanes
AVP Evelyn M. Montero
VP Mauricio C. Feliciano

From Left to Right:
AVP Althon C. Ferolino
AVP Minda D. Rubio
VP Alex A. Lorayes
FVP Jennifer A. Tantan
VP Ramon R. Monteloyola

From Left to Right:
VP Renato G. Eje
VP Mernilo C. Ocampo
AVP Lolita C. Cruz
VP Ananias O. Lugo, Jr.
AVP Khurshid U. Kalabud

INSTITUTIONAL BANKING AND SUBSIDIARIES SECTOR

From Left to Right: VP Ma. Celeste A. Burgos, SVP Edward John T. Reyes, VP Lolita T. Silva, FVP Carel D. Halog FVP Roberto S. Vergara, FVP Jose Abelardo F. Agregado

HEADS OF SUBSIDIARIES AND FOUNDATION

From Left to Right: Ms. Erlinda C. Ramos, Mr. Aristeo A. Lat, Jr., Ms. Simeona S. Guevarra, Atty. Jesus F. Diaz Mr. Manuel H. Lopez, Ms. Blesilda R. Macalalad

CORPORATE SERVICES AND OPERATIONS SECTORS

From Left to Right: FVP Ramon K. Cervantes, VP Antonio V. Hugo, Jr., FVP Romeo C. Castro, SVP Yolanda D. Velasco VP Donato C. Endencia, FVP Conrado B. Roxas

LIST OF OFFICERS AND DEPARTMENT HEADS as of December 31, 2011

President and CEO
Gilda E. Pico

Internal Audit Group
VP Noemi P. Dela Paz

Field Operations Audit Department
Ms. Dina Melanie R. Madrid

Credit Review Department
AVP Constance V. Manuel

Head Office and Systems Technology Audit Department
AVP Bernardo P. Castro

Legal Services Group
FVP Reynauld R. Villafuerte

Administrative Legal Department
Mr. Virgilio M. Quintana

Banking Legal Services Department
VP Ricardo S. Arlanza

Litigation Department
VP Rosemarie M. Osoteo

CARP Legal Services Department
VP Noel B. Marquez

Risk Management Group
FVP Teresita E. Cheng

Business Risk Management Department
AVP Cherry Ann R. Cruz

Credit Policy and Risk Management Department
AVP Danilo E. Quilantang

Treasury Risk Management Department
AVP Rosemarie E. Sotelo

Strategic Planning Group
SVP Julio D. Climaco, Jr.

Corporate Planning and Central MIS Department
AVP Emerita E. Olayvar

Customer Service and Product Development Department
Mr. Edgardo C. Ramirez

Economics and Policy Studies Department
SVP Julio D. Climaco, Jr. – Concurrent Head

Technology Management Group
SVP Alan V. Bornas

Network Operations Department
Mr. Enrique L. Sazon, Jr.

Retail Banking Systems Department
Ms. Grace Ofelia Lovely V. Dayo

e-Banking Systems Department
Mr. Arthur E. Dalampan

Data Center Management Department
AVP Alden F. Abitona

Enterprise Systems Department
Mr. Marcelino T. Cabahug

IT Project Management Office
VP Randolph L. Montesa

Trust Banking Group
VP Felix L. Manlangit

Trust Operations Department
Ms. Lamelita G. Aquino - OIC

Investment and Trading Department
AVP Josefino P. Cerin

Trust Marketing Department
Mr. Camilo G. Sanchez

Compliance Management Office
AVP Annalene M. Bautista - OIC

Corporate Secretary
FVP Reynauld R. Villafuerte – Concurrent Head

Corporate Affairs Department
Ms. Judy O. Kis-ing - OIC

Physical Security Office
Mr. Efren S. Tedor

AGRARIAN AND DOMESTIC BANKING SECTOR
EVP Wilfredo C. Maldia

Group, Regional and Area Heads

Northern and Central Luzon Branches Group
FVP Wesly C. Magnaye

Region I
VP Filipina B. Monje

Region II
VP Ramon R. Monteloyola

Region III-A
VP Mernilo C. Ocampo

Region III-B
AVP Lolita C. Cruz

National Capital Region Branches Group
FVP Daisy M. Macalino

Area NCR-A
AVP Virgilio C. Paranial

Area NCR-B
FVP Jennifer A. Tantan

Area NCR-C
AVP Lolita M. Almazar

Area NCR-D
AVP Minda D. Rubio

Area NCR-E
AVP Evelyn M. Montero - OIC

Cash Department
AVP Ma. Belma T. Turla

NCR Lending Center
Ms. Luz D. Abalos

LIST OF OFFICERS AND DEPARTMENT HEADS as of December 31, 2011

Southern Luzon Branches Group
FVP David P. Camaya

Region IV
VP Mauricio C. Feliciano

Area IV-A
AVP Marilou L. Villafranca

Area IV-B
VP Ananias O. Lugo, Jr.

Region V
VP Renato G. Eje

Visayas Branches Group
FVP Liduvino S. Geron

Region VI
VP Manuel Jose Mari S. Infante

Region VII
VP Ruel Z. Romarate

Region VIII
VP Alex A. Lorayes

Mindanao Branches Group
FVP Joselito P. Gutierrez

Region IX
AVP Khurshid U. Kalabud

Region X
AVP Cesar G. Magallanes

Region XI
VP Camilo C. Leyba

Region XII
AVP Althon C. Ferolino

Consumer and E-Banking Group
FVP Marilyn M. Tiongson

Debit Cards Management Department
Mr. Pacifico C. De Paz, Jr. - OIC

Electronic Products Department
VP Leila C. Martin

Credit Card Administration Department
AVP Rossana S. Coronel

Landowners Compensation and Assistance Group
SVP Ma. Victoria A. Reyes

Landowners Compensation Department
AVP Teresita V. Tengco

Bond Servicing Department
Mr. Ricarte Porfirio A. Rey

Landowners Assistance and Policy Department
Mr. Vicente Ramon A. Castro

Field Unit Support Group
VP Ana Concha - OIC

Field Operations Support Department
Mr. Domingo Conrado G. Galsim

MIS and Planning Support Department
Mr. Jaime G. Dela Cruz

Systems Implementation Department
Ms. Aurelia M. Lavilla - OIC

Programs Management Group
VP Leticia P. Villa

Development Assistance Department
Mr. Edgardo S. Luzano

Programs Management Department I
Mr. Hermeo G. Bautista

Programs Management Department II
Ms. Melinda C. Cruz

INSTITUTIONAL BANKING AND SUBSIDIARIES SECTOR
EVP Cecilia C. Borromeo

Accounts Management Group
SVP Edward John T. Reyes

Corporate Banking Department I
VP Ma. Celeste A. Burgos

Corporate Banking Department II
AVP Vilma V. Calderon

NCR SME Lending Department
AVP Rosario S. Domingo

Financial Institutions Department
AVP Cielito H. Lunaria

Public Sector Department
VP Lolita T. Silva

Retail Lending Department
Ms. Teresita F. Ison

Investment Banking and Special Assets Group
FVP Jose Abelardo F. Agregado

Special Assets Department
Ms. Emma M. Brosas

Financial Assets Department
Ms. Emellie V. Tamayo

Investment Banking Department
AVP James A. Aldana

OFW Remittance Group
FVP Roberto S. Vergara

Domestic Remittance Marketing Department
AVP Jose James T. Figueras

Overseas Remittance Marketing and Support Department
Ms. Carolyn I. Olfindo

Program Lending Group
AVP Lucila E. Tesorero - OIC

Wholesale Lending Department
Ms. Margarita C. Cabrera - OIC

International Fund Sourcing Department
AVP Lucila E. Tesorero

Environmental Program and Management Department
Mr. Prudencio E. Calado III

Treasury Group
FVP Carel D. Halog

Assets and Liabilities Management Department
AVP Ma. Elizabeth L. Gener

Local Currency Department
Ms. Ma. Francia O. Titar

Foreign Exchange Department
AVP Christine G. Mota

LBP INSURANCE BROKERAGE, INC.
President and CEO Jesus F. Diaz
General Manager Aristeo A. Lat, Jr.

LBP LEASING CORPORATION
President and CEO Manuel H. Lopez

LB REALTY DEVELOPMENT CORPORATION
President and General Manager
Simeona S. Guevarra

LBP COUNTRYSIDE DEVELOPMENT FOUNDATION, INC.
Executive Director Erlinda C. Ramos

MASAGANANG SAKAHAN, INC.
Ms. Blesilda R. Macalalad - OIC

CORPORATE SERVICES SECTOR
SVP Jocelyn DG. Cabreza

Facilities and Procurement Services Group
FVP Romeo C. Castro

Facilities Management Department
AVP Rodelio D. De Guzman

Procurement Department
AVP Norlinda S. Plazo

Project Management and Engineering Department
Mr. Edwin A. Salonga

Human Resource Management Group
FVP Ramon K. Cervantes

Employee Relations Department
AVP Voltaire Pablo P. Pablo III

Personnel Administration Department
Ms. Emelita M. Barbosa, CEBS

Organizational Development Department
Mr. Emmanuel G. Hio, Jr.

Provident Fund Office
VP Donato C. Endencia

OPERATIONS SECTOR
EVP Andres C. Sarmiento

Banking Operations Group
FVP Conrado B. Roxas

Loans Implementation Department
AVP Maria Edelwina D. Carreon

Credit Investigation and Appraisal Department
AVP Winston Rochel L. Galang

Foreign and Domestic Remittance Department
Ms. Corazon A. Gatdula

International Trade Department
Ms. Lydia R. De Asis

Banking Services Group
VP Antonio V. Hugo, Jr.

MDS and Collections Management Department
AVP Carolina Q. Briñas

ATM and Cash Management Department
AVP Ma. Inocencia C. Reyes

Central Clearing Department
AVP Reynaldo C. Capa

Controllership Group
SVP Yolanda D. Velasco

Agrarian Accounting Department
AVP Rosario B. Belmonte

Financial Accounting Department
AVP Ma. Eloisa C. Dayrit

Systems and Methods Department
Ms. Celia G. Barretto

Inter-office Transactions Control Department
Ms. Joelee M. Beatingo

Treasury Operations Department
Ms. Merceditas N. Oliva

Administrative Accounting Department
Mr. Gerry D. Villalobos

INDEPENDENT AUDITOR'S REPORT

Republic of the Philippines
COMMISSION ON AUDIT
Corporate Government Sector
Cluster A – Financial

The Board of Directors
Land Bank of the Philippines, Manila

We have audited the accompanying financial statements of Land Bank of the Philippines (LBP) and its subsidiaries (referred to as the "Group"), which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income, statement of changes in capital funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT

CYNTHIA M. EVASCO
Supervising Auditor

June 27, 2012

STATEMENT OF FINANCIAL POSITION

For the year ended December 31, 2011 (in thousand pesos)

