



CELEBRATING OUR JOURNEY TO GOLD

50
years

2013 ANNUAL REPORT



LANDBANK

A large, stylized, light gray laurel wreath graphic that curves around the left side of the page, framing the title text.

CELEBRATING OUR JOURNEY TO GOLD

2013 ANNUAL REPORT



P25 B

Authorized capital composed of P20B common stocks
and P5B preferred stocks



1,010

In-house and external
training programs for
employees

P11.79B

Net income grew 8% from P10.96 billion in 2012



During the year, 179
additional new ATMs
were installed, bringing
the total number of
ATMs to 1,213

179

New ATMs



As part of continuing
efforts to expand market
reach, eight branches
were opened in 2013,
bringing the total
number of branches to
341

Bank employees donated
a total of 12,898 hours with
a value of P2,891,715.62
to fund volunteerism
projects.

12,898

Number of hours donated
by employees



LANDBANK disbursed
P3.2 billion as
compensation
to owners of CARP-
covered private
agricultural lands

881,356

Small farmers and fishers benefited from loans



P17 B

Outstanding LGU loans
on agri-aqua-related
projects



P6 B

Trading gains from treasury operations

P244.6B

Loans to priority sectors reached 80.5% of the Bank's
regular loan portfolio of P303.9 billion



50,000 seedlings planted
by employees nationwide
as part of the 50K at 50th
program

50K

Seedlings planted



1963

On August 8, President Diosdado Macapagal signed Republic Act No. 3844 or the Agricultural Land Reform Code which created the Land Bank of the Philippines.



1969

With the assumption of President Ferdinand Marcos, a new Board of Trustees was formed and Benjamin del Rosario was designated as LANDBANK President.

1973

President Marcos reconstituted the Board of Directors, appointing Cesar EA Virata, then Secretary of Finance, as Chairman, and Basilio Estanislao as President.



1986

Seven months after the People Power Revolution, President Corazon Aquino appointed Deogracias “Sonny” Vistan as President and CEO of LANDBANK.



1995

On February 23, RA 7907 was passed, amending the Bank’s Charter and strengthened LANDBANK towards becoming a more self-reliant and performing player in the banking industry.

1990

LANDBANK started recognizing outstanding cooperatives for their hard work and contribution to their communities and to underscore the Bank’s commitment to cooperativism.



1998

LANDBANK inaugurated the ground floor of its new building, the LANDBANK Plaza, which has been the Bank’s head office since 2002.

1992

President Fidel Ramos appointed Jesli Lapus as President of LANDBANK.

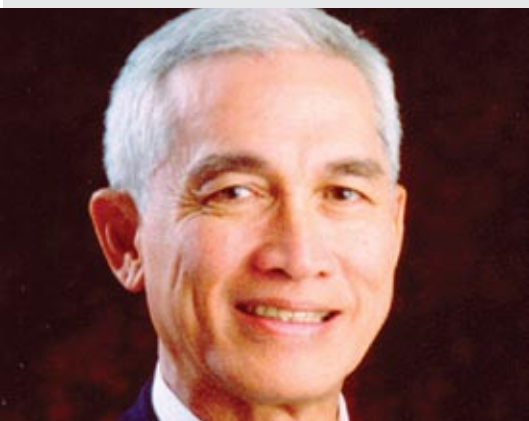
1998

In June, Florido P. Casuela was appointed President of the Bank.



2000

Margarito B. Teves was appointed LANDBANK President and CEO.



LANDBANK attained the status of being the largest lender to countryside financial institutions and the principal source of development financing for LGU projects in the Philippines.

2004

LANDBANK received the ISO 14001 for the Environmental Management System in the LANDBANK Plaza, making it the second of only two financial institutions in the country to receive the certification at that time.

2005

Gilda E. Pico assumed the Bank's presidency. Since that year, the average share of LANDBANK's priority sector loans to its total loan portfolio remained above the annual target of 65 percent.



LANDBANK took major strides to maintain environmentally-sound operations and implement resource conservation and waste management initiatives.



LANDBANK strengthened its Corporate Social Responsibility (CSR) programs.

2012

The Bank underwent a corporate reorganization which took effect in July. The Bank's operations were reorganized into five sectors: the Agricultural and Development Lending Sector, the Branch Banking Sector, the Corporate Services Sector, the Operations Sector, and the Treasury and Investment Banking Sector.



LANDBANK intensified focus on improving financial inclusion by establishing presence in hard to reach areas where no banks or other formal credit institutions are present.

CONTENTS

5

Vision /
Mission

6

Financial
Highlights

7

Message
from the
President
of the
Philippines

8

Chairman's
and
President's
Report

12

Pursuit of
Mandate

28

Customer
Service

42

Institutional
Viability

76

LANDBANK's
50th
Anniversary

82

Strategic
Planning

84

Subsidiaries
and
Foundation

90

Board of
Directors

92

Management
Team

93

Senior
Officers

98

List of
Officers and
Department
Heads

103

Audited
Financial
Statement

109

Notes to
Financial
Statements

144

Acknowledgments



VISION

By 2018, LANDBANK will be the top universal bank that promotes inclusive growth and improves the quality of life especially in the countryside through the delivery of innovative financial and other services in all provinces, cities and municipalities.

MISSION

To Our Clients and Publics:

We will use the best technology solutions to deliver responsive financial and support services to our clients, while promoting sustainable development, and environmental protection.

To Our Employees:

We will develop and nurture talents that will exemplify the highest standards of ethics and excellence consistent with the best in the world.

FINANCIAL HIGHLIGHTS

GROUP (AUDITED)

(In Billion Pesos)	2013	2012	2011	2010	2009
Total Resources	849.3	691.5	645.8	570.9	515.6
Loans	335.6	330.5	334.0	247.1	241.0
Treasury Loans	13.2	36.2	56.1	12.4	26.6
Regular Loans	300.0	270.0	249.6	205.5	187.0
Other Loans and Receivables	22.4	24.3	28.3	29.2	27.4
Investments (Net)	223.1	236.1	196.0	201.0	174.7
Deposit Liabilities	703.7	543.7	507.2	433.2	396.3
Demand	348.1	244.4	211.2	162.5	157.0
Savings	324.0	267.3	270.1	247.6	217.3
Time	26.6	31.4	25.4	22.6	21.5
LTNCD	5.0	0.6	0.5	0.5	0.5
Capital	82.1	84.0	77.7	68.4	53.1
Gross Revenues	42.6	38.1	34.5	34.8	31.6
Interest Income on Loans	17.4	16.9	17.1	16.9	14.5
Income on Investments	17.7	12.3	12.3	12.8	11.4
Net Income (in P M)	11,790.6	10,962.8	9,056.2	8,221.7	6,818.5

GROSS LOAN PORTFOLIO (In Billion Pesos)

Sectors	2013	
	Amount (P B)	%
Priority Sectors		
I. Mandated Sector		
• Small farmers including agrarian reform beneficiaries and their associations	34.4	11.3
• Small fishers and their associations	0.3	0.1
Sub-Total	34.7	11.4
II. Support for Agriculture and Fisheries		
• Agri-business	22.1	7.3
• Aqua-business	0.6	0.2
• Agri-aqua-related projects of Local Government Units and Government-Owned and -Controlled Corporations	45.4	14.9
Sub-Total	68.1	22.4
III. Support for National Government Priority Programs (including PPP projects)		
• Micro, small and medium enterprises	37.5	12.4
• Communications	4.2	1.4
• Transportation	15.1	4.9
• Housing (socialized, low-cost and medium-cost)	27.1	8.9
• Education	5.7	1.9
• Health Care	3.9	1.3
• Environment-related projects	4.4	1.4
• Tourism	1.8	0.6
• Utilities	42.1	13.9
Sub-Total	141.8	46.7
Total Priority Sector Loans	244.6	80.5
Local Government Units - Others	10.5	3.4
Government-Owned and -Controlled Corporations - Others	15.7	5.2
Others	33.1	10.9
Total Other Sector Loans	59.3	19.5
Sum of Loans to All Sectors *	303.9	100.0

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



MESSAGE FROM THE PRESIDENT OF THE PHILIPPINES

The banking sector plays an important role in nation-building, ensuring the financial security of its depositors and investors, even as it fortifies our state's coffers.

LANDBANK has adhered to this through its strategic thrust of "Enhancing Countryside Banking by Pursuing Inclusive Growth." Your endeavors have yielded positive results, including an 11 percent increase in its total lending portfolio, from P273.8 billion as of the end of 2012 to P303.9 billion the year after; a total loan release of P51.6 billion to small farmers and fisherfolk; and a net income of P11.79 billion, 8 percent higher than last year's P10.96 billion income.

I commend your efforts to increase public trust in your services, which translated into a 22 percent increase in LANDBANK's total assets, growing from P691.5 billion to P849.3 billion; with deposits increasing by 29 percent, from P543.7 billion to P703.7 billion; and capital standing at P82.1 billion.

May last year's successes encourage you to continue on your upward trajectory as a government institution that offers Filipinos, particularly those in rural industries, a chance to cast wide their nets and reap the bounty of our steadily growing economy.

Congratulations on the publication of your 2013 Annual Report.

A handwritten signature in black ink, appearing to read 'B. Aquino', written over a faint, stylized leaf graphic.

President Benigno S. Aquino III

Republic of the Philippines

Manila

March 2015



“Our commitment is as strong as ever to empowering the countryside that will help nurture progress for every Filipino nationwide.”

CHAIRMAN'S AND PRESIDENT'S REPORT

PROGRESS IN RESILIENCE

Just like the other years, 2013 was replete with successes and challenges. But what set it apart for LANDBANK is how it will be remembered as a time for renewed hope, and a confidence in our ability to spread financial and social capacities that encompass environmental and sustainable thrusts to our farthest reach.

It was the year when LANDBANK received its mandate anew, with the extension of its corporate life through Republic Act 10374 signed by His Excellency, President Benigno S. Aquino III. As we commemorate our 50th anniversary and look back at the momentous past, we also move toward the future with a verve inspired by the country's vast potentials.

The string of natural and man-made calamities that beset the country in the latter part of the year did not prevent us from achieving our economic growth target. Despite the earthquake in Bohol, the siege in Zamboanga, and super typhoon Yolanda, the Philippines managed to grow 7.2 percent and remained one of the best performing economies in Asia. Also in 2013, for the first time in history, three international credit rating agencies – Moody's, Fitch, and Standard and Poor's – gave the Philippines an investment grade status. With all these positive developments, the country is better gaining traction towards promoting and achieving a more inclusive growth.

