	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**

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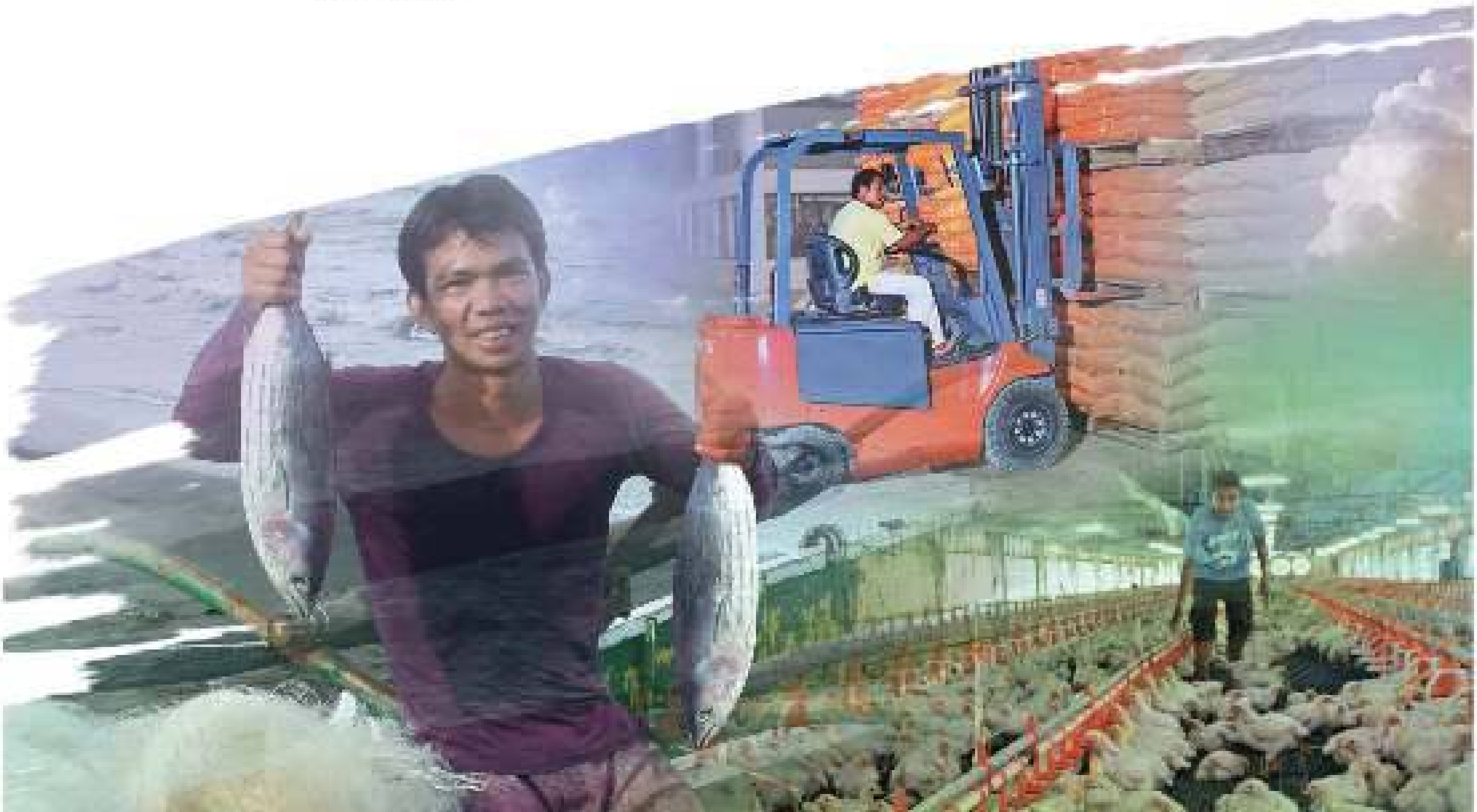

LAND BANK OF THE PHILIPPINES

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.

<u>Fair Value Measurement</u>

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 income. If, in a subsequent period, the fair value of a debt instrument classified as AFS investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of 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.

a1 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									
									Total	
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	2011	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		Parent	
	2011	2010	2011	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