	Note	GROUP		PARENT	
ASSETS		**2011**	**2010**	**2011**	**2010**
Cash and other cash items	5	16,130,729	13,813,681	16,129,879	13,769,027
Due from Bangko Sentral ng Pilipinas	6	77,168,221	84,812,526	77,168,221	84,812,526
Due from other banks	7	2,229,622	1,424,256	1,923,084	1,145,898
Interbank loans receivable	8	7,582,769	5,721,600	7,582,769	5,721,600
Securities purchased under agreements to resell	9	48,500,000	6,683,000	48,500,000	6,683,000
Financial assets at fair value through profit or loss	10	8,427,454	10,297,922	8,427,454	10,297,922
Available for sale investments	4 & 11	143,295,705	148,811,463	143,170,605	148,731,672
Held to maturity investments	4 & 12	44,283,642	41,615,084	43,774,238	41,064,528
Loans and receivables	4, 13 & 18	277,960,284	234,732,382	276,117,645	233,444,966
Investments in subsidiaries	14	-	-	515,209	577,709
Investment property	15	7,075,898	8,018,395	6,976,018	7,917,074
Property and equipment (net)	4 & 16	4,639,064	4,710,472	4,561,261	4,623,481
Non-current assets held for sale		103,093	100,203	84,257	94,034
Other resources - net	17	8,362,393	10,161,657	8,345,242	10,130,967
Deferred income tax	23	53,512	35,681	-	-
		645,812,386	**570,938,322**	**643,275,882**	**569,014,404**
LIABILITIES AND CAPITAL FUNDS					
Liabilities					
Deposit liabilities	19	507,257,798	433,228,537	507,457,975	433,515,018
Bills payable	20	34,139,915	34,618,973	33,394,415	34,250,473
Unsecured subordinated debt	21	6,934,000	13,510,000	6,934,000	13,510,000
Derivative liabilities		134,446	151,817	134,446	151,817
Deposits from other banks		11,948	5,261	11,948	5,261
Treasurer's, Manager's and Cashier's checks		1,515,853	809,107	1,515,853	809,107
Payment order payable		101,596	153,872	101,596	153,872
Marginal deposits		519,898	891,374	519,898	891,374
Cash letters of credit		1,114,187	2,388,477	1,114,187	2,388,477
Other liabilities	22	16,358,566	16,799,721	16,261,357	16,729,564
		568,088,207	**502,557,139**	**567,445,675**	**502,404,963**
Capital Funds	31				
Common stock		11,971,000	11,971,000	11,971,000	11,971,000
Paid-in surplus		101,098	101,098	101,098	101,098
Revaluation increment		61,200	61,200	-	-
Retained earnings free		18,360,185	13,471,157	17,074,287	12,163,204
Retained earnings reserve		14,807,083	14,218,716	14,472,046	13,972,047
Undivided profits		9,056,214	8,221,663	8,838,552	8,060,202
Currency translation difference		-	284	-	-
Net unrealized gains on securities available for sale		23,367,399	20,336,065	23,373,224	20,341,890
		77,724,179	**68,381,183**	**75,830,207**	**66,609,441**
		645,812,386	**570,938,322**	**643,275,882**	**569,014,404**

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011 (in thousand pesos)

		GROUP		PARENT	
	Note	2011	2010	2011	2010
INTEREST INCOME					
Loans		17,137,442	16,895,681	16,883,521	16,851,916
Investments		9,362,773	9,820,525	9,331,427	9,789,293
Due from Bangko Sentral ng Pilipinas		1,770,432	1,810,677	1,770,432	1,810,677
Deposit in banks		12,033	13,333	821	1,799
Others		87,087	193,950	87,059	59,923
		28,369,767	28,734,166	28,073,260	28,513,608
INTEREST EXPENSE					
Deposit liabilities		7,149,961	6,913,242	7,151,514	6,914,915
Borrowed funds		1,000,685	1,039,410	972,021	1,021,918
Unsecured subordinated debt		891,689	979,475	891,689	979,475
Others		30,452	32,602	47,614	56,283
		9,072,787	8,964,729	9,062,838	8,972,591
NET INTEREST INCOME		19,296,980	19,769,437	19,010,422	19,541,017
PROVISION FOR CREDIT LOSSES	18	240,992	110,773	178,376	80,554
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		19,055,988	19,658,664	18,832,046	19,460,463
OTHER OPERATING INCOME					
Gain from sale/redemption/derecognition/reclass of non trading FA and Liab		1,449,746	561,379	1,449,746	561,644
Dividends		1,038,815	116,476	1,038,814	116,475
Fees and commission		1,029,131	1,282,230	950,036	1,199,297
Gain from dealings in foreign currency		620,123	675,349	607,832	653,912
Gain on financial assets and liabilities - held for trading		494,178	2,350,188	494,178	2,350,188
Miscellaneous-net		1,517,791	1,053,664	1,586,962	996,820
		6,149,784	6,039,286	6,127,568	5,878,336
OTHER OPERATING EXPENSES					
Compensation and fringe benefits		6,409,079	6,149,672	6,455,650	6,071,384
Taxes and licenses		1,952,177	2,223,156	1,925,063	2,193,452
Depreciation and amortization		1,704,367	2,264,886	1,690,143	2,248,924
Rent		671,034	584,176	722,633	696,405
Foreign exchange loss from revaluation		231,080	784,554	231,080	777,567
Miscellaneous expenses		4,927,010	5,062,516	4,896,493	4,935,598
		15,894,747	17,068,960	15,921,062	16,923,330
INCOME BEFORE INCOME TAX		9,311,025	8,628,990	9,038,552	8,415,469
PROVISION FOR INCOME TAX	23	254,811	407,327	200,000	355,267
NET INCOME		9,056,214	8,221,663	8,838,552	8,060,202
OTHER COMPREHENSIVE INCOME					
Net unrealized gains on securities available for sale		3,031,334	9,311,985	3,031,334	9,311,985
Currency translation difference		-	284	-	-
		3,031,334	9,312,269	3,031,334	9,311,985
TOTAL COMPREHENSIVE INCOME		**12,087,548**	**17,533,932**	**11,869,886**	**17,372,187**

STATEMENT OF CASH FLOWS

For the year ended December 31, 2011 (in thousand pesos)

	GROUP		PARENT	
	2011	**2010**	**2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	28,043,831	29,052,267	27,750,356	28,832,920
Interest paid	(9,352,341)	(8,785,934)	(9,335,857)	(8,758,612)
Fees and commission	1,029,131	1,282,230	950,036	1,199,297
Gain on financial assets and liabilities held for trading	494,178	2,350,188	494,178	2,350,188
Gain from dealings in foreign currency	620,123	675,349	607,832	653,912
Miscellaneous income	1,517,791	1,053,664	1,586,962	996,820
General and administrative expenses	(15,593,737)	(13,491,775)	(15,635,011)	(13,418,728)
Operating income before changes in operating assets and liabilities	**6,758,976**	**12,135,989**	**6,418,496**	**11,855,797**
Changes in operating assets and liabilities				
(Increase)/Decrease in operating assets				
Interbank loans receivable	(1,861,169)	5,487,790	(1,861,169)	5,487,790
Financial assets at fair value through profit or loss	1,870,468	(2,479,072)	1,870,468	(2,479,072)
Loans and receivable	(43,084,876)	(20,388,148)	(42,473,377)	(20,324,375)
Other resources	746,584	954,890	733,425	950,338
Increase/(Decrease) in operating liabilities				
Deposit liabilities	74,029,261	36,877,169	73,942,957	36,890,232
Derivative liabilities	(17,371)	133,908	(17,371)	133,908
Marginal deposits	(371,476)	156,481	(371,476)	156,481
Treasurer's, Manager's and Cashier's Checks	706,746	(85,483)	706,746	(85,483)
Other liabilities	(61,478)	(424,138)	(47,511)	(118,323)
Net cash generated from operations	**38,715,665**	**32,369,386**	**38,901,188**	**32,467,293**
Income taxes paid	(25,823)	(12,016)	-	-
Net cash generated from operating activities	**38,689,842**	**32,357,370**	**38,901,188**	**32,467,293**
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	(511,391)	(599,896)	(508,438)	(604,490)
Disposals of investment property	815,527	453,351	819,097	449,934
(Additions)/Disposals of Non-current assets held for sale	(2,890)	40,650	9,777	40,811
Dividends received	1,038,815	116,476	1,038,814	116,475
Gain from investment securities	1,449,746	561,379	1,449,746	561,644
Decrease/(increase) in:				
Available for sale investments	5,515,758	(19,212,979)	5,561,067	(19,323,035)
Held to maturity investments	(2,668,558)	(4,347,837)	(2,709,710)	(4,306,476)
Investment in subsidiaries	-	-	62,500	-
Net cash provided by/used in investing activities	**5,637,007**	**(22,988,856)**	**5,722,853**	**(23,065,137)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid	(4,089,382)	(1,603,708)	(4,000,000)	(1,573,708)
Other charges to capital	4,376,164	8,492,321	4,382,214	8,504,096
Increase/(decrease) in:				
Bills payable	(511,442)	2,779,599	(888,442)	2,593,099
Unsecured subordinated debt	(6,576,000)	(354,000)	(6,576,000)	(354,000)
Net cash provided by/used in financing activities	**(6,800,660)**	**9,314,212**	**(7,082,228)**	**9,169,487**
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(231,080)	(784,554)	(231,080)	(777,567)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**37,295,109**	**17,898,172**	**37,310,733**	**17,794,076**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	13,813,681	13,986,448	13,769,027	13,982,980
Due from Bangko Sentral ng Pilipinas	84,812,526	58,251,877	84,812,526	58,251,877
Due from other banks	1,424,256	1,246,966	1,145,898	1,031,518
Securities purchased under agreements to resell	6,683,000	15,350,000	6,683,000	15,350,000
	106,733,463	**88,835,291**	**106,410,451**	**88,616,375**
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	16,130,729	13,813,681	16,129,879	13,769,027
Due from Bangko Sentral ng Pilipinas	77,168,221	84,812,526	77,168,221	84,812,526
Due from other banks	2,229,622	1,424,256	1,923,084	1,145,898
Securities purchased under agreements to resell	48,500,000	6,683,000	48,500,000	6,683,000
	144,028,572	**106,733,463**	**143,721,184**	**106,410,451**

STATEMENT OF CHANGES IN CAPITAL FUNDS - GROUP

For the year ended December 31, 2011 (in thousand pesos)

	Common Stock		Retained Earnings	Revaluation
	Shares	Amount	Free	Increment
Balance, December 31, 2009	1,197,100	11,971,000	17,379,131	61,200
Net income during the year				
Net unrealized gain on securities				
Payment of cash dividends			(1,983,708)	
Stock dividend			(45,282)	
Property dividend			(426,292)	
Transfer to retained earnings free			6,818,497	
Transfer to/from retained earnings reserve			(10,000)	
Additional reserve for trust business			(4,939,000)	
Additional reserve for contingencies			(3,500,000)	
Application of Appropriation of Retirement Fund				
PFRS/prior period adjustment			140,973	
Closure of excess book value over cost of investment in subsidiaries			35,587	
Currency translation difference			1,251	
Balance, December 31, 2010	**1,197,100**	**11,971,000**	**13,471,157**	**61,200**
Net income during the year				
Net unrealized gain on securities				
Payment of cash dividends			(3,709,382)	
Transfer to retained earnings free			8,221,663	
Transfer to/from retained earnings reserve			(90,000)	
Application of Appropriation of Retirement Fund			595	
PFRS/prior period adjustment			465,582	
Closure of excess book value over cost of investment in subsidiaries			286	
Currency translation difference			284	
Balance, December 31, 2011	**1,197,100**	**11,971,000**	**18,360,185**	**61,200**