Pursuit of Mandate

The year was likewise record-setting for LANDBANK. With our renewed commitment to “empower the countryside and nurture progress countrywide,” we devoted an even greater part of our resources to sectors that contribute to development. As of end-December 2013, our loans to priority sectors amounted to P244.6 billion or 80.5 percent of our total loan portfolio of P303.9 billion. These sectors include:

- | | |
|---|--|
| <p>I. Mandated Sector</p> <ul style="list-style-type: none">• Small farmers including agrarian reform beneficiaries and their associations• Small fishers and their associations | <p>III. Support for National Government Priority Programs (including PPP projects)</p> <ul style="list-style-type: none">• Micro, small and medium enterprises• Communications• Transportation• Housing (socialized, low-cost and medium-cost)• Education• Health care• Environment-related projects• Tourism• Utilities |
| <p>II. Support for Agriculture and Fisheries</p> <ul style="list-style-type: none">• Agri-business• Aqua-business• Agri-aqua-related Projects of LGUs and GOCCs | |

With greater amount of credit extended to these sectors, we are helping these partners in development provide our communities with more and better infrastructure such as roads, hospitals, public markets and schools. By fueling businesses, including microenterprises, we are sustaining people's livelihood and ensuring that more of our marginalized sectors have formal access to credit.

In 2013, LANDBANK's loan releases to small farmers and fishers reached P51.6 billion, which is 29 percent or P11.7 billion higher than the P39.9 billion released in the same period in 2012. These loans benefited 881,356 small farmers and fishers.

Outstanding loans to the sector, meanwhile, reached P34.7 billion. The amount is 4 percent or P1.3 billion higher than the P33.4 billion outstanding loans to small farmers and fishers in 2012.

LANDBANK also posted a higher amount of loans to the micro, small and medium enterprises sector. In 2013, loans to this sector reached P37.5 billion, 24 percent or P7.2 billion higher than the P30.3 billion loans registered in 2012.

We also expanded our loans for the communications, housing, education, tourism and utilities sectors.

Institutional Viability

Along with these, we were consistent in our efforts to maintain our institutional viability. In 2013, LANDBANK recorded its highest net income so far, at P11.79 billion, 7.55 percent or P827.80 million higher than our net income of P10.96 billion in 2012.

Our total assets grew by 22.82 percent, from P691.54 billion in 2012 to P849.33 billion in 2013. Deposits also expanded to P703.76 billion in 2013 or 29.44 percent more than the P543.70 billion in 2012. Capital, meanwhile, decreased 2.18 percent from P83.97 billion in 2012 to P82.14 billion in 2013.

Customer Service

As we prided ourselves with steady financial delivery to our priority sectors and increasing operational assets, we were as resolved in ensuring that these very same strengths were maintained and extended to areas hard hit by tragedy.

Particular to the Visayas region, our concerted efforts to provide immediate relief aid was simultaneous with resuming banking operations for the public soon after the onslaught of Typhoon Yolanda in November 2013. Our swift action allowed for ATM access in Tacloban, the most affected of areas, including the payout of cash grants under the Work Program of the United Nations Development Program.

Our Calamity Rehabilitation Support (CARES) program equipped us to make the necessary adjustments to help alleviate the financial obligations of affected clients, small farmers and fishers, LGUs, countryside financial institutions, and other enterprises. This included the availability of loans at lower interest rates and more lenient terms through our 34 Lending Centers, six of which are in the Visayas.

Meanwhile, credit expansion programs were launched late in the year to benefit various industries in the agricultural sector. In making property ownership more accessible, we offered reduced interest rates for the first year under various housing programs during the LANDBANK's anniversary month of August.

In the same year, our clients were introduced to tightened ATM security in addition to the cameras monitoring ATM locations. Our branch operations also increased its presence with eight new branch openings nationwide.

We also kept the campaign for the LANDBANK ATM/debit card that resulted in considerable growth from Point-of-Sale transactions by the end of 2013. The Bank has also gone beyond the local reach of its debit card with the launch of the LANDBANK Visa Debit Card in cooperation with global card payment system leader Visa Worldwide.

Enhancing Countryside Banking by Pursuing Inclusive Growth

The 50 years we have stayed in the banking industry had merited us invaluable insight to the capabilities and needs of the countryside. It also afforded us a realization of the growth potential not just of our clients, but of ourselves as well. LANDBANK is afresh with inspired vision to enhance its depth and reach, armed with more viable solutions, pursuant of more inclusive growth in helping improve the quality of life of the people we serve.

While we push further a progressive countryside, LANDBANK will also foster partnerships with other economic drivers and impact other sectors of society. As we have seen with the resilience shown by Filipinos in difficult and life-changing times, it is up to us able institutions to show our utmost support and celebrate the strength of our nation to overcome and succeed beyond the confines of crippling natural catastrophes, negative public perception, or distraught national sentiment.

In due recognition, our 50th anniversary brought to light the outstanding contributions of our various clients and partners as we celebrated the annual awards for cooperatives, entrepreneurs, corporations and financial institutions in different events.

Hand in hand with our recognition of industry movers has been our show of year-round appreciation for our human capital. The men and women of LANDBANK have made it possible for us to conclude 2013 with a record-setting performance. In-house and external trainings, and workshops for officers and employees helped enhance operations and customer experience.

We also continued to implement a diverse range of programs targeting health and work-life balance. Bloodletting activities with the Philippine Red Cross were held, and Bank employees donated a total of 12,898 hours with a value of P2.89 million to fund part of our scholarship programs. One of these is the Gawad Patnubay, an educational program launched in December 2013 benefitting the country's future movers in agriculture and related industries.

Environmental thrusts also saw the ever-present partnership with the Department of Environment and Natural Resources, which was highlighted by the 50K@50th campaign. The Manila Bay SUNSET Partnership Program, Inc., which was initiated by LANDBANK continued to expand the partnership's activities in rehabilitating Manila Bay.

With renewed prospects of growth and stability for our operations and new lease in corporate life, LANDBANK sees the coming year with more determination to best itself in all aspects. Finding inspiration from the events and remarkable acts of resilience that have come to pass, we bring with us a vision and mission more resolute in utilizing all our capabilities and activating our potentials for sustainable growth and success. Our commitment is as strong as ever to empowering the countryside that will help nurture progress for every Filipino nationwide.



Sec. Cesar V. Purisima
Chairman



Gilda E. Pico
President and CEO



OPERATIONAL HIGHLIGHTS

PURSUIT OF MANDATE

LOANS TO SMALL FARMERS AND FISHERS



P51.6 BILLION

LOANS TO OFW BORROWERS



P248.8 MILLION

LOANS TO MSMEs



P37.5 BILLION

With the signing of Republic Act 10374 extending LANDBANK's corporate life by another 50 years, the Bank pledges anew, with a stronger resolve, to promote countryside development. In 2013, LANDBANK directed its resources in support of programs that are designed to increase agricultural productivity, promote food security, increase farm household income, and in the process, support inclusive growth.

Even with the challenges brought about by numerous calamities that wreaked havoc to the country and more particularly, the agricultural sector, LANDBANK continued to provide financial and technical support to its mandated sector – the small farmers and fishers and agrarian reform beneficiaries and their associations, as well as the agri-and aqua businesses and agri-aqua-related projects of Local Government Units and Government-Owned and -Controlled Corporations, and the various programs of the National Government that created development impact in the countryside. These National Government programs supported micro, small and medium enterprises, communications, transportation, housing (socialized, low-cost, and medium-cost), education, health care, environment-related projects, tourism, and utilities.

In 2013, LANDBANK's loans to the priority sectors reached P244.6 billion or 80.5 percent of the Bank's regular loan portfolio of P303.9 billion.

PROGRAMS FOR THE PRIORITY SECTORS

Loans to the Mandated Sector


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

LANDBANK continues to provide financial and development assistance to its mandated sector – the small farmers and fishers and agrarian reform beneficiaries and their associations – through qualified conduits.

In 2013, loan releases to small farmers and fishers amounting to P51.6 billion were channeled through 903 accredited farmers and fishers cooperatives, 264 countryside financial institutions (rural banks, cooperative banks and thrift banks) and 211 irrigators' associations. A total of 881,356 small farmers and fishers benefited from these loans.

As of end-2013, loans outstanding to small farmers and fishers stood at P34.7 billion representing 11.4 percent of the Bank's total loan portfolio. Of this amount, P34.4 billion was lent to small farmers and the remaining P0.3 billion to small fishers. Of the total loans to small



80.5% 
Share of loans for priority sectors



 P22.7 BILLION
Loans to Agri-aqua businesses

farmers, P17.8 billion was extended to crop production while P4.4 billion assisted poultry and livestock projects. Other economic activities financed were fishery, post-harvest facilities, irrigation and marketing including wholesale and retail trading.

Loans in Support of Agriculture and Fisheries

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

To complement the agricultural production loans extended to small farmers and fishers, the Bank likewise provided credit financing to support market development. These were loans that helped develop logistic and infrastructure support to agriculture, and agri- and aqua-related businesses of private enterprises. These include business activities that involved agri- or marine processing, manufacturing, packaging, transport, and export of frozen agri- and marine products.

In 2013, outstanding loans to agri-business and aqua-business amounted to P22.7 billion or a share of 7.5 percent to the Bank's total loan portfolio.

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

As agri- and aqua-infrastructure are vital components in the agricultural value chain, LANDBANK also supports various initiatives of Local Government Units (LGUs) that are designed to improve the value chain. These include the construction or repair of farm-to-market roads, piers, bridges, public markets, and transport terminals, among others.

In 2013, the total outstanding LGU loans on agri-aqua-related projects reached P17.0 billion comprising 5.6 percent of the Bank's total loan portfolio.

► *Other Priority Projects of LGUs*

Cognizant of the need to develop communities to stimulate countryside

growth and development, LANDBANK extends credit assistance to support other priority projects of LGUs. These include socialized and low cost housing, education, health care, and environment.

As of end-2013, the total outstanding loans of LGUs' priority projects amounted to P16.7 billion or 5.5 share of the Bank's total loan portfolio.

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

LANDBANK provides financial support to the agri-related projects of GOCCs such as the National Food Authority and the Philippine Coconut Authority. Through these loan facilities, the GOCCs are able to provide marketing and other support services to the agriculture sector.

As of end-2013, loans outstanding to GOCCs amounted to P28.4 billion representing 9.3 percent of the Bank's loan portfolio.

