

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.

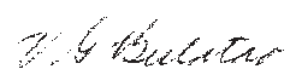
In compliance with the Audit Committee Charter, we confirm that:

- The Audit Committee is composed of five members of the Board of Directors.
- We had 13 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 (RISCOM) is tasked to oversee all risk-related activities of the Bank. As the highest oversight body for risk management, the RISCOM 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 RISCOM. 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.

Several initiatives advocating and instilling employee volunteerism were also held in 2011. LANDBANK and



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

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.



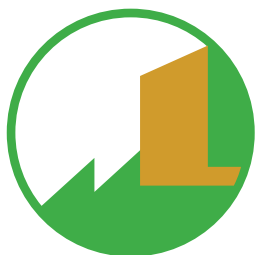
### LBP LEASING CORPORATION

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.

## LANDBANK SUBSIDIARIES AND FOUNDATION



### 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 Alvarez (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



*Gilda E. Pico*  
President and CEO



*EVP Wilfredo C. Maldia*  
Agrarian and Domestic  
Banking Sector



*EVP Cecilia C. Borrromeo*  
Institutional Banking  
and Subsidiaries Sector



*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



*From Left to Right:  
VP Manuel Jose Mari S. Infante  
VP Filipina B. Monje  
VP Ruel Z. Romarate  
AVP Lolita M. Almazar  
AVP Virgilio C. Paranal*



*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. Dalampán

*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 Wesley 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. Paranal

*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

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

## **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

## **LBP 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. Mercedes 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	-	-
		<b>645,812,386</b>	<b>570,938,322</b>	<b>643,275,882</b>	<b>569,014,404</b>
<b>LIABILITIES AND CAPITAL FUNDS</b>					
<b>Liabilities</b>					
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
		<b>568,088,207</b>	<b>502,557,139</b>	<b>567,445,675</b>	<b>502,404,963</b>
<b>Capital funds</b>					
Common stock	31	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
		<b>77,724,179</b>	<b>68,381,183</b>	<b>75,830,207</b>	<b>66,609,441</b>
		<b>645,812,386</b>	<b>570,938,322</b>	<b>643,275,882</b>	<b>569,014,404</b>

# STATEMENT OF COMPREHENSIVE INCOME

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

		GROUP		PARENT	
	Note	2011	2010	2011	2010
<b>INTEREST INCOME</b>					
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
<b>INTEREST EXPENSE</b>					
Depositable		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
<b>NET INTEREST INCOME</b>		<b>19,296,980</b>	<b>19,769,437</b>	<b>19,010,422</b>	<b>19,541,017</b>
<b>PROVISION FOR CREDIT LOSSES</b>	18	<b>240,992</b>	<b>110,773</b>	<b>178,376</b>	<b>80,554</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>		<b>19,055,988</b>	<b>19,658,664</b>	<b>18,832,046</b>	<b>19,460,463</b>
<b>OTHER OPERATING INCOME</b>					
Gain from sale/depreciation 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
<b>OTHER OPERATING EXPENSES</b>					
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
<b>INCOME BEFORE INCOME TAX</b>		<b>9,311,025</b>	<b>8,628,990</b>	<b>9,038,552</b>	<b>8,415,469</b>
<b>PROVISION FOR INCOME TAX</b>	23	<b>254,811</b>	<b>407,327</b>	<b>200,000</b>	<b>355,267</b>
<b>NET INCOME</b>		<b>9,056,214</b>	<b>8,221,663</b>	<b>8,838,552</b>	<b>8,060,202</b>
<b>OTHER COMPREHENSIVE INCOME</b>					
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
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>12,087,548</b>	<b>17,533,932</b>	<b>11,869,886</b>	<b>17,372,187</b>

# STATEMENT OF CASH FLOWS

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

	GROUP		PARENT	
	2011	2010	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
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	<b>6,758,976</b>	<b>12,135,989</b>	<b>6,418,496</b>	<b>11,855,797</b>
<b>Changes in operating assets and liabilities</b>				
(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	<b>38,715,665</b>	<b>32,369,386</b>	<b>38,901,188</b>	<b>32,467,293</b>
Income taxes paid	(25,823)	(12,016)	-	-
Net cash generated from operating activities	<b>38,689,842</b>	<b>32,357,370</b>	<b>38,901,188</b>	<b>32,467,293</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
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	<b>5,637,007</b>	<b>(22,988,856)</b>	<b>5,722,853</b>	<b>(23,065,137)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
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	<b>(6,800,660)</b>	<b>9,314,212</b>	<b>(7,082,228)</b>	<b>9,169,487</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(231,080)</b>	<b>(784,554)</b>	<b>(231,080)</b>	<b>(777,567)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>37,295,109</b>	<b>17,898,172</b>	<b>37,310,733</b>	<b>17,794,076</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
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
	<b>106,733,463</b>	<b>88,835,291</b>	<b>106,410,451</b>	<b>88,616,375</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
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
	<b>144,028,572</b>	<b>106,733,463</b>	<b>143,721,184</b>	<b>106,410,451</b>

# STATEMENT OF CHANGES IN CAPITAL FUNDS - GROUP

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

	Common Stock Shares	Common Stock Amount	Retained Earnings Free	Revaluation Increment
<b>Balance, December 31, 2009</b>	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	
<b>Balance, December 31, 2010</b>	<b>1,197,100</b>	<b>11,971,000</b>	<b>13,471,157</b>	<b>61,200</b>
<b>Net income during the year</b>				
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	
<b>Balance, December 31, 2011</b>	<b>1,197,100</b>	<b>11,971,000</b>	<b>18,360,185</b>	<b>61,200</b>



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
<b>101,098</b>	<b>14,218,716</b>	<b>284</b>	<b>8,221,663</b>	<b>20,336,065</b>	<b>68,381,183</b>
			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)			-
<b>101,098</b>	<b>14,807,083</b>	<b>-</b>	<b>9,056,214</b>	<b>23,367,399</b>	<b>77,724,179</b>

# STATEMENT OF CHANGES IN CAPITAL FUNDS - PARENT

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

	Common Stock		Retained
	Shares	Amount	Earnings
			Free
<b>Balance, December 31, 2009</b>	<b>1,197,100</b>	<b>11,971,000</b>	<b>16,183,870</b>
<b>Net income during the year</b>			
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
<b>Balance, December 31, 2010</b>	<b>1,197,100</b>	<b>11,971,000</b>	<b>12,163,204</b>
<b>Net income during the year</b>			
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
<b>Balance, December 31, 2011</b>	<b>1,197,100</b>	<b>11,971,000</b>	<b>17,074,287</b>