Paid-in Surplus	Retained Earnings Reserve	Currency Trans. Difference	Undivided Profits	Net Unrealized Gain on Securities	TOTAL
101,098	5,778,088	31	6,818,497	11,024,080	53,133,125
			8,221,663		8,221,663
				9,311,985	9,311,985
					(1,983,708)
					(45,282)
					(426,292)
			(6,818,497)		-
	10,000				-
	4,939,000				-
	3,500,000				-
	(8,368)				(8,368)
	(4)				140,969
					35,587
		253			1,504
101,098	**14,218,716**	**284**	**8,221,663**	**20,336,065**	**68,381,183**
			9,056,214		9,056,214
				3,031,334	3,031,334
					(3,709,382)
			(8,221,663)		-
	90,000				-
	(1,632)				(1,037)
	499,999				965,581
					286
		(284)			-
101,098	**14,807,083**	**-**	**9,056,214**	**23,367,399**	**77,724,179**

STATEMENT OF CHANGES IN CAPITAL FUNDS - PARENT

For the year ended December 31, 2011 (in thousand pesos)

	Common Stock		Retained Earnings
	Shares	Amount	Free
Balance, December 31, 2009	**1,197,100**	**11,971,000**	**16,183,870**
Net income during the year			
Net unrealized gain on securities			
Payment of cash dividends			(1,953,708)
Property dividend			(426,292)
Transfer to retained earnings free			6,654,664
Additional reserve for trust business			(4,939,000)
Additional reserve for contingencies			(3,500,000)
PFRS/prior period adjustment			(185,785)
Currency translation difference - surplus free FDCU			1,251
Reversal of various accruals for CYs 2007 & 2008			328,204
Balance, December 31, 2010	**1,197,100**	**11,971,000**	**12,163,204**
Net income during the year			
Net unrealized gain on securities			
Payment of cash dividends			(3,620,000)
Transfer to retained earnings free			8,060,202
PFRS/prior period adjustment			470,881
Balance, December 31, 2011	**1,197,100**	**11,971,000**	**17,074,287**

Paid-in Surplus	Retained Earnings Reserve	Undivided Profits	Net Unrealized Gain/(Loss) on Securities	T O T A L
101,098	**5,533,047**	**6,654,664**	**11,029,905**	**51,473,584**
		8,060,202		8,060,202
			9,311,985	9,311,985
				(1,953,708)
				(426,292)
		(6,654,664)		-
	4,939,000			-
	3,500,000			-
				(185,785)
				1,251
				328,204
101,098	**13,972,047**	**8,060,202**	**20,341,890**	**66,609,441**
		8,838,552		8,838,552
			3,031,334	3,031,334
				(3,620,000)
		(8,060,202)		-
	499,999			970,880
101,098	**14,472,046**	**8,838,552**	**23,373,224**	**75,830,207**

ACKNOWLEDGMENTS

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LAND BANK OF THE PHILIPPINES

Ang Bangkong May Damdaming Bayan

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 monetary assets and liabilities of 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 and foreign currency-denominated income and expenses, at the PDS weighted average rate (PDSWAR) for the year. 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.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

All financial assets, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for financial assets valued at FVPL, the initial measurement of financial assets 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 cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Reclassification of financial assets

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

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

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

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

'Day 1' difference

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

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

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

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

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

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

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

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

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments or those close to maturity, the entire category would be tainted and reclassified as AFS asset. These investments are carried at amortized cost using the effective interest rate method, reduced by any impairment in value. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process.

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

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

Fair Value Measurement

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

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

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

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

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

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

Short-term investments – Carrying amounts approximate fair values.

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

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

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

Impairment of Financial Assets

The Group determines at each balance sheet date whether there is objective evidence that a financial asset may be impaired.

Assets carried at amortized cost

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account.

The amount of loss is charged to current operations. If a loan or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to 'Provision for credit and impairment losses' in the statement of 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 and impairment losses' in the statement of 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 income. Impairment losses on equity instruments recognized in the statement of income are not reversed through the statement of

ncome. 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 income.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchase option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

Derivative Instruments

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

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

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

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

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

Offsetting financial instruments

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

Fiduciary Activities

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

Subsequent Events

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

Impairment of Property and Equipment, Investment Property and Other Resources

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

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

Investments in Subsidiaries

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

Property and Equipment

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

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

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

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

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

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

Investment properties

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

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

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

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

Intangible Assets

Computer software

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

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

Income Taxes

Income tax on the profit for the year comprises current tax only. Income tax is recognized in the statement of 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 balance sheet 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 balance sheet 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 balance sheet date and reduced, if appropriate.

Employee Benefits

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

Leases

(a) LBP Group is the lessee

(i) Operating lease - leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of 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 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 income on a straight-line basis over the period of lease.

(ii) Finance lease - when assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

Revenue Recognition

Interest income and fees which are considered an integral part of the effective yield of a financial asset are recognized using the effective interest method, unless collectibility is in doubt.

Interest is recognized on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

Dividend income is recognized when the right to receive payment is established.

Gains or losses arising from the trading of securities and foreign currency are reported in the statement of income.

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

Commitment fees received to originate a loan when the loan commitment is outside the scope of PAS 39 are deferred and recognized as an adjustment to the effective interest rate. If the loan commitment expires, the fee is recognized as revenue on expiry.

Borrowing Costs

Borrowing costs are expensed when incurred.

3. Future Changes in Accounting Policies

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

New Standards and Interpretations

PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with few exceptions.

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*

This Interpretation, effective for annual periods beginning on or after January 1, 2012 covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that the revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provisions of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*

This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and to derecognize the asset and liability.

Amendments to Standards

PAS 39 Amendment – *Eligible Hedged Items*

The amendment to PAS 39, *Financial Instruments: Recognition and Measurement,* effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

PFRS 2 Amendments – *Group Cash-settled Share-based Payment Transactions*

The amendments to PFRS 2, *Share-based Payments,* effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Improvements to PFRS 2009

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to remove inconsistencies and clarify wording. The amendments are effective for annual periods beginning on or after January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, Share-based Payment, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for annual periods beginning on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information,* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements,* clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows,* explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases,* removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets,* clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets,* clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement,* clarifies the following:

  - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

  - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

  - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Amendment to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives,* clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Amendment to Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation,* states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

IFRS 9, Financial Instruments Part 1: Classification and Measurement.

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

(i) Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

(ii) An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flow, and the asset's contractual cash flow represent only payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

(iii) All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There shall be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

4. 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.

of non-strategic assets that have been abandoned or sold. The carrying values of property and equipment of the Group and the Parent are P4,639,064 and P4,561,261 as of December 31, 2011 and P4,710,472 and P4,623,481 as of December 31, 2010, respectively.

5. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2011	2010	2011	2010
Cash on hand	15,719,655	13,424,205	15,719,560	13,424,110
Checks and other cash items	369,825	319,068	369,721	275,310
Returned checks and other cash items	36,563	65,132	36,563	65,132
Petty cash fund	3,296	3,154	3,175	3,033
Revolving fund	890	1,087	360	407
Payroll fund	500	1,035	500	1,035
	16,130,729	13,813,681	16,129,879	13,769,027

6. 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.

7. Due from Other Banks

This account consists of:

	Group		Parent	
	2011	2010	2011	2010
Deposit with local banks	974,311	752,895	682,721	489,485
Deposit with foreign banks	1,255,311	671,361	1,240,363	656,413
	2,229,622	1,424,256	1,923,084	1,145,898

The Group maintains nostro accounts on global basis with 19 foreign depository banks totaling 29 and 39 bank accounts in 2011 and 2010, respectively, the most significant of which are as follows:

2011	2010
1. Standard Chartered Bank, Tokyo	1. Standard Chartered Bank
2. Wells Fargo Bank, N.A.	2. Mizuho Corporate Bank
3. Standard Chartered Bank, N.Y.	3. Citibank New York
4. Bank of New York	4. JP Morgan Chase Bank
5. Mizuho Corporate Bank	5. Wells Fargo NA

Deposits with foreign banks as of December 31, 2011 include special deposit account with Citibank - New York, Standard Chartered Bank - Tokyo and Bank of Tokyo-Mitsubishi, UFJ amounting to $1.44 million, JPY443.22 million and JPY27.24 million, respectively, which are restricted for disbursements on special lending projects.

8. Interbank Loans Receivables

This account consists of the Parent's loans receivable from foreign banks amounting to P7,582,769 and P5,721,600 as of December 31, 2011 and 2010, respectively.

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

	2011			2010		
Domestic	4.60%	to	4.25%	4.06%	to	4.25%
Foreign	0.05%	to	1.40%	0.02%	to	1.15%

9. Securities Purchased under Agreements to Resell

This account consists of:

	Group		Parent	
	2011	2010	2011	2010
Government Securities Purchased under Reverse Repurchase Agreement	48,500,000	6,683,000	48,500,000	6,683,000
	48,500,000	6,683,000	48,500,000	6,683,000

Securities Purchased under Agreements to Resell of the Group carry interest rates at 4.50% and 4.00% as of December 31, 2011 and 2010, respectively.

10. Financial Assets at Fair Value Through Profit or Loss

This consists of:

	Group		Parent	
	2011	2010	2011	2010
Government Securities - Domestic	105,976	2,162,668	105,976	2,162,668
Government Securities - Foreign	81,697	81,697	81,697	81,697
Private Securities – Domestic	32,362	54,625	32,362	54,625
Derivative with positive fair value	8,207,419	7,998,932	8,207,419	7,998,932
	8,427,454	10,297,922	8,427,454	10,297,922

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

	2011			2010		
Domestic	1.50%	to	10.50%	4.35%	to	10.50%
Foreign	3.00%	to	6.50%	3.00%	to	3.90%

Financial Assets at FVPL includes the foreign exchange (FX) risk cover of the Parent's borrowings from multilateral agencies amounting to P8.188 billion in 2011 and P7.969 billion in 2010 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 income statement. As of December 31, 2011, the outstanding notional amount of the FX risk cover amounted to US$40.42 million and JPY30,710.36 million.

Prior to 2007, the value of the FX risk cover as an option derivative varies on the movement of the foreign exchange rates of the Bills Payable. Beginning 2007, in accordance with Monetary Board Resolution No. 1063 dated August 14, 2008, the Bank applied the standard option valuation model approach which resulted in an increase in the derivative asset amounting to P219.37 million and P489.75 million in 2011 and 2010, respectively.

The derivative with positive fair value comprise of the following:

	2011	2010
Foreign Exchange Risk Cover	8,188,315	7,968,948
Forward Contracts	19,104	29,984
	8,207,419	7,998,932

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

11. Available for Sale Investments

This account consists of:

	Group		Parent	
	2011	2010	2011	2010
Domestic				
Government	102,088,806	104,164,502	101,963,706	104,084,724
Private	15,670,863	16,121,376	15,670,863	16,121,363
Foreign				
Government	17,975,808	20,821,300	17,975,808	20,821,300
Private securities	279,697	279,256	279,697	279,256
Investment in non-marketable securities, net of allowance for probable losses of P1,593,296 in 2011 and P1,582,896 in 2010	7,280,531	7,425,029	7,280,531	7,425,029
	143,295,705	148,811,463	143,170,605	148,731,672

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

	2011			2010		
Domestic	1.13%	to	15.00%	4.64%	to	15.44%
Foreign	2.50%	to	10.51%	2.49%	to	10.51%

Available-for-sale investments-Domestic Private include 42 million MERALCO shares of stocks with market value of P10.382 billion which are subject to legal disputes. In November 2008, MERALCO unlawfully cancelled the 42 million shares of stocks registered in the name of the Parent and reissued the same in favor of another individual allegedly in compliance with the Demand to Comply issued by the Sheriffs of the Department of Agrarian Reform (DAR) Regional Adjudicator. Of these 42 million shares, 3.37 million shares had been negotiated by another party; 37.23 million shares remained quarantined at the Philippine Depository and Trust Corporation (PDTC); and another 1.4 million shares that 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.