Loans Supporting Other National Government Priority Programs

As a wholly-owned bank of the Philippine Government, LANDBANK supports the priority programs of the national government. These priority programs involve the development of micro, small, and medium enterprise sector; strengthening of transport and telecommunication facilities; housing (socialized, low-cost and medium-cost); education; health care; environment-related projects; tourism; and basic utilities (water, electricity, gas).

▪ *Loans for Microenterprises and Small and Medium Enterprises*

LANDBANK's loan portfolio for micro, small, and medium enterprises (MSMEs) continues to expand due to increasing demand. LANDBANK channels its microfinance loans through conduits such as rural banks, NGOs, and microfinance

institutions. On the other hand, SME loans are extended through direct lending to SME borrowers.

In 2013, loans outstanding to MSMEs amounted to P37.5 billion accounting for 12.4 percent of the Bank's total loan portfolio. Of this amount, P31.1 billion was lent to SMEs and P6.4 billion to microenterprises through accredited conduits.

► *Loans for Livelihood*

In support of the National Government's thrust to help improve the lives of government and private sector employees, LANDBANK extends financing assistance to livelihood projects and business endeavors of qualified fixed income earners.

As of end-2013, LANDBANK's outstanding livelihood loans reached P7.9 billion or 2.6 percent of the Bank's total loan portfolio.

► *OFW Reintegration Program*

The LANDBANK and the Overseas Workers Welfare Administration forged a partnership to provide livelihood opportunities to Overseas Filipino Workers (OFWs) or their family members. Eligible projects are those with confirmed market or purchase order that generate a net monthly income of P10,000. A minimum loan of P300,000 up to a maximum of P2 million, with a fixed interest rate of 7.5 percent per annum can be availed by the OFW.

In 2013, loan releases under the partnership reached P248.8 million benefiting 355 OFW-borrowers. For the same period, loans outstanding amounted to P447.9 million and generated 3,909 jobs.

LANDBANK financed both agri and non-agri loans of OFW-borrowers. Agri-loans include grains trading, piggery, poultry, agri-supply, post-harvest, bakery, fruits and vegetables, copra trading, and fishery. Non-agri loans, on the other

hand, include grocery, apartment, general merchandise, commercial buildings, hardware, private utility vehicle, internet café, restaurant, water station, construction, trucking, auto supply, RTW, motor parts, and gas station, among others.

■ *Environment-related projects*

LANDBANK offers loans for environment-related and environment-friendly projects such as those that enhance the environment, harness the potential of renewable and alternative energy resources, and promote climate change adaptation.

In 2013, loans outstanding for environment-related projects reached P4.4 billion or 1.4 percent of the Bank's loan portfolio.

► *Carbon Finance Support Facility*

The Carbon Finance Support Facility (CFSF) is LANDBANK's flagship program for the promotion of climate change-mitigation projects through the implementation of Clean Development Mechanism (CDM), a market mechanism introduced by the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC). Developing countries like the Philippines implement CDM projects and generate carbon credits or Certified Emission Reduction (CERs), which can be sold to developed countries to contribute to their compliance to greenhouse gas (GHG) emission reduction targets.

The CFSF was implemented per LANDBANK Executive Order No. 002, Series of 2013, which aims to assist LANDBANK clients in every step of the CDM project cycle including financing with the end-view of generating and monetizing carbon credits to serve as an additional revenue stream.

LANDBANK developed three CDM PoAs (Program of Activities) which are registered with the UNFCCC, namely:

Program of Activity	UNFCCC Registration No./ Date	Eligible Projects	Potential CERs
Methane Recovery and Combustion with Renewable Energy Generation from Anaerobic Animal Manure Management Systems	PoA 5979 May 10, 2012	Piggery Farms	2.0 Million
Landfill Gas Recovery and Combustion with Renewable Energy Generation from Sanitary Landfill Sites	PoA 6767 July 20, 2012	Sanitary/ Landfills/ Dumpsites	2.0 Million
Philippines Mini-Hydro PoA	PoA 8674 Dec. 11, 2012	Mini-hydro	2.0 Million

The PoAs are considered as the first of their kind in the Philippines and in Southeast Asia. LANDBANK intends to make the three PoAs as National Programs supporting the government's Climate Change Mitigation Program.

As of December 2013, LANDBANK facilitated the validation/inclusion of two piggery projects and one sanitary landfill project with estimated CERs of 719,417 tCO₂e up to 2020. The Bank also signed agreements with 13 pig farms, two landfill gas facilities, and one mini-hydro project with aggregated/estimated CERs of 100,895 tCO₂e per year.

The implementation of the CFSF has further demonstrated LANDBANK's commitment to environmental protection and sustainable development. As a result, the Bank's CFSF received a Merit Award in the Environmental Development category of the Association of Development Financing Institutions in Asia and the Pacific Awards in 2013.

► Carbon Seller Participation Agreement

LANDBANK signed the Carbon Seller Participation Agreement (SPA) with the World Bank during the 2013 Annual Meeting of World Bank's Carbon Partnership Facility (CPF) held in Barcelona, Spain last June 2 to 4, 2013. The signed SPA, which signifies an intent towards negotiation of post-2013 carbon credits sales under the CPF, covers LANDBANK's CDM PoAs on piggery biogas projects and landfill gas projects. The CPF is one of World Bank's major carbon finance instruments for the post-2012 carbon credits which objective is aimed at scaling up clean technology investments through programmatic and sector-based approaches. CPF is composed of the Carbon Fund which purchases carbon credits, and the Carbon Asset Development Fund that finances project preparation and implementation of the CPF program.

- *Loans for Socialized, Low-cost and Medium-cost Housing*

LANDBANK supports the government's overall effort in making housing accessible and affordable. LANDBANK considers socialized, low-cost, and medium-cost housing projects as priority sectors. Socialized housing ranges from P400,000 or lower per unit; low-cost housing from more than P400,000 to P3,000,000; and medium-cost housing from more than P3,000,000 to P4,000,000.

In 2013, loans outstanding to housing-related projects reached P31.2 billion. Of this amount, P27.1 billion or 8.9 percent of the Bank's total loan portfolio is classified under the Bank's priority sector.

- ▶ *Gintong Pabahay*

In line with LANDBANK's 50th anniversary celebration and as part of the Bank's commitment to support the government's National Shelter Program, the Bank offered reduced interest rates for its housing loan program through the Gintong Pabahay promo. The program offers a lower interest rate of five percent per annum for the first year for all prospective availers and existing borrowers of the Bank's housing programs such as the EASY Home Loan, Bahay para sa Bagong Bayani, and the LANDBANK End-Buyers Financing Tie-Up with Developers. It started on August 1, 2013 and ended on August 31, 2014.

- *Utilities*

In 2013, LANDBANK expanded its loans to priority sectors to include Utilities which comprise projects pertaining to water, electricity (includes clean power generating plants and distribution), and gas (includes natural gas pipelines). As recognized, investments in the utility

sector are needed in the expansion of other industries.

In 2013, loans outstanding for utilities reached P42.1 billion, accounting for 13.9 percent of the Bank's loan portfolio.

SUPPORT TO THE COMPREHENSIVE AGRARIAN REFORM PROGRAM

As provided in the LANDBANK Charter, the Bank serves as the financial intermediary of the Comprehensive Agrarian Reform Program (CARP). As such, LANDBANK extends key services such as land valuation of CARPable lands, processing of payments as landowners' compensation, collection of amortization payments from agrarian reform beneficiaries, and extension of financial credit and technical support to agrarian reform beneficiaries through conduits.

CARP Land Transfer Operations

In terms of land valuation, 1,784 land transfer claims covering 21,875 hectares were approved for payment in 2013. The total value of the approved land transfer claims amounted to P2.8 billion.

Landowners Compensation and Assistance

As the financial intermediary of CARP, LANDBANK disbursed P3.2 billion as compensation to owners of CARP-covered private agricultural lands in 2013. Out of the P3.2 billion, P1.0 billion was paid in cash while the remaining P2.2 billion was in the form of CARP bonds (P1.8 billion for principal and P0.4 billion for interest payments).

The Bank also assisted CARP-covered landowners and bondholders in the marketing/trading or encashment of their CARP bonds. In 2013, total CARP bonds sold amounted to P539.9 million involving 884 landowners and bondholders which generated an income of P10.5 million.

Land Amortization Collections from CARP Farmer-Beneficiaries

In 2013, land amortization collections from agrarian reform farmer-beneficiaries declined to P345.7 million, 23 percent lower than the P451.8 million collected in 2012 due to devastating typhoons that hit our country.

In support to the land amortization collection operations, the Agrarian Services Group (ASG) of the Bank initiated the streamlining of procedures in the collection and remittance of Agrarian Reform Receivables and Farmers Advance Remittances. The ASG also introduced an automated system of collection of agrarian reform receivables. The system will be in production in 2015.

LANDBANK-administered Agrarian Reform Fund for CARP

The fund balance of the LANDBANK-administered Agrarian Reform Fund amounted to P6.8 billion in 2013 compared to P7.4 billion in 2012.

In 2013, LANDBANK received P2.2 billion from the Bureau of the Treasury for bond servicing requirements of the 10-year CARP bonds under the automatic appropriation of the National Government.

SUPPORT PROGRAMS FOR AGRICULTURAL CREDIT

Agricultural Guarantee Fund Pool (AGFP)

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

The AGFP is in compliance with AO 225-A (dated April 1, 2008) where GFIs and GOCCs are mandated to allocate and contribute five percent of their 2007 surplus for palay production and food projects. The contributions of the GOCCs and GFIs to the AGFP were supplemented by funds from the DA, which fund is held in trust at LANDBANK.

Philippine Crop Insurance Corporation (PCIC)

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

To address the problems and issues related to the implementation of the crop insurance program, a LANDBANK-PCIC Crop Insurance Team was established.

Credit Surety Fund (CSF)

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

As of end-2013, LANDBANK is part of the 29 CSFs established by the BSP in different provinces. The CSF is governed by an oversight committee that is formed at the provincial level and whose members are elected by all contributors to the funds. The Bank allocated P110 million to the CSF pool, of which, P71.2 million was approved for release by the LANDBANK Board. As of end-2013, a total of P54.31 million was remitted as fund contributions to the pool.

Agricultural Credit Support Project (ACSP)

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

The program is funded by Japan Bank for International Cooperation (JBIC) with total funding of JPY 14.6 billion. As of end-2013, total loan releases reached P3.1 billion which was extended to 336 borrowers.

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

The Credit Assistance Program For Program Beneficiaries Development (CAP-PBD) is a program jointly implemented with the Department of Agrarian Reform. The Program aims to provide a transitory credit window to ARB Organizations (ARBOs) in Agrarian Reform Communities (ARCs) and non-ARC areas to capacitate them in their organizational, operational, and marketing skills so that they will be able to graduate to the regular lending window of LANDBANK within two years.

The CAP-PBD is dubbed as the “little brother” of the ACSP whose targeted beneficiaries are also ARBs. They

complement each other in terms of providing additional credit funds to ARBOs that did not meet specific lending criteria.

As of end-2013, the CAP-PBD released P147 million to 86 ARBOs and assisted 4,281 borrowers.

AGRICULTURAL CREDIT EXPANSION PROGRAM

Food Supply Chain Program (FSCP)

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

In 2013, total releases reached P8.2 billion involving 235 conduits (farmer cooperatives, associations and NGOs) and 96 anchor firms. Cumulative total releases from October 2010 to December 2013 reached P26.5 billion.

Sikat Saka Program (SSP)

The Sikat Saka Program (SSP) recognizes the significant and critical role of individual palay farmers as a major player in supporting the Food Staples Sufficiency Program of the Government. LANDBANK forged a partnership with the DA in the implementation of the SSP to address the financing needs of small farmers who are actively engaged in palay production in irrigated lands but are not members of any LANDBANK accredited conduit.

Under the Program, LANDBANK provides direct financial assistance to the small palay farmers (SPF). The Program also provides an integrated support package through the attached agencies of the DA. The beneficiaries under the SSP are issued

with DA Sikat Saka ATM Cards where the loan proceeds are credited and loan payments are debited. As of end-2013, the SSP released P383 million to 3,544 SPFs.

Agrarian Production Credit Program (APCP)

The Agrarian Production Credit Program (APCP) is another partnership program with the Department of Agrarian Reform. The Program veers away from the traditional lending approach and provides a socialized credit scheme to Agrarian Reform Beneficiaries through their organizations.

As of end-2013, the APCP released P204 million to 131 ARBOs with 5,660 ARBs/beneficiaries. The projects of the ARBs include production of sugarcane, palay, corn and potato. A total of P513 million has been approved and allocated to crop production projects such as cacao, vegetable, palm oil, pineapple, sweet pepper, and rubber.

Masustansyang Inumin para sa Likas Na Kalusugan (MILK)

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

Within the month of the program launch, a total of P3.5 million was approved under the Program.

Kalikasang Kabuhayan sa Wastong Pamayanan (KAWAYAN)

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

The KAWAYAN Program aims to position LANDBANK as the topnotch Green Bank in the 21st century and capture part of the USD 12 billion trade of bamboo worldwide.

Integrated Support for Development of Aquaculture (ISDA)

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

As of end-2013, total releases under the ISDA program amounted to P32 million.

Bringing Inclusive Growth in every Household Through National Electrification Support Services (BRIGHTNESS)

The BRIGHTNESS Program is the Bank's response to the need to energize the barangays to spur socio-economic

growth and generate more employment in the countryside. A joint partnership between LANDBANK and the National Electrification Administration, this credit program on rural electrification will provide financing assistance to qualified electric cooperatives and wholesale power aggregators.

CACAO 100

LANDBANK, through the CACAO 100 Program, supports the cacao industry in attaining its target production of 100,000 metric tons of cacao by year 2020. Eligible projects for financing are cacao nursery, cacao plantation, cacao beans processing, manufacturing of by-products, trading, and export of cacao.

AWARDS AND RECOGNITIONS

In recognition of excellence in operational performance and significant contributions in uplifting the lives of members and the local community especially in the countryside, LANDBANK annually confers awards to its outstanding development partners, namely: (1) the Gawad PITAK for model agri- and non-agri cooperatives; (2) the Gawad Entrepreneur for successful small and medium enterprises whose projects improved the socio-economic conditions of the locality; (3) the Gawad CFI for outstanding partner rural banks which helped expand the Bank's financial assistance in the rural areas; and (4) the Gawad KAAGAPAY for corporate clients who contributed to income and employment generation and growth of local businesses.

2013 GAWAD SA PINAKATANGING KOOPERATIBA (Gawad PITAK) WINNERS

Major Awards:

OUTSTANDING AGRI-BASED COOPERATIVES

- 1st Place – Bagumbayan Primary Multi-Purpose Cooperative
Llanera, Nueva Ecija
- 2nd Place – Leon Small Coconut Farmers Multi-Purpose Cooperative
Leon, Iloilo
- 3rd Place – Luntian Multi-Purpose Cooperative
Tiaong, Quezon
- 4th Place – Talabutab Norte Multi-Purpose Cooperative
Gen. Mamerto Natividad, Nueva Ecija
- 5th Place – Sindangan FACOMA Community Multi-Purpose Cooperative
Sindangan, Zamboanga del Norte

OUTSTANDING NON-AGRI-BASED COOPERATIVES

- 1st Place – Barbaza Multi-Purpose Cooperative
Barbaza, Antique
- 2nd Place – Watchlife Workers Multi-Purpose Cooperative
Mariveles, Bataan
- 3rd Place – Socorro Empowered People's Multi-Purpose Cooperative
Socorro, Surigao del Norte
- 4th Place – Iwahori Multi-Purpose Cooperative
Mariveles, Bataan
- 5th Place – NIA-Region IV Employees Multi-Purpose Cooperative
Pila, Laguna

PLATINUM CATEGORY

Sorosoro Ibaba
Development Cooperative
Sorosoro Ibaba, Batangas City

HALL OF FAME CATEGORY

Agri-based Cooperative

- Baug CARP Beneficiaries
Multi-Purpose Cooperative
Magallanes, Agusan del Norte
- Catmon Multi-Purpose
Cooperative
Sta. Maria, Bulacan

Non-agri-based Cooperative

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

GININTUANG GAWAD PITAK NON-AGRI-BASED COOPERATIVE

Dingle Government Workers
Multi-Purpose Cooperative
Dingle, Iloilo

Special Awards

OUTSTANDING COOPERATIVE IN MICROFINANCE OPERATION

Baug CARP Beneficiaries
Multi-Purpose Cooperative
Magallanes, Agusan del Norte

BEST COOPERATIVE IN AGRI-TOURISM

Lamac Multi-Purpose Cooperative
Pinamungajan, Cebu

ULIRANG MAGSASAKA CATEGORY

- Ulirang Magsasaka -
Eduardo R. Policarpio
Cabanatuan City
- 1st Runner-Up -
Emerlito Feliciano
Angono, Rizal
- 2nd Runner-Up -
Rosalina Mapoy
Guiguinto, Bulacan

2013 GAWAD ENTREPRENEUR WINNERS

ENTREPRENEUR OF THE YEAR

Ms. Nora Liwanag
Roxas, Oriental Mindoro

OUTSTANDING AGRI-BASED ENTREPRENEUR

Sps. Amelia and Emmanuel Santos
Bambang, Nueva Vizcaya

OUTSTANDING NON-AGRI-BASED ENTREPRENEUR

Sps. Maria Nova and Salvador Veluz
Lucban, Quezon

BAGONG BAYANI ENTREPRENEUR

Sps. Guillerma and
Macario Tacbianan
San Jose City, Nueva Ecija



2013 GAWAD SA KORPORASYON NA KAAGAPAY SA ATING GANAP NA TAGUMPAY (Gawad KAAGAPAY) WINNERS

LARGE AGRI-BASED
Agumil Philippines, Inc.
Mandaue City, Cebu

1ST RUNNER-UP
RAM Food Products, Inc.
Cabuyao, Laguna

LARGE NON-AGRI-BASED
PA Alvarez Properties and
Development Corp.
San Pedro, Laguna

1ST RUNNER-UP
Philippine BXT Corp.
Lapu-Lapu City, Cebu

MID-SIZED AGRI-BASED
Biotech Farms, Inc.
Banga, South Cotabato

1ST RUNNER-UP
Ferex Agrochem Development Corp.
Makati City

MID-SIZED NON-AGRI-BASED
Duros Development Corp.
Liloan, Cebu

1ST RUNNER-UP
Atlantica Realty Development Corp.
Novaliches, Quezon City

2ND RUNNER-UP
Gothong Southern Shipping Lines, Inc.
Cebu City

2013 GAWAD CFI WINNERS

GOLDEN AWARD

One Network Bank, Inc.
(A Rural Bank)
Davao City

MOST OUTSTANDING CFI (NATIONAL)

- 1st Place - Rural Bank of Goa, Inc.
Camarines Sur
- 2nd Place - Gateway
Rural Bank, Inc.
Bulacan
- 3rd Place - Rural Bank of
San Jose, Inc.
Camarines Sur
- 4th Place - Rural Bank of
Cauayan, Inc.
Isabela
- 5th Place - Cantilan Bank, Inc.
(A Rural Bank)
Surigao del Sur

MOST OUTSTANDING CFI (REGIONAL)

Region I
Rang-ay Bank, Inc. (A Rural Bank)
La Union

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

Region XI
Rural Bank of Digos, Inc.
Davao del Sur

SPECIAL AWARDS

Best CFI Intermediary
Rang-ay Rural Bank, Inc.
La Union

Best CFI Availer (Agri-Agra Loans)
Rural Bank of Cauayan, Inc.
Isabela

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

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

CITATIONS FOR LANDBANK

LANDBANK was awarded as the Best Performing Government Securities Eligible Dealer (GSED) by the Bureau of the Treasury in 2013.

Due to robust trading activities during the year, the Bank earned P8.1 billion in trading gains representing 54 percent growth from its year-ago level of P5.3 billion while investment income reached P10.9 billion. This primarily drove the Bank's net income which grew by 16 percent to P11.7 billion from the year-ago level of P10.1 billion.



The One Network Bank, Inc. (A Rural Bank) in Davao City was conferred the Golden Award in the 2013 Gawad CFI.



OPERATIONAL HIGHLIGHTS

CUSTOMER SERVICE

TOTAL NUMBER OF LANDBANK CARDHOLDERS



7.68 MILLION

TOTAL NUMBER OF PARTNER COOPERATIVES



1,500

TOTAL CCT DISBURSEMENTS



P41.7 BILLION

Expansion and Widening of Delivery Channels

▪ *New Branches*

As part of its continuing effort to expand market reach, the Bank opened eight new branches in 2013, bringing the total number of branches to 341 by year-end. The branches that were opened during the year include Binondo, Tuguegarao Capitol, España, Nasugbu, Naga Rotunda, West San Fernando Branches, and Ortigas Center and NAIA Terminal III Extension Offices.