On December 14, 2011, the Supreme Court ruled in favor of the Parent. According to the High Court, the Parent's liability under the Comprehensive Agrarian Reform Program (CARP) must be satisfied only from the ARF, it was also ruled that the levy of the Parent's Meralco shares was void and ineffectual. As such, the Parent is entitled to all dividends.

The Other party filed a Motion for Reconsideration and is also seeking a referral of the case to the Supreme Court, sitting En Banc. The Supreme Court has not required the Parent to file a Comment on the Petition, but the Parent commented and opposed the referral of the case to the entire Supreme Court, arguing that the decision of a Division of the Supreme Court is the decision of the entire court.

Accumulated market gains/losses on AFS government and private issues as of December 31, 2011 amounted to P23,077.03 million. Net unrealized gains/losses on AFS was P23,373.22 million.

The difference in the amount outstanding of the local currency accumulated market gains/losses and net unrealized gains/losses on AFS as of December 31, 2011 in the amount of P296.19 million, represents the remaining unamortized portion of the net unrealized gain or loss, that has been recognized directly in equity when the Available-for-sale securities has been reclassified to Held to maturity securities on various dates. The said amount shall be continuously amortized to profit or loss over the remaining life of the Held-to-maturity securities.

Total Investment in Non-Marketable Equity Securities (INMES) account of the Parent includes investment of US$143.15 million (P6,781.38 million) in Metro Rail Transit Corporation's (MRTC) preference shares and Unsecuritized Equity Rental Payments.

In 2008, the National Government, as confirmed through Executive Order No. 855 dated January 18, 2010, instructed LBP and the Development Bank of the Philippines (DBP) to acquire majority interest in MRTC as a result of the recommendation made by the inter-agency Committee tasked to review the MRT III project. In the same year, the LBP Board of Directors approved the purchase of MRTC interests in the form of unsecuritized portion of the Equity Rental Payment (ERP), MRT Bonds (See Notes to the Financial Statements No.13) 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 (In US Dollars) In Millions	Book Value (In US Dollars) In Millions	Percentage in MRTC
▪ MRT III Bonds	217.16	245.27	
▪ MRT III Preferred Shares	54.00	54.00	
Securitized ERPs	271.16	299.27	26.65%
Unsecuritized ERPs	90.58	89.15	11.12%
	361.74	388.42	37.77%

The decrease in the investment in unsecuritized ERP was brought about by the refund of US$1.48 million (equally shared by the Bank and DBP) received from a third party in 2010. The refund represents cash that was already in the account of the third party, hence this did not affect LBP's percentage of economic interest in MRTC. Another refund of US$1.38 million was received by the Bank and DBP in early 2011 representing Accrued ERPs.

12. Held to Maturity Investments

This account consists of:

	Group		Parent	
	2011	2010	2011	2010
Government				
Domestic	35,904,211	31,780,980	35,404,129	31,239,746
Foreign	8,379,385	9,834,058	8,370,109	9,824,782
Private				
Foreign	46	46	-	-
	44,283,642	41,615,084	43,774,238	41,064,528

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

	2011			2010		
Domestic	5.75%	to	18.25%	4.33%	to	18.24%
Foreign	2.88%	to	14.90%	2.77%	to	14.90%

13. Loans and Receivables

This account consists of:

	Group		Parent	
	2011	2010	2011	2010
Interbank loans receivable	18,720,416	15,251,265	18,720,416	15,251,265
Allowance for credit losses	(323,188)	(315,422)	(323,188)	(315,422)
	18,397,228	14,935,843	18,397,228	14,935,843

	Group		Parent	
	2011	**2010**	**2011**	**2010**
Loans to Government	96,022,751	23,079,002	96,851,495	24,124,762
Allowance for credit losses	(128,489)	(105,296)	(128,489)	(105,296)
	95,894,262	22,973,706	96,723,006	24,019,466
Agrarian Reform and other Agriculture Loans	25,289,000	38,100,106	25,284,884	38,099,855
Allowance for credit losses	(264,270)	(1,067,398)	(264,270)	(1,067,398)
	25,024,730	37,032,708	25,020,614	37,032,457
Development incentive loans	-	42,923,104	-	42,923,104
Allowance for credit losses	-	(282,524)	-	(282,524)
	-	42,640,580	-	42,640,580
Microfinance Loans	855,452	447,063	855,452	447,063
Allowance for credit losses	(240,595)	(41,248)	(240,595)	(41,248)
	614,857	405,815	614,857	405,815
SME/MSE Loans	20,884,363	16,311,009	20,884,363	16,311,009
Allowance for credit losses	(1,137,239)	(722,072)	(1,137,239)	(722,072)
	19,747,124	15,588,937	19,747,124	15,588,937
Contract to Sell	1,729,846	1,879,659	1,729,846	1,879,659
Allowance for credit losses	(14,976)	(3,909)	(14,976)	(3,909)
	1,714,870	1,875,750	1,714,870	1,875,750
Loans to Private Corporation	84,422,050	67,039,152	83,065,283	65,968,771
Allowance for credit losses	(4,647,920)	(5,503,534)	(4,491,591)	(5,403,010)
	79,774,130	61,535,618	78,573,692	60,565,761
Loans to Individuals for Housing Purposes	2,244,663	1,901,219	2,244,663	1,901,219
Allowance for credit losses	(68,192)	(71,206)	(68,192)	(71,206)
	2,176,471	1,830,013	2,176,471	1,830,013
Loans to Individual for Consumption	708,851	2,046,550	708,346	2,045,277
Allowance for credit losses	(35,662)	(42,783)	(35,662)	(42,783)
	673,189	2,003,767	672,684	2,002,494
Loans to Individual for Other Purposes	5,691,693	3,875,554	5,691,700	3,875,561
Allowance for credit losses	(144,277)	(125,416)	(144,277)	(125,416)
	5,547,416	3,750,138	5,547,423	3,750,145
Loans & Receivables – Others Non-residents - FCDU	-	986,400	-	986,400
	249,564,277	**205,559,275**	**249,187,969**	**205,633,661**
Accrued interest receivable	2,371,749	2,033,761	2,365,631	2,030,774
Allowance for credit losses	(172,190)	(164,786)	(172,137)	(164,733)
	2,199,559	1,868,975	2,193,494	1,866,041
Accounts receivable	1,267,244	944,652	1,224,998	903,845
Allowance for credit losses	(733,919)	(706,424)	(701,051)	(674,861)
	533,325	238,228	523,947	228,984
Sales contract receivable	1,587,826	1,930,632	1,586,492	1,930,064
Allowance for credit losses	(21,308)	(23,281)	(21,308)	(23,281)
	1,566,518	1,907,351	1,565,184	1,906,783
Due from ARF	162,147	19,492	162,147	19,492
Unquoted debt securities	23,201,175	24,506,376	23,201,175	24,506,376
Allowance for credit losses	(716,271)	(716,371)	(716,271)	(716,371)
	22,484,904	23,790,005	22,484,904	23,790,005
Lease contract receivable	1,455,992	1,354,358	-	-
Allowance for credit losses	(6,438)	(5,302)	-	-
	1,449,554	1,349,056	-	-
	277,960,284	**234,732,382**	**276,117,645**	**233,444,966**

	Face Value	Book Value	
	USD	USD	PHP
FX Regular	339.16	158.49	6,948.05
FCDU	171.20	86.78	3,804.41
	510.36	245.27	10,752.46

Covered by Memorandum of Agreement (MOA) signed on August 22, 1988 between LBP and Bangko Sentral ng Pilipinas, the unpaid obligations of rural banks to BSP were converted into LBP equity contribution to said rural banks. Accordingly, these became non-interest bearing obligations of LBP with BSP and all expenses or losses, if any, which LBP may suffer under the conversion scheme, shall be for the account of BSP.

The total outstanding investment on closed rural banks has been excluded from the Bank's equity investments booked under the Unquoted Debt Securities Classified as Loans account and from the outstanding Bills Payable account.

In 2004, the Parent successfully completed the competitive auction of two pools of non–performing assets (NPAs) under the Special Purpose Vehicle Act of 2002 or RA 9182. Loss on the sale of non-performing assets (NPAs) was booked as Deferred Charges to be written down/amortized over the next ten (10) years in accordance with BSP Memoranda dated February 16, 2004 and December 2, 2005, as amended.

Under PFRS/PAS 39, had this loss been booked/charged in the period of sale, the impact would be a reduction of P2.05 billion from the 2005 surplus account of P14.376 billion after considering the valuation reserve on assets sold. The balance of Deferred Charges being amortized in 2011 and 2010 amounted to P3.68 billion and P4.62 billion, respectively. This included the Deferred Charges on another asset sold under the SPV amounting to P212 million in 2007. The balance of the unallocated valuation reserve as of December 31, 2011 is more than sufficient to cover the unamortized Deferred Charges.

In December 2007, the Parent successfully completed the sealed bid public auction of three pools of non-performing assets (NPAs) under the Special Purpose Vehicle Act of 2002 or R.A. No. 9182, as amended by R.A. No. 9343.

Loss on the sale was booked or charged in the period of sale and all non-performing assets sold were derecognized in the books of the Parent. Derecognition of the assets was made because the transaction meets the tests under the derecognition rules of the PFRS relating to the transfer of the rights to the contractual cash flows and the substantial transfer of the risks and rewards of ownership.

The Special Purpose Vehicle Act of 2002 or R.A. No. 9182, as amended by R.A. No. 9343 expired on May 14, 2008.

Allowance for credit losses

The details of allowance for credit losses on loans of the Parent are:

	2011	2010
Balance, January 1	8,180,284	9,087,350
Write-offs	-	(453,244)
Transfers and other adjustments	(1,331,805)	(453,822)
Balance, December 31	6,848,479	8,180,284

As of December 31, 2011 and 2010, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2011		2010	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	59,694,291	23.32	30,269,350	14.16
Various guarantees	73,436,190	28.68	66,397,430	31.05
Various mortgages	56,207,680	21.95	57,299,500	26.80
	189,338,161	73.95	153,966,280	72.01
Unsecured loans	66,698,287	26.05	59,847,665	27.99
Gross loan at amortized cost	256,036,448	100.00	213,813,945	100.00

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

As of December 31, 2011 and 2010, NPLs not fully covered by allowance for credit losses are as follows:

	Parent	
	2011	2010
Total NPLs	7,358,120	6,659,741
NPLs fully covered by allowance for probable losses	(969,369)	(213,314)
Net NPLs	6,388,751	6,446,427

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

14. Investment in Subsidiaries

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

Name	Amount
LBP Leasing Corporation	310,253
LBP Insurance Brokerage, Inc.	52,500
LB (Land Bank) Realty Development Corporation	18,255
Masaganang Sakahan, Inc.	24,555
LBP Remittance Co., USA	62,595
LBP Financial Services, Italy	47,051
	515,209

On May 11, 2009, the LBP Board of Directors approved under Board Resolution No. 09-281, the dissolution and liquidation of the two remaining SPV Shell companies: (i.) Advance Solutions for Asset Recovery (SPV-AMC), Inc.; and (ii.) Asset Recovery Innovations (SPV-AMC), Inc. On March 14, 2011, the liquidation process of these two SPV Shell companies was completed in accordance with the Securities and Exchange Commission's approval dated March 3, 2011.