With these branches, LANDBANK remains to have the most extensive network in the Philippines with presence in 79 of the country's 80 provinces. Of the total branches, 220 are in Luzon, 82 of which are in the National Capital Region, 53 branches in the Visayas, and 68 branches in Mindanao. Apart from its branch network, the Bank also operates eight tellering booths, and eight foreign exchange booths to provide additional banking services.

▪ *New ATMs*

In 2013, a more aggressive ATM deployment program was implemented. During the year, the Bank installed 179 additional new ATMs in various locations nationwide.

The Bank maintains its rank as the fourth largest bank in terms of ATM network in the Philippines with a total of 1,213 ATMs as of end-2013. These ATMs are distributed nationwide with 307 (25 percent) in the National Capital Region, 231 (19 percent) in North and Central Luzon, 208 (17 percent) in Southern Luzon, 199 (17 percent) in the Visayas, and 268 (22 percent) in Mindanao.

As part of the Bank's effort to provide expanded banking convenience to its cardholders, LANDBANK in 2013, also installed off-site ATMs in seven Mass Rail Transit (MRT) stations (Quezon Avenue, GMA-Kamuning, Ortigas, Shaw, Boni, Ayala, Magallanes), three SM Hypermarket

branches (Bicutan, Antipolo, Cainta), and in South Supermarket-Alabang.

The deployment of new and more ATMs addresses the requirements of the Bank's increasing number of cardholders (debit and ATM cards), which by end of 2013 had grown to 7.68 million from 6.29 million in 2012.

In 2013, the Bank tightened ATM security with the installation in all ATMs of PIN Pad Shield and Enhanced Card Reader Bezel in addition to cameras. The PIN Pad Shield guards against shoulder surfing and helps keep PINs private. The Enhanced Card Reader Bezel, on the other hand, prevents the attachment of a skimmer that captures card information of the cardholder.

▪ *Mobile ATMs*

In 2013, the Bank acquired six additional mobile ATMs, bringing the total mobile ATMs to eight. These eight mobile ATMs processed 17,987 transactions for the year amounting to P191.18 million.

By the end of 2013, the mobile ATMs were deployed in various areas, and are used to support the distribution of cash grants to the beneficiaries of the government's Conditional Cash Transfer (CCT) Program; and as an alternative channel for withdrawal transactions of other clients.

The mobile ATMs were proven most useful in providing needed banking services in calamity stricken areas. With the onslaught of Typhoon Yolanda in November 2013, the Bank deployed four mobile ATMs in severely affected areas, making LANDBANK the first bank to extend banking services in Tacloban, Leyte immediately after the typhoon. In December 2013, LANDBANK also deployed another mobile ATM in Iloilo, another Yolanda stricken area, to aid in the payout of cash grants to the beneficiaries of Cash for Work Program of the United Nations Development Program.



341 LANDBANK
branches
as of end-2013

220 53 68
Luzon Visayas Mindanao

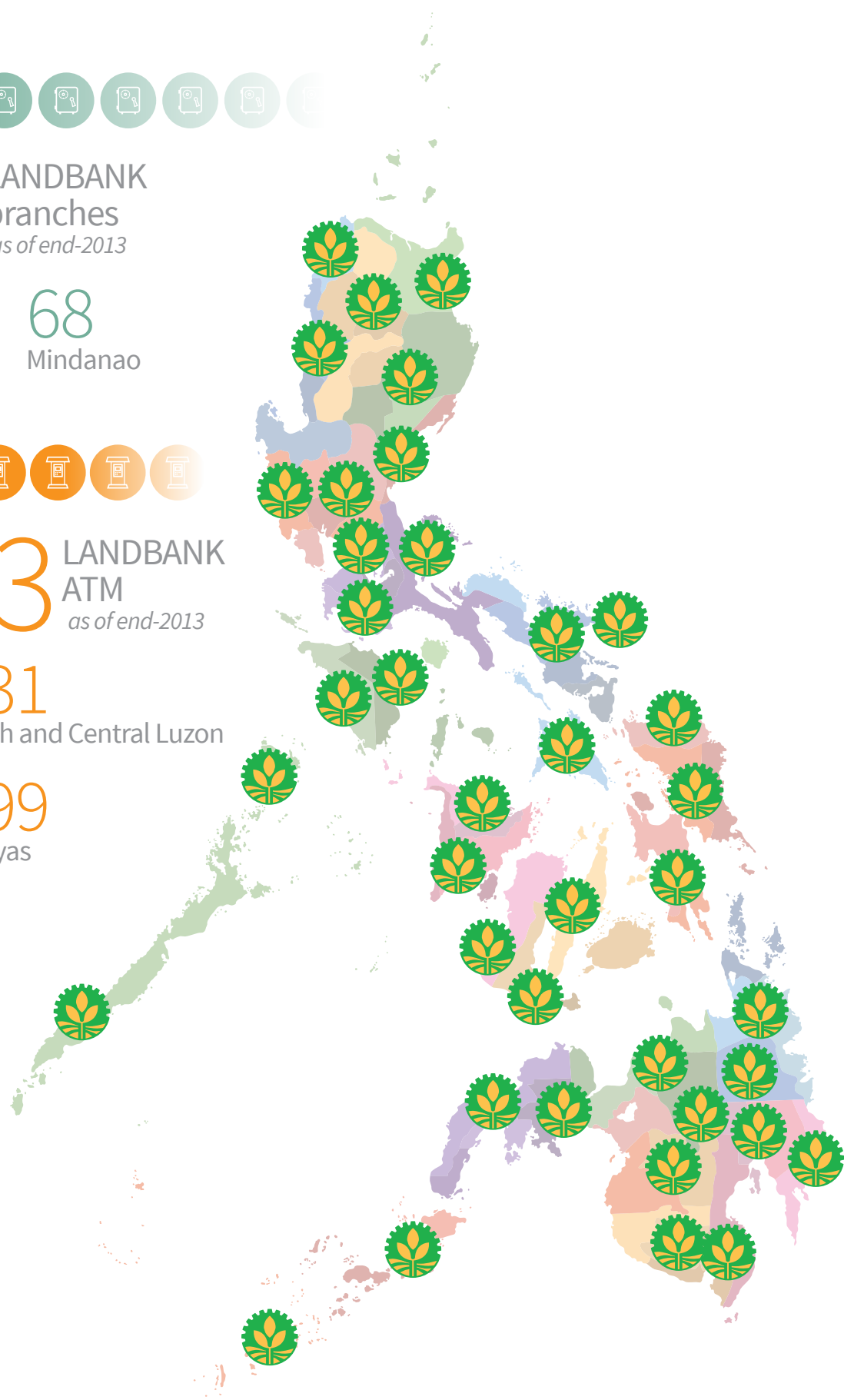


1,213 LANDBANK
ATM
as of end-2013

307 231
NCR North and Central Luzon

208 199
South Luzon Visayas

268
Mindanao



▪ *Lending Units*

The Bank has 34 provincial Lending Centers and eight Head Office-based lending units that cater to the financial requirements of its various clientele such as small farmers and fishers, financial institutions, small and medium enterprises, LGUs, government agencies, and corporate accounts.

Of the total number of provincial Lending Centers, 19 are in Luzon, six in the Visayas, and nine in Mindanao.

▪ *Conduit Banks*

In order to facilitate the delivery of financial assistance and basic banking services to the marginalized sector in the countryside, the Bank partnered with 292 countryside financial institutions to expand its market reach. The partner banks are composed of rural banks, cooperative banks, and thrift/development banks.

In addition, LANDBANK maintained correspondent banking relationships with 876 partner banks that strengthened the service capabilities of the Bank in many areas locally and globally.

▪ *Cooperatives*

LANDBANK accredits cooperatives all over the country as conduits and partners to expand its reach to the marginalized sector, particularly the small farmers and fishers. In 2013, the Bank partnered with 1,500 cooperatives. Of these, 719 are in Luzon, 265 are in the Visayas and 516 are in Mindanao.

▪ *Remittance Tie-ups/Partnerships*

For the year 2013, LANDBANK generated USD727 million of inward remittances through its correspondent banks and remittance partners in the Asia-Pacific, Middle East, USA, Canada, and Europe.

The Overseas Remittance Group continued to strengthen its overseas network in 2013 by establishing tie-ups with 15 remittance agencies, and utilizing its membership with Eurogiro to forge

remittance partnerships with Korea Post, Japan Post Bank, and Bangkok Bank. By end-2013, LANDBANK was able to partner with a total of 140 remittance entities resulting in a wider reach to more Filipinos overseas.

Convenience and Access to Banking Services

▪ *Phonebanking*

The LANDBANK Phone Access is a convenient, secure and reliable alternative delivery channel that allows ATM and current account holders to do self-service banking transactions such as fund transfer, bills payment, bank statement request, checkbook reorder, check status, and balance inquiry. It also allows the account holders to report lost/stolen card and talk to a LANDBANK Phonebanker for other inquiries and concerns.

As of end-2013, the LANDBANK Phone Access has registered a total of 3.17 million enrolled accounts representing 99.99 percent of the total number of eligible accounts. The phonebanking transactions processed during the year reached 2.36 million or an average of 6,457 per day. These include fund transfer and bills payment transactions amounting to P410.05 million and P27.14 million, respectively.

▪ *Mobile Banking*

An alternative mobile banking facility through short-messaging service (SMS) was introduced in July 2013. Through the use of any type of mobile phone, an SMS can be sent by a depositor to inquire on his or her account's available and outstanding balances real time.

To avail of the mobile banking service, the depositor is required to register his or her mobile number and deposit accounts via the LANDBANK Phone Access.

▪ *Point of Sale (POS)*

The LANDBANK ATM/debit card offers the convenience of cashless purchase

using the POS terminals of accredited establishments.

In 2013, the Bank held a POS campaign, in partnership with Mang Inasal of Jollibee Foods Corporation, to promote both LANDBANK ATM/debit card and LANDBANK Visa credit card, specifically to increase card utilization, and to expand card base. For the duration of the campaign period from May 1 to July 31, 2013, every P1,500 and P3,000 single receipt purchase using LANDBANK ATM/debit card and LANDBANK Visa credit card, respectively, entitled the cardholder to one free meal from any of Mang Inasal stores nationwide.

By end-2013, the POS transactions posted a growth rate of 68 percent for LANDBANK ATM/debit card and 13 percent for LANDBANK Visa credit card.

▪ *Retail Internet Banking*

The LANDBANK iAccess is another alternative delivery channel for individual depositors. By logging on to www.lbpiaaccess.com, an enrolled depositor can conveniently perform financial and non-financial transactions anytime, anywhere. The financial transactions that can be done through iAccess include fund transfer, bills payment and checkbook requisition while non-financial transactions include account summary, account history, check status inquiry, returned check inquiry, and report of lost/stolen card.

In 2013, total iAccess enrollment reached 1.07 million registering a growth rate of 40 percent from 762,499 in 2012. The iAccess transactions, on the other hand, also showed a 35 percent growth rate from 10.2 million in 2012 to 13.8 million in 2013 amounting to P1.9 billion.

▪ *Institutional Internet Banking*

The LANDBANK weAccess is the internet banking facility available for institutional clients, both private and government. Various corporate banking services can be accessed online by logging on to www.lbpweaccess.com. These weAccess

online banking services include balance inquiry, account statement, fund transfer, account sweeping, bills payment, auto debiting, auto crediting, payroll, check status inquiry, and loan information.

Total weAccess enrollment increased by 49 percent from 6,352 in 2012 to 9,400 in 2013. The weAccess online transactions grew by 12 percent from 3.4 million in 2012 to 3.8 million in 2013 with transaction value amounting to P43.9 billion.

▪ *LANDBANK Visa Debit Card*

In 2013, the Bank launched the LANDBANK Visa Debit Card in partnership with Visa Worldwide, the global leader in Card Payment System.

Aside from the new card design, this latest card product of the Bank provides more exciting features. The LANDBANK Visa Debit Card is accepted in around two million ATMs worldwide and can be used for POS purchases in over 30 million Visa merchants and retail outlets worldwide. It also allows local and international online, phone and mail order purchases, and overseas remittances from Visa partners worldwide.

▪ *Interbank Fund Transfer*

To address the banking requirements of clients that maintain numerous bank accounts, the Bank launched the Interbank Fund Transfer (IBFT) in May 2013. This facility allows real-time interbank transfer of funds among LANDBANK accounts or BancNet member Bank's accounts using LANDBANK ATMs or BancNet member Bank's ATMs.

IBFT transactions are allowed up to three times per day per source account. The aggregate amount limit per day per source account is P50,000 on top of existing limits on ATM withdrawal, POS, and LANDBANK Phone Access and iAccess fund transfers.

As of end-2013, a total of 20,116 IBFT transactions amounting to P245.81 million were processed by the Bank.

▪ *LANDBANK Remittance System (LBRS)*

The LANDBANK Remittance System (LBRS) is a web-based remittance system launched in March 2013. This new remittance system processes transactions real-time 24/7. Aside from the fast and safe processing of remittance transactions, other notable features of the system are online account balance inquiry, SMS notification, and real-time feedback.

The remittance services available in the LBRS include credit to LANDBANK or other bank's peso and US dollar accounts, cash pick up at any LANDBANK branch or partner outlet, account opening through LBRS, and bills payment facility.

Customer-Centric Bank Products and Services

▪ *Bank Products*

► *Deposits*

All LANDBANK branches nationwide offer a wide array of deposit products that provide financial solutions to the needs and requirements of its customers. Savings, current, and time deposit accounts are available in peso and foreign currencies such as the US Dollar, Euro, Japanese Yen, and Chinese Yuan.

○ *Chinese Yuan Deposit Accounts*

To improve the Bank's competitive position and to extend services to the growing Filipino-Chinese business community, LANDBANK, in 2013, introduced the Chinese Yuan (CNY) savings and time deposit accounts. The CNY deposit products were launched in time for the Chinese celebration of the Year of the Water Snake in February 2013 and were initially made available in Binondo Branch and in the Cash Department at the LANDBANK Plaza. Minimum deposit requirements for the Chinese Yuan savings and time deposit

accounts are CNY2,500 and CNY5,000, respectively.

► *Loans*

As a government financial institution with a mandate to develop the countryside, LANDBANK offers loan products that will allow various clients to engage in agricultural production and businesses, support marketing and logistics, and establish the needed agricultural infrastructure that will support agricultural value chain. LANDBANK also offers lending facilities to address the financing requirements of other clients such as the consumers and the corporates.

As with other universal banks, LANDBANK offers short-term loans and long-term loans to clients, depending on the borrower's or project's specific requirement.

► *Treasury and Investments*

As a universal bank, LANDBANK also provides a range of investment banking services to the public and private sectors. These include equity and debt underwriting, financial advisory, project finance, and debt syndication. In 2013, the Bank's Investment Banking Group was actively involved in investment banking transactions for both government and corporate clients. Of the total issue size of P249 billion, the Bank's participation amounted to P23 billion.

In 2013, LANDBANK served as the Lead Issue Manager for the P150 billion 17th Retail Treasury Bonds of the Bureau of the Treasury and participated in various corporate issuances such as for Maynilad Water Services, Inc., Atlantic Gulf & Pacific Company of Manila, Inc. (AG&P), National Grid Corporation of the Philippines (NGCP), Toledo Power Company, and PR Savings Bank Philippines, among others.

The Bank was also the Financial Adviser for the FDC Misamis Power Corporation, one of the major investment projects in Mindanao, intended to address the power supply shortage in the region. The Bank was likewise mandated as the lead arranger for the modernization of the Philippine Orthopedic Center, one of the forthcoming PPP projects of the government.

In November 2013, LANDBANK successfully issued its first tranche of Long Term Negotiable Certificates of Deposits (LTNCD) worth P5 billion. The purpose of the issuance is to diversify and access long-term funding to finance lending programs for mandated priority sectors and to support expansion plans of the Bank.

► *Trust*

The year 2013 was a dynamic year for the Bank's trust business as various tactical plans and programs were introduced and implemented. The Trust Banking Group adopted "Stewards for Growth and Good Governance" as a battle cry and guiding principle in its operations.

The phasing-out of the BSP-Special Deposit Account (SDA) in 2013 allowed the Trust Banking Group to shift gears, reassess opportunities, and focus back on traditional trust products. The Bank's Personal Retirement Trust Account was re-launched in July 2013 to promote the importance of preparing for one's retirement.

Even with the challenges of the phase-out of SDA, 2013 was a banner year for the Unit Investment Trust Fund (UITF) business of the Bank. The UITF portfolio grew by over 300 percent compared to its performance in 2012. In February 2013, several amendments on the UITF products were implemented as approved by the Bangko Sentral ng Pilipinas (BSP). The amendments aimed to provide more flexibility for better asset management,

affordability, cost effectiveness, and increased market reach. Trust fees of UITF products were also reduced in order to encourage maximum participation by the different market segments.

■ *Services*

► *Customer Care Center*

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

In 2013, a total of 167,504 transactions were handled by the Customer Care Center which included telephone and email requests, as well as iAccess and weAccess transactions.

► *Services to Overseas Filipinos*

LANDBANK extends its services to Overseas Filipinos through financial literacy campaigns conducted in coordination with the BSP, Overseas Workers Welfare Administration, Philippine Overseas Employment Administration, Department of Labor and Employment, and the Commission on Filipinos Overseas. The Bank also works closely with Philippine embassies and other government agencies concerned to help ensure the financial welfare of Overseas Filipinos.

► *Point of Sale (POS) Payment of NAIA Terminal Fees*

The 11 POS terminals installed by LANDBANK at the Ninoy Aquino International Airport helped to facilitate the payment of terminal fees by domestic and international passengers. In 2013, a total of 68,988 POS transactions were processed amounting to P57.3 million.

Cash Management Services for the National Government

► *Modified Disbursement Scheme*

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

In 2013, the Bank processed 84.2 percent of the government's total disbursements involving 5.04 million transactions worth P1.2 trillion. These disbursements included payments and fund releases of the government for developmental projects, operating expenses, and salaries/benefits of government personnel.

▪ *Continuous Form Checks*

LANDBANK handles 31 accounts maintained by 11 government agencies and instrumentalities for payment of its employees' salaries and other benefits. For the year 2013, the Bank processed the encashment of a total of 2.7 continuous form checks amounting to P21.7 million.

▪ *Revenue Collection Services and Other Services*

With its network of branches spread all over the country, LANDBANK becomes a strategic conduit of the government in the collection of duties and taxes. Individuals and corporations make use of LANDBANK branches and facilities in settling their dues on income taxes and import duties to the National Government. Government entities, on the other hand, use the LANDBANK network of branches in facilitating their transactions with the national government, and as

collection touchpoint for the services the government agency offers.

In 2013, the Bank collected a total of P118.7 billion for the national government. Of this amount, P107 billion were tax collections of the Bureau of Internal Revenue involving 4.8 million transactions, while P11.8 billion were collections of tariffs and duties for the Bureau of Customs involving 48,399 transactions.

LANDBANK also extends collection services for the national government and other government agencies. During the year, P86.6 billion involving 837,946 remittance transactions by various government agencies to the Bureau of the Treasury were coursed through LANDBANK.

LANDBANK also collected a total of P20 billion in 2013 for the different programs and projects by various government institutions, such as the Philippine Health Insurance Corporation, Social Security System, Home Development Mutual Fund, National Home Mortgage and Finance Corporation, Social Housing Finance Corporation, Philippine Economic Zone Authority, Department of Budget and Management-Procurement Service, Clark Development Corporation, and Davao City Water District.

▪ *Conditional Cash Transfer (CCT)*

LANDBANK serves as the distribution arm of the Department of Social Welfare and Development for the Conditional Cash Transfer (CCT) Program. In support to the CCT Program, the Bank issued cash cards to the identified beneficiaries where cash grants are credited. The Bank has also partnered with Globe G-Cash, Smart Money, accredited cooperatives, and NGOs to serve as conduits in cash disbursements. Mobile ATMs were likewise deployed in various areas to support the cash distribution.



In 2013, LANDBANK disbursed a total of P41.7 billion to 3.8 million household CCT beneficiaries all over the country.

LANDBANK's BRANCH BANKING OPERATIONS CERTIFIED TO ISO 9001 QUALITY MANAGEMENT SYSTEMS

Seventy-seven LANDBANK Branches and Extension Offices (EOs) including the Office of the Group Head under the National Capital Region Branches Group (NCRBG) successfully passed the two-stage certification audit to ISO 9001:2008 conducted by the Certification International Philippines (CIP), the Bank's third-party certification body. This certification to ISO-QMS 9001:2008 will be valid for three years.

Under the two-stage certification audit, six NCR branches were subjected to Stage 1 certification while 21 Branches and EOs underwent the Stage 2 certification audit. The other NCR branches will be covered by surveillance audit of the CIP during the three-year validity period. Stage 1 audit assesses the adequacy of the documented

system in meeting the requirements of ISO 9001:2008. This includes the suitability of management inputs, policies, objectives, targets, procedures, resources, implementation controls, monitoring, measurement, and improvement of processes. On the other hand, Stage 2 audit assesses the implementation and effectiveness of the documented quality management system in achieving planned objectives and targets.