15. Investment Property

This account consists of:

	Group					
	2011			2010		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	7,028,899	2,534,310	9,563,209	7,581,512	2,670,534	10,252,046
Disposals	(935,176)	(16,723)	(951,899)	(552,613)	(136,224)	(688,837)
At December 31	6,093,723	2,517,587	8,611,310	7,028,899	2,534,310	9,563,209
Accumulated depreciation and impairment						
At January 1	677,130	867,684	1,544,814	733,863	869,719	1,603,582
Depreciation		89,245	89,245		113,607	113,607
Transfers/Adjustment		(121,574)	(121,574)	(27)	(107,472)	(107,499)
Impairment	13,793	9,134	22,927	(56,706)	(8,170)	(64,876)
At December 31	690,923	844,489	1,535,412	677,130	867,684	1,544,814
Net book value	5,402,800	1,673,098	7,075,898	6,351,769	1,666,626	8,018,395

	Parent					
	2011			2010		
	Land	Building	Total	Land	Building	Total
At Cost						
At January 1	6,940,935	2,487,802	9,428,737	7,489,682	2,624,942	10,114,624
Disposals	(932,570)	(20,844)	(953,414)	(548,747)	(137,140)	(685,887)
At December 31	6,008,365	2,466,958	8,475,323	6,940,935	2,487,802	9,428,737
Accumulated depreciation and impairment						
At January 1	675,899	835,764	1,511,663	733,836	839,491	1,573,327
Depreciation	-	87,443	87,443	-	111,915	111,915
Transfers/Adjustment	-	(121,567)	(121,567)	-	(107,472)	(107,472)
Impairment	12,632	9,134	21,766	(57,937)	(8,170)	(66,107)
At December 31	688,531	810,774	1,499,305	675,899	835,764	1,511,663
Net book value	5,319,834	1,656,184	6,976,018	6,265,036	1,652,038	7,917,074

Depreciation and amortization of the Group amounting to P89,245 and P113,607 and of the Parent amounting to P87,443 and P111,915 in 2011 and 2010, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Investment properties acquired through foreclosure as of December 31, 2011 which are still within the redemption period by the borrowers and with on-going court case amounted to P282,361 and P1,507,526, respectively. Properties amounting to P42,089 are agricultural lands covered by the government's agrarian reform program. As of December 31, 2011 and 2010, the aggregate market value of the investment properties amounted to P9,477,425 and P9,335,861, respectively, for the Group and P9,337,091 and P9,193,522, respectively, for the Parent. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

16. 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 2011	Total 2010
At Cost										
At January 1	443,666	3,854	4,122,619	241,701	112,364	4,458,301	319,027	72,629	9,774,161	9,636,098
Additions	51,004	47,564	42,616	55,307	1,400	391,548	12,075	1,770	603,284	866,271
Disposals	(5,000)	-	(44,434)	(4,976)	(15,838)	(135,177)	(5,591)	(12,568)	(223,584)	(432,812)
Transfers	-	(20,083)	(11,876)	52,069	(5,258)	(34,367)	6,210	-	(13,305)	(294,647)
At December 31	489,670	31,335	4,108,925	344,101	92,668	4,680,305	331,721	61,831	10,140,556	9,774,910
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	-	-	1,543,459	30,240	100,652	3,191,604	139,433	49,471	5,054,859	4,903,702
Depreciation & amortization	-	-	119,481	18,310	1,491	376,917	46,056	12,240	574,495	597,834
Impairment	-	-	-	-	-	(63)	-	-	(63)	-
Disposals	-	-	(38,682)	(554)	(17,000)	(120,194)	-	-	(176,430)	(448,430)
Transfers/Adjustments	-	-	(14,433)	73,985	(836)	(13,895)	(1,343)	(5,888)	37,590	2,500
At December 31	-	-	1,609,825	121,981	84,307	3,434,369	184,146	55,823	5,490,451	5,055,606
Allow for Losses	-	-	5,510	37	35	3,389	-	2,070	11,041	8,832
Net book value	489,670	31,335	2,493,590	222,083	8,326	1,242,547	147,575	3,938	4,639,064	4,710,472

	Parent									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2011	Total 2010
At Cost										
At January 1	443,666	3,854	4,042,401	238,752	103,737	4,427,207	265,773	71,449	9,596,839	9,451,355
Additions	51,004	47,564	42,563	55,307	18	390,644	10,075	-	597,175	625,351
Disposals	(5,000)	-	(44,434)	(4,976)	(15,838)	(133,960)	(3,589)	(12,568)	(220,365)	(430,967)
Transfers	-	(20,083)	(11,876)	52,069	(5,258)	(34,367)	7,295	-	(12,220)	(48,900)
At December 31	489,670	31,335	4,028,654	341,152	82,659	4,649,524	279,554	58,881	9,961,429	9,596,839
Accumulated Depreciation & Amortization										
At January 1	-	-	1,522,542	30,240	94,472	3,166,093	102,276	48,903	4,964,526	4,824,173
Depreciation & amortization	-	-	116,493	18,310	907	375,460	39,183	12,000	562,353	590,513
Disposals	-	-	(38,682)	(554)	(17,000)	(119,142)	-	-	(175,378)	(447,694)
Transfers/Adjustments	-	-	(14,433)	73,985	(800)	(13,895)	(1,343)	(5,888)	37,626	(2,466)
At December 31	-	-	1,585,920	121,981	77,579	3,408,516	140,116	55,015	5,389,127	4,964,526
Allow for Losses	-	-	5,510	37	35	3,389	-	2,070	11,041	8,832
Net book value	489,670	31,335	2,437,224	219,134	5,045	1,237,619	139,438	1,796	4,561,261	4,623,481

Depreciation and amortization of the Group amounting to P574,495 and P597,834 and of the Parent amounting to P562,353 and P590,513 in 2011 and 2010, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Office equipment, furniture and vehicles with carrying amount of P130,677 and P72,841 in 2011 and 2010, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P20,739 and P70,005 in 2011 and 2010, respectively.

17. Other Resources

This account consists of:

	Group 2011	Group 2010	Parent 2011	Parent 2010
Deferred charges	3,678,530	4,617,729	3,678,530	4,617,729
Accrued interest receivable	2,566,460	2,578,512	2,566,434	2,578,387
Sundry debits	651,344	959,938	651,344	959,938
Prepaid expenses	453,548	804,641	489,477	794,979
Other intangible assets	293,885	286,598	293,751	286,262
Documentary stamps	81,576	175,651	81,576	175,651
Stationery & supplies on hand	91,611	121,635	90,313	120,568
Accounts receivable	123,323	113,265	114,549	110,589
Inter-office float items	12,824	92,238	12,824	92,238
Others	409,292	411,450	366,444	394,626
	8,362,393	10,161,657	8,345,242	10,130,967

18. Allowance for Credit Losses

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

	2011	2010
Balance at beginning of year:		
Loan portfolio	8,180,284	9,087,350
Other assets	3,921,580	4,707,210
	12,101,864	13,794,560
Provisions charged to operations	178,376	80,554
Accounts charged off and others	-	(518,328)
Transfer/adjustments	(1,444,928)	(1,254,922)
	(1,266,552)	(1,692,696)
Balance December 31	10,835,312	12,101,864

	2011	2010
Balance at end of year:		
Loan portfolio	6,848,479	8,180,284
Receivables from customers and other assets	3,986,833	3,921,580
	10,835,312	12,101,864

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 P178,376 for the year detailed as follows:

	Parent
Loans and receivables	127,353
ROPA	34,516
PPE	8,305
Other resources	8,202
	178,376

19. Deposit Liabilities

This account consists of:

	Group		Parent	
	2011	2010	2011	2010
Domestic				
Demand deposits	211,185,463	162,473,524	211,224,162	162,518,059
Savings deposits	261,460,835	240,029,857	261,612,485	240,261,509
Time certificate of deposits	1,654,557	2,552,647	1,654,557	2,552,647
Long Term Negotiable Certificate of Deposits	549,189	512,686	549,189	512,686
	474,850,044	405,568,714	475,040,393	405,844,901
Foreign				
Demand deposit-FCDU/EFCDU	201	201	201	201
Savings deposit –FCDU/EFCDU	8,646,225	7,576,131	8,656,053	7,586,425
Time certificate of deposit-FCDU/EFCDU	23,761,328	20,083,491	23,761,328	20,083,491
	32,407,754	27,659,823	32,417,582	27,670,117
	507,257,798	433,228,537	507,457,975	433,515,018

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.20 to 4.75 per cent in 2011 and 0 to 8 per cent in 2010. Foreign deposit rates range from 0.05 to 5.19 per cent and from 0.10 to 1.5 per cent in 2011 and 2010, respectively.

20. Bills Payable

This account consists of:

	Group		Parent	
	2011	2010	2011	2010
Bangko Sentral ng Pilipinas	166,539	169,410	166,539	169,410
Domestic borrowings	1,860,684	1,645,959	1,115,184	1,277,459
Foreign borrowings	32,112,692	32,803,604	32,112,692	32,803,604
	34,139,915	34,618,973	33,394,415	34,250,473

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

Creditor/funder	2011	2010
World Bank/IBRD	11,002,818	11,610,215
Asian Development Bank (ADB)	1,674,647	2,053,523
Japan International Cooperation Agency (JICA)	17,385,582	15,915,684
Kreditanstalt fur Wiederaufbau (KfW)	1,786,605	1,645,942
Sumitomo Banking Corp. -HK	-	876,800
Wells Fargo Bank NA Miami	-	438,400
Mizuho Corporate Bank-Philippines	263,040	263,040
	32,112,692	32,803,604

Of the total foreign borrowings of P32,112.69 million, the amount of P31,849.65 million is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P24,634.43 million are provided with foreign exchange risk cover (FXRC) by the National Government. This has historical value of P19,839.51 million. The Bank's foreign borrowings from multilateral and bilateral agencies have maturities ranging from 15 to 40 years.

Interest rates on foreign and domestic borrowings in 2011 range from 0.01 to 4.39 per cent and 0.75 to 9.83 per cent, respectively, while for 2010, the rates range from 0.65 to 7.49 per cent and 0.75 to 9.83 per cent, for foreign and domestic borrowings, respectively.

21. Unsecured Subordinated Debt

This account consists of:

	Issue Date	Maturity Date	2011	2010
Foreign	October 19, 2006	October 19, 2016	-	6,576,000
Domestic	June 09, 2009	June 09, 2019	6,934,000	6,934,000
			6,934,000	13,510,000

To further increase and strengthen its capital base, the Bank's Board of Director approved on January 11, 2006 and September 18, 2007 the issuance of lower tier (LT2) Capital Securities.

The Notes issued by the Bank are unsecured and subordinated obligations and will rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Bank. These Notes have a term of 10 years and are redeemable at the option of the Bank (but not the holders) after the fifth year in whole but not in part at redemption price equal to 100.00 per cent of the principal amount together with accrued and unpaid interest on the date of redemption, subject to certain conditions and prior approval of the BSP.

Further, at any time within the first five years from respective issue dates of these Notes, upon (a) a change in tax status due to changes in laws and/or regulations or (b) the non-qualification of as Lower Tier 2 capital as determined by BSP of these Notes, the Parent may, upon prior approval of BSP and at least 30-day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Peso Notes prior to stated maturity by paying the face value plus accrued interest at the interest rate.

The Notes are not deposits, and are not insured by the Bank or any party related to the Bank or the Philippine Deposit Insurance Corporation (PDIC) and they may not be used as collateral for any loan made by the Bank or any of its subsidiaries or affiliates.

The Notes, like other subordinated indebtedness of the Bank, are subordinated to the claims of depositors and ordinary creditors, are not deposits and are not guaranteed nor insured by the issuer or any party related to the issuer, such as its subsidiaries and affiliates, or the Philippine Deposit Insurance Corporation, or any other person. The Notes are not covered or secured by any other arrangement that legally or economically enhances the priority of the claim of any noteholder as against depositors and other creditors of the issuer. Each Noteholder, by its purchase of the Notes, shall be deemed to have irrevocably waived any right to any guarantee from, or credit support of any other kind provided by, the Republic of the Philippines which would or might arise under any provision in Republic Act No. 3844, otherwise known as the Agricultural Land Reform Code, as may be amended from time to time, or for any other reason. As a result of this waiver, each such Noteholder shall not have any recourse to any guarantee or credit support in relation to the obligations of the Bank under the Notes and by its purchase of any Notes shall also be deemed to have acknowledged that this is the case.

Specific terms of these Notes follow:

Domestic Notes

The domestic notes which are due on June 09, 2019 and callable with step-up in 2014 bear a fixed interest rate of 7.25 per cent per annum payable quarterly on June 9, September 9, December 9 and March 9 of each year for the first five years. Unless the Notes are previously redeemed pursuant to the Call Option, the interest rate beginning June 10, 2014 will be reset at the equivalent of the five-year PDST-F as of the reset date multiplied by 80.00 per cent plus a step-up spread of 3.025 per cent per annum.

Foreign Notes

The foreign notes which are due on October 19, 2016 and callable with step-up in 2011 bear a fixed interest rate of 7.25 per cent per annum payable semi-annually in arrears, on April 19 and October 19 in each year for the first five years.

The Bank exercised its Call Option on October 19, 2011 (Call Option date).

As of December 31, 2011 and 2010, the Bank is in compliance with the terms and conditions upon which these subordinated notes have been issued.

Interest expense on subordinated debt in 2011 and 2010 amounted to P891.689 million and P979.475 million, respectively.

22. Other Liabilities

This account consists of:

	Group		Parent	
	2011	**2010**	**2011**	**2010**
Accrued interest, fringe benefits, taxes and other expense payable	4,130,040	6,044,031	4,065,149	5,973,340
Accounts payable	3,735,625	3,392,578	3,762,168	3,388,083
Due to Agrarian Reform Fund	2,956,136	2,700,944	2,956,136	2,700,944
Sundry credits	27,926	113,241	27,926	113,241
Unearned income	107,293	159,864	106,229	158,799
Withholding tax payable	222,135	207,875	220,040	205,615
Miscellaneous liabilities	4,503,683	2,253,549	4,526,598	2,435,777
Others	675,728	1,927,639	597,111	1,753,765
	16,358,566	16,799,721	16,261,357	16,729,564

23. 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 as either Provision for or (Benefit from) Income Tax.

Based on Republic Act 9337, which was passed into law in May 2005 and amended certain provisions of the National Internal Revenue Code of 1997, the normal corporate income tax rate is 30 per cent effective January 1, 2009. The interest allowed as deductible expense is reduced by an amount equivalent to 33 per cent of the interest income subjected to final tax.

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

	Group		Parent	
	2011	2010	2011	2010
Current:				
Normal income tax (NIT)	72,642	59,545	-	-
Minimum corporate income tax (MCIT)	200,000	210,000	200,000	210,000
	272,642	269,545	200,000	210,000
Deferred	(17,831)	137,782	-	145,267
	254,811	407,327	200,000	355,267

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

	Group		Parent	
	2011	2010	2011	2010
Statutory income tax	2,847,151	2,611,932	2,765,409	2,538,969
Tax effects of:				
FCDU income	(564,012)	(624,190)	(564,012)	(624,190)
Tax exempt & tax paid income	(3,339,815)	(3,224,211)	(3,337,120)	(3,221,541)
Non-deductible expense	368,963	329,991	368,601	329,991
Non-deductible interest expense	1,177,175	1,226,772	1,177,175	1,226,772
Unrecognized deferred tax asset	(222,031)	92,695	(222,031)	92,695
Others	(12,620)	(5,662)	11,978	12,571
	254,811	407,327	200,000	355,267

No deferred tax assets were recognized by the Parent for 2011 and 2010 since Management believes that it is not probable that future taxable profits will be available against which the asset can be utilized. Subsidiaries recognized deferred tax assets of P53,512 million and P35,681 million for CY 2011 and CY 2010, respectively.

Below are the temporary differences for which no deferred tax asset is recognized by the Parent.

	2011	2010
Allowance for credit losses	12,950,269	12,949,328
MCIT	188,022	197,429
	13,138,291	13,146,757

Details of the Net operating loss carry over (NOLCO) of the Parent are as follows:

Year Incurred	Amount	Expiry Date
2008	1,733,445	December 31, 2011

Details of the excess MCIT over NIT of the Parent are as follows:

Year Incurred	Amount	Balance	Expiry Date
2009	186,179	186,179	December 31, 2012
2010	197,429	197,429	December 31, 2013
2011	188,022	188,022	December 31, 2014
	571,630	571,630	

In compliance with the requirements set forth by Revenue Regulation 15-2010, hereunder are the information on taxes, and licenses 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 2011 are as follows:

	DST PAID (In thousands)
Debt instruments, bonds, certificate of time deposits	1,643,600
Mortgages, pledges, deed of assignments/trust	50,009
Foreign bills of exchange, letters of credit	47,375
Acceptance of bills of exchange payable in the Philippines	16,891
Bank, checks, drafts and telegraphic transfer/others	574
Total DST Paid	1,758,449

II. All other taxes, local and national, paid for the tax period 2011:

National	
Percentage taxes (GRT)	1,735,965
Fringe benefits tax	5,979
National taxes	1,427
	1,743,371
Local	
Real estate tax	37,481
Local business tax	30,842
Mayor's Permit/Municipal License/Other Regulatory Fees/License Permit	44,524
Other local taxes	12,039
	124,886
Total	1,868,257

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

Tax on Compensation and benefits	937,340
Creditable withholding taxes	126,316
Final withholding taxes	1,333,864
Total	2,397,520

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

Tax Credits against Income Tax	240,294
Tax Credits against Gross Receipts Tax	73,054
Total	313,348

24. 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 2011 and 2010 amounted to P454,500 and P382,330, respectively.

25. Lease Contracts

Operating lease commitments – as lessee

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

	Parent	
	2011	**2010**
Within one year	505,615	370,155
After one year but not more than five years	707,072	718,743
More than five years	215,461	180,810
	1,428,148	1,269,708

Operating lease commitments – as lessor

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

	Parent	
	2011	2010
Within one year	43,159	75,657
After one year but not more than five years	24,241	20,030
More than five years	-	866
	67,400	96,553

26. 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 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, 2011 amounted to P70,900 million of which P67,140 million are government borrowings covered by BSP Circular 547.

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

	2011				2010			
	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	11,432	918,680	70,888,957	71,819,069	9,713	1,140,403	40,016,064	41,166,180
Deposit liabilities	-	200,177	-	200,177	-	286,067	-	286,067
Other liabilities	-	271,729	-	271,729	-	298,227	-	298,227
	11,432	1,390,586	70,888,957	72,290,975	9,713	1,724,697	40,016,064	41,750,474

The following are the significant transactions with subsidiaries:

	2011	2010
Sales/(Purchases)	(4,993)	(2,292)
Interest income	50,646	65,850
Interest expense	(140,436)	(1,673)
Lease expense	(49,799)	(50,905)
Other income	2,107	2,204
Other expenses	(122,641)	(237,893)
	(265,116)	(224,709)

Transactions with other related parties:

Compensation of key management personnel of the Group

	Group		Parent	
	2011	2010	2011	2010
Short-term employee benefits	113,775	104,566	101,130	91,896
Post-employment benefits	31,812	27,417	28,713	24,603
Other long-term benefits	35,753	30,366	35,753	30,366
Total	181,340	162,349	165,596	146,865

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, 2011 and 2010, 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.

27. 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 P66,525,827 and P49,366,167 as at December 31, 2011 and 2010, respectively.

Summary of Assets under Management is as follows:

	2011	2010
Special Purpose Trust	6,937,449	9,111,632
Other Fiduciary Accounts	11,468,917	7,978,624
Agency	34,181,870	18,675,827
Trust	13,937,591	13,600,084
	66,525,827	49,366,167

In compliance with the requirements of the General Banking Law, government securities with total face value of P738,000 in 2011 and P774,260 in 2010 are deposited with BSP as security for the Parent's faithful performance of its fiduciary obligation.

28. Derivative Financial Instruments

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, 2011, the outstanding notional amount of the currency sell forward/ swap agreements with maturity of less than six months amounted to P18,345.71 million with market value of P18,445.16 million.

Foreign Exchange (FX) Risk Cover

The foreign exchange risk cover on foreign borrowings is a derivative financial instrument per BSP Monetary Board Resolution No. 1063 dated August 14, 2008 and its fair value changes are reported in the income statement. As of December 31, 2011, the outstanding notional amount of the FX risk cover amounted to US$40.42 million and JPY30,710.36 million.

Embedded Derivatives

Embedded Credit Derivatives

This includes credit default swaps embedded in host debt instruments and with credit linkages to reference entities. As of December 31, 2011, the Parent has no such outstanding credit derivatives.

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. As of December 31, 2011, these currency derivatives are not deemed to be significant.

29. 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	
	2011	2010
Trust Department accounts	66,525,827	49,366,167
Commitments	19,647,360	21,407,285
Standby/commercial letters of credit	4,900,134	8,175,571
Derivatives	404,053	611,219
Outstanding guarantees	1,569,604	1,430,564
Spot exchange contracts	964,480	43,840
Late deposits received	561,868	335,432
Outward bills for collection	60,096	96,349
Others	3,186,092	1,884,601
	97,819,514	83,351,028

30. Financial Performance

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

	2011	2010
Net interest margin ratio	4.22%	4.71%
Return on average assets	1.47%	1.50%
Return on average equity	13.80%	14.79%

31. Capital Funds

The Parent complies with the provision of RA 7656 on dividend declaration to the National Government (NG) and with the loan and guarantee agreements between the World Bank, the Parent and the Department of Finance (DOF). On February 6, 2012 and April 18, 2012, the Parent remitted an aggregate amount of P5.0 billion cash dividend to the NG, of which, P0.41 billion represents additional cash dividend for CY 2010 net income and P4.59 billion for CY2011 net income.

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.