The ISO certification was conferred to LANDBANK in August 2013 as part of the Bank's 50th anniversary celebration. Overall, NCRBG's branch operation was found to be compliant with ISO 9001:2008 requirements. The quality management system established at NCRBG was proven to be an effective tool in achieving a faster, more efficient service resulting to a higher level of client satisfaction.

The branches' adherence to quality workplace standards set at NCRBG was evident in the general cleanliness of its facilities. This supports the Bank-wide effort to enhance and upgrade facilities in the branches.

As part of the Bank's effort to embed quality management concepts to its officers and staff leading to ISO certification, all NCRBG officers and staff underwent a series of training and workshops which were conducted by the Development Academy of the Philippines since July 2011. Major activities were also carried out during the QMS implementation, one of which is the establishment and regular monitoring of quality objectives involving customer satisfaction rate, account opening turn-around time, ATM availability, and management of transaction reversals. Other major activities include the implementation of 5S/Quality Workplace Program, regular conduct of customer satisfaction surveys, performance evaluation survey of support units at the Head Office, and the conduct of internal quality audit.

To implement QMS initiatives, LANDBANK established and deployed QMS work teams (all Branch/EO Heads, across North and South NCRBG), namely: (1) Planning Team - monitors the achievement of branches and EOs quality objectives; (2) Training and Education Team - ensures that reorientations on quality management system are conducted at least once a year to all officers and staff; (3) Quality Workplace Team - regularly conducts spot checking and audit scoring against set standards on physical surroundings of the Branch; (4) Document Control Team - sets guidelines on the establishment and maintenance of documents and records system in the Branch; (5) Internal Quality Audit Team - conducts regular QMS audit in the Branches to check the compliance of the Branches to operational and quality service requirements.

The ISO-QMS Program is part of the Bank's initiatives to attain excellent customer service. With the ISO certification of 77 NCR Branches, efforts are now aimed towards making all bank units QMS ready and certifiable. All QMS-related initiatives are carried out through the Quality Management Office under the Strategic Planning Group.

INFORMATION TECHNOLOGY SUPPORT AND BANK PROCESSES AUTOMATION

In 2013, LANDBANK continued to invest in IT to support its growing and expanding operations. The Bank completed several IT projects and upgraded existing ones to support various operations of the Bank. These include:

IT Projects/Initiatives Completed in 2013

▪ BancNet ISO Standard Compliance

BISO is BancNet's version of ISO8583, the international standard for systems that exchange electronic transactions made by cardholders using payment cards. The BISO requires more fields than the Expressnet ISO since it caters to more transaction types, including IBFT, Bills Payment, and Online/Internet payment.


▪ Inter-Bank Fund Transfer (IBFT)

The Inter-Bank Fund Transfer is a feature of the Bank's Deposit System that allows real-time transfer of funds (debit and credit) from one account to any destination account maintained in another financial institution for settlement purposes in an e-commerce transaction, or to simply fund an account via transactions initiated through any available delivery channel.

While LANDBANK benefits from easier funding and settlement of checks issued by clients as well as lower operational cost compared with over-the-counter transaction processing, the Bank's clients enjoy faster and more convenient fund transfer service. The IBFT covers a wider coverage, thus eliminating geographical limitations.

▪ Triple Data Encryption Standard (DES) Des/Hardware Security Module (HSM)

The Triple DES is a standard system adopted by the Bank to strengthen security for ATM transactions which was



LANDBANK introduced an alternative mobile banking facility through SMS.

initially implemented for transactions between LANDBANK and BancNet. This is also in compliance with BancNet and BSP requirements.

- *Credit Risk Engine System (CRES) Phase 2*

The Credit Risk Engine System (CRES) is an automated credit rating system capable of scientifically analyzing behavioral patterns of clients by segments to come up with calculations of Probabilities of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Effective Maturity (M) as inputs towards the determination of risk weights of assets (credit) for the calculation of the Capital Adequacy Ratio (CAR).

CRES Phase II aims to enable the automated calculation of Credit Risk Weighted Assets (CRWA) under the Foundation Internal Ratings Based approach.

- *LANDBANK Remittance System (LBRS) Release I*

The LANDBANK Remittance System is a web-based system that processes inward remittances from Overseas Filipinos and partner remittance agencies abroad. The System uses front-office and back-office modules. It also uses delivery modules capable of straight-thru processing through a link with the Bank's deposit system for real-time debiting and crediting of clients' or beneficiaries' peso and other BSP-approved foreign exchange accounts.

The LBRS enables, among others, real-time processing of remittance transactions at lower cost, and expansion of modes of payment, and settlement of remittances.

- *Nationwide Implementation of Loans Origination System (LOS)*

The Loans Origination System (LOS) is an end-to-end workflow loan system which covers online processing of loans from initiation up to approval.

With LOS, processing of loan application is efficiently done by the Bank's lending units, thus significantly reducing the loan processing time to the satisfaction of the Bank's loan clients.

- *Trade Finance System (TFS)*

The Trade Finance System is the Bank's technology solution for a fully automated trade process, booking and reports generation. With the system implementation in April 2013, the Bank's trade clients can expect better quality service. The system also facilitates the Bank's adherence to regulatory requirements (i.e., BSP Chart of Accounts and AMLA).

- *Simplified Account Opening (SAO) thru Service Oriented Architecture (SOA)*

The SAO thru SOA is a web-based online application which primarily aims to simplify the process of opening new deposit accounts without major changes in the existing back-end systems through the use of single application to access the Bank's Deposit System, LANDBANK Phone Access (telephone banking service), iAccess (retail internet banking) and Automated Teller Machine. The encoding of customer information is done only once, paving the way for faster processing and better data quality.

- *Anti-Money Laundering Interfaces*

The interfaces automate the hand-off of transactions coming from the LANDBANK Remittance System (LBRS) and the Total Investment Accounting and Portfolio Management System (TAPS). This improves compliance to the AMLA Law.

- *Major Enhancements on Internet Banking Facilities*

- ▶ *weAccess (Corporate Internet Banking) - ACIC Uploading Facilities*

This uploading facility eliminates the physical delivery of Advice on Checks Issued and Cancelled (ACIC) by LGUs/NGAs and the manual encoding of the same by the branches.

- ▶ *Electronic Modified Disbursement System (eMDS) with the Philippine Government Electronic Procurement System (PhilGEPS)*

This interface enables National Government Agencies (NGAs) to procure and pay over the internet commonly used goods.

IT Infrastructure Initiatives Completed in 2013

- *IT Infrastructure Upgrade*

- ▶ *Midrange Systems Disk Storage Upgrade*

The Midrange Systems Disk/Open Systems Storage Upgrade increased the Bank's external storage from 137TB to 197TB. The upgrade included the consolidation of various storages in the Head Office and Back-up Site.

- ▶ *Mainframe Disk Storage Upgrade*

The upgrade provided the Head Office and Back-up Site a bigger storage capacity (60TB for both sites), smaller footprint, less power consumption and the advantage to use the new features it offers.



The LANDBANK Visa Debit Card is accepted worldwide in over 30 million Visa merchants and retail outlets.

- *Wide Area Network (WAN) Upgrade*

- ▶ *Deployment of WAN Accelerators*

This enables the Branch Offices and Lending Centers to have faster response time on their IP Applications such as Symbols, IDRARS and others. This also enables VSAT-linked branches to have better transaction throughput. A total of 40 field units were installed with WAN accelerators as of end-2013.

- *Upgraded the Network Security Infrastructure*

To improve response time and security of internet based applications:

- ▶ *Link Controller (F5 Local and Traffic Manager)* - for load balancing internet traffic and improved application performance of various LANDBANK internet sites as follows:

- a. www.landbank.com
- b. www.lbpaccess.com
- c. www.lbpweaccess.com
- d. www.lbpieasypadala.com
- e. www.lbp-eservices.com
- f. www.lbp-etps.com
- g. www.lbpemds.com
- h. www.lbpwepayaccess.com
- i. www.lbpasypadala.com

- ▶ *Firewall and IPSec (Internet Protocol Security)* - for better security posture and secure internet protocol communication

- ▶ *DNS (Domain Name System) Appliance* - for efficient internet accessibility and management of LANDBANK websites

- ▶ *SSL-VPN (Secure Socket Layer - Virtual Private Network) Appliance* - for secured access to the Bank's internal system.



OPERATIONAL HIGHLIGHTS

INSTITUTIONAL VIABILITY

CONSOLIDATED NET INCOME



P11.79 BILLION

TOTAL ASSETS



P849.3 BILLION

REGULAR LOAN PORTFOLIO



P303.3 BILLION

ORGANIZATIONAL STRUCTURE

The organizational structure of the Land Bank of the Philippines is shown in Figure 1. The Bank is governed by the Board of Directors with the President and CEO as the Head of the Institution. The President supervises Bank units that directly report to the President and the five sectors of

the Bank namely, (1) the Agricultural and Development Lending Sector, (2) the Branch Banking Sector, (3) the Treasury and Investment Banking Sector, (4) the Corporate Services Sector, and (5) the Operations Sector. The President and CEO also exercises administrative supervision over the units that are reporting directly to the Board of Directors.