BSP Circular No. 360, effective July 1, 2003, issued guidelines that required a market risk charge when computing the capital-to-risk assets ratio (CAR). On August 4, 2006, BSP Circular No. 538 was issued prescribing the implementing guidelines for the revised risk-based capital adequacy framework for the Philippine banking system to conform with Basel II recommendations. The new BSP guidelines implemented effective July 1, 2007 included capital charges for operational risk using the basic indicator or standardized approach.

	(Amounts in Millions)			
	Group		Parent	
	2011	2010	2011	2010
Tier 1 Capital	41,597	37,836	41,645	37,869
Tier 2 Capital	13,604	19,486	13,589	19,476
Gross Qualifying Capital	55,201	57,322	55,234	57,345
Less: Required Deductions	1,146	1,105	2,309	2,193
Total Qualifying Capital	54,055	56,217	52,925	55,152
Risk Weighted Assets	324,056	311,597	321,371	309,464
Adjusted Tier 1 Capital ratio	12.66%	11.97%	12.60%	11.88%
Total Capital ratio (CAR)	16.68%	18.04%	16.47%	17.82%

The regulatory qualifying capital of the Parent consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, surplus reserves less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt, general loan loss provision and 45 per cent of net unrealized gain on available for sale equity securities purchased.

The Qualifying Capital of the Group and Parent decreased as of December 31, 2011 due to full settlement of the $150 million LT II unsecured subordinated notes last October 18, 2011 offset by increase in retained earnings. Increase in the Group's and Parent's risk-weighted assets as of December 31, 2011 was due to the expanded loan portfolio.

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

32. Financial Risk Management

RISK MANAGEMENT ORGANIZATION

The LBP Group is involved in various banking activities that expose it to various risks which under the regular course of business requires the Bank to effectively measure and analyze, monitor and control identified risks. This includes credit risk, market risk (price risk, interest rate risk and foreign exchange risk) and liquidity risk. The Bank manages all risks in accordance with set principles, properly aligned organizational structure, defined duties and responsibilities, established policies and procedures as well as appropriate measurement, monitoring and control processes.

The following key principles support the Bank's approach to risk management:

- The Board of Directors manages risk-related functions and activities of the Bank based on a top-down structure.
- The Board exercises its risk management oversight functions through various committees like the Risk Management Committee (RiskCom), the Audit Committee (AC), the Asset and Liability Committee (ALCO) and the Investment and Loans Committee (ILEC). In general, the RiskCom serves as the overseer for managing the Bank's credit, market, liquidity, operational and other bank-wide risks in a coordinated manner within the organization. Specifically, it approves policies and evaluates effectiveness of the Bank's risk management framework.
- The Risk Management Group (RMG) is independent from risk taking units and performs the oversight function for all major risk areas (credit, market and liquidity, operational and other bank-wide risks). It handles risk management implementation, monitoring and control.
- Under RMG, which is headed by the Chief Risk Officer, are three departments created to handle specific risk areas as follows: Credit Policy and Risk Management Department (CPRMD), Treasury Risk Management Department (TRMD), and Business Risk Management Department (BRMD) for operations risk, including system, legal, technology and other risk.
- Enterprise Risk Management (ERM) complements the Bank's silo risk management approach and reinforces risk analysis as it cross-functionally examines interdependencies and dissects its sources.

RISK CATEGORIES

As the Bank recognizes all risks inherent to its mandate and its various business activities, it embarked on an Enterprise-wide Risk Management (ERM) Project to capture all risk events categorized under BSP Circular No. 510 (Guidelines on Supervision by Risk): credit risks, market risks, compliance risks, liquidity risks, interest rate risks, operations risks, reputation risks and strategic risks. The 52 risks that comprise the Bank's Risk Universe and falling under the above eight categories are defined, customized and given substance in the LANDBANK Risk Dictionary developed under the ERM initiative.

	Group		Parent	
	2011	2010	2011	2010
On-Balance sheet financial assets				
Cash and balances with BSP (excluding Cash on hand)	77,579,295	85,202,002	77,578,540	85,157,443
Due from banks	2,229,622	1,424,256	1,923,084	1,145,898
Interbank loans receivable	7,582,769	5,721,600	7,582,769	5,721,600
Securities purchased under resale agreements	48,500,000	6,683,000	48,500,000	6,683,000
Financial assets designated at fair value through profit or loss- Held for trading	8,427,454	10,297,922	8,427,454	10,297,922
Available-for-Sale Investments	143,295,705	148,811,463	143,170,605	148,731,672
Held-to-maturity Investments	44,283,642	41,615,084	43,774,238	41,064,528
Loans and receivables	277,960,284	234,732,382	276,117,645	233,444,966
Total	609,858,771	534,487,709	607,074,335	532,247,029
Off-Balance sheet items				
Financial guarantees	482,178	1,087,683	482,178	1,087,683
Loan commitments and Contingent liabilities	25,634,920	29,925,736	25,634,920	29,925,736
	26,117,098	31,013,419	26,117,098	31,013,419
Total Credit Risk Exposure	635,975,869	565,501,128	633,191,433	563,260,448

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The details on the maximum exposure to credit risk for each class of financial instrument are referred to in specific notes.

Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Parent has established concrete guidelines and procedures relative to managing, monitoring and reporting large exposures and credit risk concentrations in accordance with the rules and regulations issued by the BSP.

As of 31 December 2011, the Parent's qualifying capital covering credit risk is P55.234 billion. Based on the BSP definition, the Parent has set the benchmark for large exposures at P2.76 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P16.177 billion for direct lending and P22.648 billion for wholesale lending.

Overall credit risk management 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.

	Parent			
	2011		2010	
	Amount	%	Amount	%
Financial intermediation	36,420,149	14.2	33,907,918	15.9
Agriculture, hunting and forestry	50,007,025	19.6	44,599,605	20.9
Real estate, renting and business activities	27,104,951	10.6	23,502,935	11.0
Public administration and defense	46,587,741	18.2	44,800,302	21.0
Manufacturing	12,022,637	4.7	11,665,812	5.4
Community, social and personal services	5,951,724	2.3	5,161,334	2.4
Electricity, gas and water	46,018,614	18.0	18,957,505	8.9
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	10,236,585	4.0	7,733,395	3.6
Transport, storage and communication	12,608,962	4.9	13,059,312	6.1
Construction	2,526,034	1.0	2,112,444	1.0
Private households	1,110,379	0.4	2,256,965	1.0
Hotel and restaurant	2,047,832	0.8	2,145,267	1.0
Others	3,393,815	1.3	3,911,151	1.8
	256,036,448	100.0	213,813,945	100.0
Allowance for losses	(6,848,479)		(8,180,284)	
Total	249,187,969		205,633,661	

Collateral and other credit enhancements

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

The following are the main collaterals accepted by the Bank:

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

The Bank also obtains guarantees from corporations which are counter-guaranteed by the Philippine National Government and from other corporations accredited by the Bank.

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

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

The Bank also makes use of master netting agreements with counterparties.

MARKET RISK MANAGEMENT

Market risk is the failure to anticipate and manage fluctuations in the values of the Bank's investments and could lead to economic losses. LBP recognizes three types of market risks: Interest Rate Risk, Foreign Exchange Risk, Equity Price Risk.

Market Risk Management Framework

LBP is exposed to market risks in both its trading and non-trading banking activities. The Bank assumes market risk in market making and position taking in government securities and other debt instruments, equity, foreign exchange 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, foreign exchange or index). LBP exposure on derivatives is currently limited to currency swaps and currency forwards to manage foreign exchange exposure. Although the Bank is also exposed to derivatives that are embedded in some financial contracts, these are considered insignificant in volume.

The Bank uses a combination of risk sensitivities, value-at-risk (VaR), stress testing, capital adequacy ratio and capital metrics to manage market risks and establish limits.

The LBP Board of Directors, Risk Management Committee and the Asset and Liability Committee (ALCO), supported by the Treasury Risk Management Department under the Risk Management Group, define and set Position limit, Management Alert limits, Value-at-Risk (VaR) limits, Monthly Stop Loss limits and Yearly Stop Loss caps for market risks for each trading portfolio. Management Alert Triggers are also set for Available-for Sale-(AFS) portfolio.

The Treasury Group, particularly the Foreign Exchange Department (FED) (which handles foreign exchange and foreign securities trading), and the Local Currency Department (LCD), which takes charge of Government Securities and Equities, allocate these limits to each of the traders in their respective departments.

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

Positions are monitored on a daily basis to ensure that these are maintained within established limits. Position Limits are also established to control losses but are subordinated to the VaR and Stop Loss Limits.

Managing Market Risk Components

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

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. LBP adopts two perspectives in measuring Interest Rate Risk as follows:

- **Earnings Perspective** – The Bank uses the Earnings-at-Risk (EaR) Model to estimate changes in net interest income (NII) under a variety of rate scenarios over a 12 month horizon. It is a simulation method that analyzes the interest rate risk in the banking book in terms of earnings (accrual basis). EaR measures the loss of NII resulting from upward/downward interest rate movements in a "Business as usual" environment, either through gradual movements or as a one-off large interest rate shock over a particular time horizon. An increase in NII could result if rates move favourable to the Bank's position or could result to a decrease in NII if interest rates move against the Bank.

- **Economic Value Perspective** – The Bank uses the Economic Value of Equity (EVE) Model to assess the potential long-term effects of changes in interest rates. This model provides long-term view of possible effects of interest rate changes over the remaining life of the Bank's holdings. This model also measures the change in the Bank's economic value of equity for specified changes in interest rates.

Foreign Exchange Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. LBP views the Philippine Peso as its functional currency. Positions are monitored daily to ensure that these are within established limits.

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

	Position Limit	Management Loss Alert	Stop loss Limit
	(In millions)	Monthly	Monthly
Foreign Exchange Trading	$50	$180,000	$230,000
Foreign Securities	$20	$180,000	$235,000

LBP had the following significant exposures denominated in foreign currencies as of December 31, 2011:

	(In thousands)		
	US$	**Others**	**Total**
Assets			
Foreign Currency & Coins on Hand /Cash & other cash items	710,214	33,907	744,121
Due from banks	782,456	566,120	1,348,576
Held for trading	81,697	-	81,697
Available for sale investments	24,803,854	240,386	25,044,240
Held to maturity investments	8,313,367	56,742	8,370,109
Interbank loans receivable	3,945,600	3,637,169	7,582,769
Loans and receivables	13,558,622	7,215,774	20,774,396
Investment in subsidiaries	62,595	47,051	109,646
Other assets	398,351	107,553	505,904
Total Assets	52,656,756	11,904,702	64,561,458
Liabilities			
Deposit liabilities	28,590,808	3,826,774	32,417,582
Bills payable	6,132,345	25,980,347	32,112,692
Others	1,185,951	358,074	1,544,025
Total Liabilities	35,909,104	30,165,195	66,074,299

Equity Price Risk Management

The Bank is exposed to equity price risk as a consequence of value fluctuations of equity securities. Equity price risk results from changes in the levels of volatility of equity prices, which in turn affect the value of equity securities and impacts on profit and loss of the Bank. Equities are subject to daily mark-to-market and controlled through risk limits such as position, VaR, Management Alert and Stop Loss.

Market Risk Measurement Models

*** Value-at-Risk Analysis**

Value at Risk (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 per cent confidence level, assuming a static portfolio. This level implies that on 99 trading days out of 100, the mark-to-market of the portfolio will likely either (1) increase in value, or (2) decrease in value by less than the VaR estimate; and that on 1 trading day out of 100, the mark-to-market of the portfolio will likely decrease in value by an amount that will exceed the VaR estimate. The VaR measure enables LBP to apply a constant and uniform measure across all of its trading business and products. It also facilitates comparisons of the Bank's market risk estimates both over time and against its daily trading results.

VaR is calculated by simulating changes in the key underlying market risk factors (e.g., interest rates, interest rate spreads, equity prices, foreign exchange rates) to determine the potential distribution of changes in the market value of LBP's portfolios of market risk sensitive financial instruments.

Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management. Trading positions are marked-to-market and monitored daily. Value-at-Risk (VaR) is computed for marked-to-market portfolios to measure likely impact on earnings due to interest rate movements. As a policy, LBP employs a 2.326 standard deviation measure of VaR that implies a one-tailed confidence interval of 99 per cent in its VaR calculation. For daily VaR measures, time to unwind have a minimum of 24 hours, such that revaluations are based on day-to-day movements in interest rates.

The Value-at-Risk disclosure for the trading activities is based on Variance-Covariance or Parametric Value-at-Risk Model. For Equities, Foreign Exchange and Foreign Securities trading portfolio, Parametric VaR is run parallel with the internally developed Historical Simulation VaR Calculation Model as the Bank continuously pursues initiatives to improve processes in preparation to the bank's migration towards an Internal Model Approach for capital charging. The VaR disclosure is intended to ensure consistency of market risk reporting for internal risk management, for external disclosure and for regulatory purposes. The over-all Value-at-Risk limit for the LBP Treasury Group's trading activities was P80 million (with a 99 per cent confidence level, and a one-day holding period) throughout 2011.

*** Back-Testing**

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

Back-testing is a standard measure in determining the accuracy and predictive ability of risk models. The results of back-testing are used to assess the performance of treasury or trading strategies. In back-testing, the focus is on the comparison of actual daily changes in portfolio value, and hypothetical changes in portfolio value that would occur if end-of-day positions remain unchanged during the one-day holding period.

Back testing results are presented to the Asset and Liability Committee (ALCO) which serves as management risk committee for LBP management level and the Risk Management Committee for the Board level. The Committees analyze actual performance against VaR measures to assess model accuracy and to enhance the risk estimation process in general.

*** Stress Testing**

Measuring market risk using statistical risk management models has recently become the main focus of risk management efforts in the banking industry where banking activities are exposed to changes in fair value of financial instruments. LBP believes that the statistical models alone do not provide reliable method of monitoring and controlling risk. While VaR models are relatively sophisticated, they have several known limitations. Most significantly, standard VaR models do not incorporate the potential loss caused by very unusual market events. Thus, the VaR process is complemented by Stress testing to measure this potential risk.

Stress test is a risk management tool used to determine the impact on earnings of market movements considered "extreme", i.e., beyond "normal" occurrence. Stress tests are LBP's measures of risks to estimate possible losses which the Value at Risk (VaR) does not capture.

The Bank's portfolio scenario analysis (PSA) report is a model forecasting the loss return values of a selected portfolio. It calculates the size of possible losses related to a precise scenario. It identifies scenarios which may influence the portfolio strongly and which market variables may trigger these scenarios to be able to come up with a sound portfolio risk management. The Portfolio scenario analysis is a replication scenario based on historical events based on imagined crises or future developments that have not yet occurred.

Results of PSA were also simulated to Capital Adequacy Ratio of the Bank to be able to assess its impact on the CAR compliance set at 10 per cent.

Liquidity Risk Management

Liquidity Risk Management Framework

The LBP Board has delegated the responsibility of managing the overall liquidity of the Bank to a committee of senior managers known as Asset/ Liability Management Committee (ALCO). This Committee meets twice a month or more frequently as required by prevailing situations. Senior management is responsible for effectively executing the liquidity strategy and overseeing the daily and long-term management of liquidity risk. ALCO delegates day-to-day operating responsibilities to the treasury unit based on specific practices and limits established in governing treasury operations. The Treasury Risk Management Department is responsible for the oversight monitoring of the Bank's risk positions and ensures that reports on the bank's current risk are prepared and provided to ALCO and BOD/RiskCom in a timely manner.

LBP's liquidity risk management framework is structured to identify, measure and manage the liquidity risk position of the bank. The policies that govern liquidity risk management are reviewed and approved on a regular basis by ALCO and RiskCom.

The Bank's liquidity policy is to maintain adequate liquidity at all times and hence to be in a position to meet all of its obligations, in normal course of business. In managing its liquidity, LBP has the following sources of funding: cash from operations, stock of marketable assets, government and retail deposit sources, and various credit lines from Banks.

The Treasury Group submits to the IBSS Sector Head and the President, Daily Treasury Reports which include the Bank's cash/near cash investments and other data related to liquidity which assist senior management in decision making.

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

Liquidity Risk Measurement Models

The Bank formulated different types of liquidity risk measurement tools to determine any future liquidity structural imbalances to be able to formulate strategies to mitigate liquidity risk and address funding needs.

Liquidity is being monitored and controlled thru maturities of assets and liabilities over time bands and across functional currencies as reflected in the Liquidity Gap Report. This report is prepared to provide senior management and the Board timely appreciation of the Bank's liquidity position.

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

	2011	**2010**
	(In million Pesos)	
Liquid Assets 1/	340,975	308,068
Financial Ratios		
Liquid Assets to Total Assets	53.01%	54.14%
Liquid Assets to Total Deposits	67.19%	71.06%

	PARENT					
	2011			2010		
	Due Within One Year	Due Greater than One Year	Total	Due Within One Year	Due Greater than One Year	Total
Liabilities						
Deposits						
Demand	211,224,363	-	211,224,363	162,518,260	-	162,518,260
Savings	270,268,538	-	270,268,538	246,357,475	1,490,459	247,847,934
Time	17,508,405	7,907,480	25,415,885	14,703,916	7,932,222	22,636,138
LTCND	-	549,189	549,189	-	512,686	512,686
Bills Payable	3,367,197	30,027,218	33,394,415	5,318,795	28,931,678	34,250,473
Unsecured Subordinated Debt	-	6,934,000	6,934,000	-	13,510,000	13,510,000
Due to BTr, BSP, & MCs/PCIC	1,758,300	-	1,758,300	1,132,877	-	1,132,877
Due to Local Banks & Others	11,948	-	11,948	5,261	-	5,261
Other Liabilities & Payables	978,604	16,910,433	17,889,037	1,141,742	18,849,592	19,991,334
Total Liabilities	505,117,355	62,328,320	567,445,675	431,178,326	71,226,637	502,404,963

- The Bank does liquidity gap analysis using the Liquidity Gap Report (LGR). It is a risk measurement tool used in identifying the current liquidity position to determine the ability to meet future funding needs. It breaks down balance sheet items according to estimated maturities of assets and liabilities in order to determine any future structural imbalances such as long-term assets growing faster than long term liabilities. The TRMD assists ALCO in its function by preparing Peso, FX Regular, Regular Banking Unit, FCDU and consolidated Liquidity Gap Reports on a monthly basis.

The following table sets forth the asset-liability gap position over the detailed time period for the Parent at carrying amounts in million pesos as of 31 December 2011 based on contractual repayment arrangements which take into account the effective maturities as indicated by LBP's deposit retention history.

	Due within 3 mos	Due more than 3 to 6 mos	Due more than 6 mos to 1 year	Due more than 1 year to 5 years	Due more than 5 years	Total
Financial Assets						
Cash and Due from Banks	84,293	-	10,926	1	1	95,221
Total Loans	106,990	18,547	22,812	58,172	125,679	332,200
Total Investments	8,459	2,598	21,705	64,752	98,374	195,888
Other Assets	651	-	-	-	19,316	19,967
Total Assets	200,393	21,145	55,443	122,925	243,370	643,276
Financial Liabilities						
Deposits	378,774	9,561	363	4,302	114,458	507,458
Borrowings	1,017	795	1,555	10,833	19,195	33,395
Other Liabilities and Unsecured Subordinated Debt	2,020	31	697	2,288	21,557	26,593
Total Capital	-	-	-	-	75,830	75,830
Total Liabilities	381,811	10,387	2,615	17,423	231,040	643,276
Asset & Liabilities Gap	(181,418)	10,758	52,828	105,502	12,330	-

Although the "Due within 3 months" show a negative gap, the Bank has not experienced liquidity issues in the past that it cannot address. However, looking at the bucketed asset and liability position reveals vulnerabilities as a result of the account maturity mismatch which risk the Bank could avoid or mitigate. As contingency, the Bank has identified all AFS securities earmarked as Deposits Reserve to cover funding requirements resulting from liquidity structural gap.

The LBP has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk, consistent with the nature and complexity of its business activities, overall level of risk and its risk appetite. The maturity mismatch is within the level of liquidity versus Maximum Cumulative Outflow (MCO) limit which is set by the Board of Directors. This tool is used to manage and control the liquidity risk in the gap report of the Bank. It is a measure of the liquidity gap between maturing assets and liabilities. MCO limits put a cap on the total amount of negative gaps in the near time buckets. LBP's cumulative negative gaps should not be more than P12 billion. Liquidity limits are also set per book for Peso, FX Regular and FCDU.

Financial Analysis is another liquidity risk measurement tool that calculates and compares liquidity and leverage ratios derived from information on the Bank's financial statements against set liquidity/leverage limits. The Bank makes use of the following financial ratios for liquidity risk management:

1. Liquid Asset to Total Assets Ratio
2. Volatile Liabilities against Liquid Assets Ratio
3. Volatile Liabilities against Total Assets Ratio
4. Liabilities against Assets (Debt/Total Asset Ratio)

The Bank examines several possible situations, usually worst case, most likely case and best case. It does Portfolio Stress Test and Liquidity Stress Test. Result of scenario analysis helps the Bank focus on the level of liquidity that could be reasonably built within a specified period to meet different situations. This also serves as guide for the Bank in the limit setting process for the various ratios mentioned, for example, minimum liquid assets to volatile liabilities.

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

Liquidity management is one of the fundamental preconditions to achieving all other banking activities - strategically mapped by ALCO, actively managed by the Treasury Group through the Asset and Liabilities Management Department (ALMD) and overseen by the Treasury Risk Management Department (TRMD).

To limit liquidity risk, LBP Management has instituted the following:

1. **Active and Appropriate Board and Senior Management Oversight** -

   The Board and Senior Management receives regular liquidity reports and updates to fully inform them of the level of liquidity risk assumed by the Bank and if activities undertaken are within the prescribed risk tolerance in accordance with approved guidelines, liquidity/ funding policy (targets), risk limits.

2. **Diversified funding sources** - The Bank has identified the following sources of funding:

   - Cash from operations
   - Sale of Government Securities (GS) under Available for Sale (AFS)
   - Government and retail deposit sources
   - Interbank market
   - Borrowings from BSP
   - Undertaking Peso-Dollar Swaps
   - Accessing loans from multilateral and bilateral institutions (WB, ADB, JBIC, etc.)

LBP performs a comprehensive liquidity risk measurement and control using as tool the Consolidated Liquidity Gap Report covering the entire LBP Group. Risk models used in liquidity risk management are subjected to independent model validation. The Internal Audit Group is tasked to do model validation. An independent validation is also being done by the Basel Officer for Treasury who reports directly to the Head of the Risk Management Group.

LAND BANK OF THE PHILIPPINES
Ang Bangkong May Damdaming Bayan

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