LAND BANK OF THE PHILIPPINES

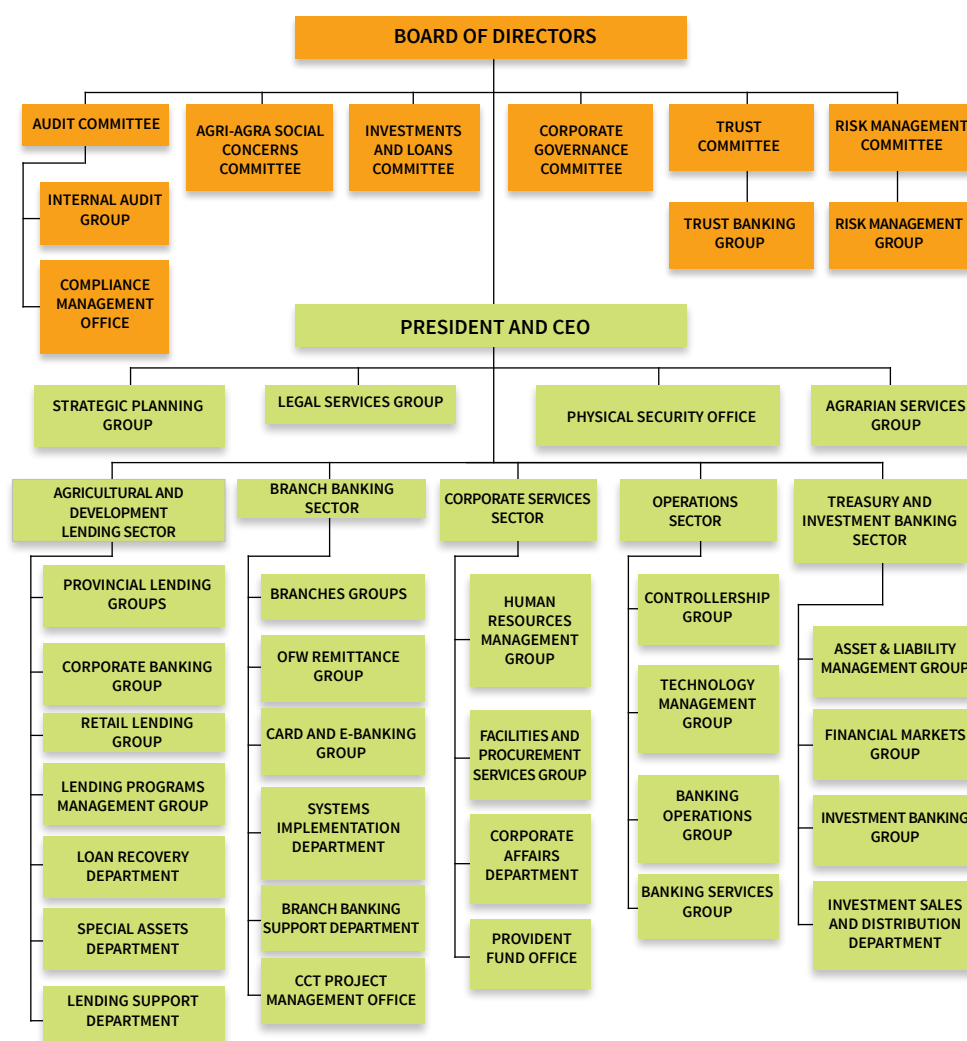


Figure 1. LANDBANK Organizational Structure



Office of the Board of Directors

The LANDBANK Board of Directors is chaired by the Secretary of Finance, with the LANDBANK President and CEO as vice chair. The Board of Directors (BOD) is supported by the Office of the Corporate Secretary. There are six Board-level committees which assist the LANDBANK Board in its bank oversight operations. These Board-level committees include (1) the Audit Committee, (2) the Corporate Governance Committee, (3) the Risk Management Committee, (4) the Agri-Agra Social Concerns Committee, (5) the Trust Committee, and (6) the Investments and Loans Committee.

Units Under the LANDBANK Board of Directors

▪ *Internal Audit Group (IAG)*

The Internal Audit Group (IAG) is functionally under the supervision of the Audit Committee and administratively under the Bank's Office of the President. IAG's main function is to provide independent, objective assurance and support services designed to add value and improve the internal control systems, risk management, and governance processes of the Bank.

For 2013, the summary of the assurance services rendered to the Bank's units, including special reports conducted, and IT Systems audit are as follows:

KRA	Actual	Target	% Accomplishment
Conduct of Assurance Services			
1. AUDITABLE UNITS			
Regular Audit	263	291	90%
Special Audit	95	-	-
Sub-total	358	291	123%
2. IT SYSTEMS AUDIT			
Application Audit	7	7	100%
Post Implementation Review	5	5	100%
Sub-total	12	12	100%
TOTAL	370	303	122%

Starting 2013, IAG included among its major projects the independent validation of the pricing and risk measurement models to provide reasonable assurance that LANDBANK meets business and regulatory requirements and to identify opportunities for improvement and provide recommendations on these models. In 2013, IAG performed independent validation of the six Risk Measurement Models and the Pricing Model used in the Valuation of Unquoted Peso-Denominated Government and Private Securities.

Also included in IAG's major accomplishments are the following – (1) review of the six groups of accounts where LANDBANK has large exposures, (2) the Bank's 2013 Internal Capital Adequacy Assessment Process, and (3) the Business Continuity Management Plan.

IAG also acted as the Lead Auditor during the Environmental Management System (EMS) Internal Audit which is the pre-activity to the Bank's successful recertification to the ISO 14001:2004 on EMS.

Aside from the assurance services, IAG also provided Consulting Services to 14 IT System Development Projects, and participated in the conduct of IT disaster recovery and business continuity drill.

During the BSP-required annual Internal Quality Assessment (IQA) of IAG, it obtained a "Generally Conforms" rating. This IQA covered the processes/activities involved from audit planning to audit report submission and competency development of the staff.

The 2013 accomplishments are the results of the Group's efforts comprising of 120 IAG personnel in three departments, namely, the Field Operations Audit Department, the Head Office and Systems Technology Audit Department, and the Credit Review Department, and the Audit Services Team. Moreover, as part of the IAG's Competency Building Program, one Auditor was conferred with the Certified Information Security Manager title and another Auditor passed the Certified Internal Auditor examination, bringing to 17 the number of Internal Auditors with professional certification.

▪ Trust Banking Group (TBG)

The Trust Banking Group (TBG) is under the direct supervision of the Trust Committee consistent with the provisions stipulated in the BSP Manual of Operations for Banks. It is comprised of the following Bank units – (1) the Trust Portfolio Management Department, (2) the Trust Operations Department (3) the Trust Account Management Department, and (4) the Trust Business Development Department.

The Trust Account Management Department and the Trust Business Development Department were created from the then Trust Marketing Department. The Trust Business Development Department handles the solicitation, marketing of new businesses and product development. The Trust Account Management Department, on



the other hand, handles the management and growth of existing trust accounts. In addition, Marketing Desks were set up in Quezon City, Makati City, and in the Ortigas area to further extend geographic marketing reach and book accounts at point of sale.

These changes in TBG's organizational structure were undertaken in order to concentrate on the growth of new trust business.

- *Risk Management Group (RMG)*

The Risk Management Group (RMG) is the bank unit tasked to monitor the different risks initiatives of the Bank including its subsidiaries and attached agencies. The RMG identifies, assesses controls and mitigates, as well as monitors the Bank's risk profile. In order to ensure the establishment of a sound and formally structured risk management framework throughout LANDBANK, RMG presents its reports to the senior management and the LANDBANK Board.

The RMG also provides guidance on risk management to the Bank's subsidiaries and attached agencies and provides support to the Internal Capital Adequacy and Assessment Process (ICAAP) Steering Committee in the development and enhancement of the ICAAP framework through stress testing and scenario analyses.

LANDBANK's Risk Management Group is comprised of three departments. These are the Business Risk Management Department, the Credit Policy and Risk Management Department, and the Treasury Risk Management Department.

- *Compliance Management Office (CMO)*

The Compliance Management Office (CMO) reports directly to the Audit Committee and handles the identification and dissemination of laws and regulations to provide guidance and direction to the Bank on compliance matters. It coordinates with Bank units on compliance matters, monitors responses

to off-site and onsite audit examinations, evaluates the Reports on Crimes and Losses, and monitors fines and penalties imposed by the regulatory bodies as well as interfaces with regulatory authorities, standard setters, and external experts. The CMO also handles the Anti-Money Laundering System management and monitoring.

Office of the President and CEO

Four Bank units report directly to the LANDBANK President and the CEO. These are (1) the Strategic Planning Group, (2) the Agrarian Services Group, (3) the Legal Services Group, and (4) the Security Officer/Physical Security Office.

Agricultural and Development Lending Sector

The Agricultural and Development Lending Sector (ADLS), headed by EVP Cecilia C. Borromeo, handles the lending operations of the Bank. The ADLS takes the lead in extending financial assistance to the mandated sectors of the Bank including farmers and fishers, and in providing loans supportive to agriculture and fisheries and to the other programs of the national government.

As of end-2013, there are 34 Lending Centers based in key provinces and eight Lending Units at the Head Office catering to retail and mortgage banking, and corporate accounts. For purposes of management and control, the Lending Units are clustered by major island groupings. These are the North and Central Luzon, Southern Luzon, Visayas and Mindanao Lending Groups. The ADLS operations are supported by the Lending Support Department which provides administrative support to the Sector, and the Lending Programs Management Group which takes the lead in programs development and monitoring and sourcing of foreign and domestic funds. The Loan Recovery Department and the Special Assets Department handle matters related to loan recovery for Head Office Lending Units, and ROPAs acquired by all Lending Units, respectively.

Branch Banking Sector

The Branch Banking Sector (BBS), headed by EVP Jocelyn dG. Cabreza, takes the lead in deposit-taking, and in servicing branch banking requirements of the various clienteles of the Bank. For purposes of branch management and control, the 300 branches and 40 Extension Offices by end-2013 are grouped by geographical locations as follows – North and South NCR, North Luzon, Central Luzon, Southeast and Southwest Luzon, East and West Visayas, and East and West Mindanao Branches Groups. The BBS also takes the lead in supporting the banking requirements of OFWs, particularly, the remittance business of the Bank, and the Bank's Card and e-banking operations. Given the extent of its operations, the BBS is provided with administrative support by the Branch Banking Support Department. Technical support to all system users in the Branches, on the other hand, is provided by the Systems Implementation Department.

Under the BBS is the Bank unit which is tasked to handle the implementation requirements of the National Government's Conditional Cash Transfer (CCT) Program. The CCT Program Management Office ensures the efficient delivery and distribution of cash grants to eligible beneficiaries in coordination with the Department of Social Welfare and Development, concerned Bank units, and LANDBANK-accredited CCT conduits.

Treasury and Investment Banking Sector

The Treasury and Investment Banking Sector (TIBS), headed by EVP Rabboni Francis B. Arjonillo, handles the overall supervision over treasury operations and financial resource management as well as investment banking.

Specifically, the Financial Markets Group undertakes the management of the Bank's trading units for both Peso and Foreign Currency-denominated instruments and the formulation of trading strategies using fundamental and technical analysis as well as the monitoring of financial markets.

The Asset and Liability Management Group manages LANDBANK's balance sheet and liquidity and reserve positions.

The Investment Banking Group handles the provision of underwriting services and financial advisory for debt and equity capital market transactions, specialized and structured transactions, fund arrangement and advisory services for corporate finance transactions, and investment banking services for project finance transactions as well as monitoring the performance of all of the Bank's investments in equity and other financial instruments.

▪ *Reorganization of the Treasury and Investment Banking Sector*

In early 2013, the Treasury and Investment Banking Sector underwent an internal reconfiguration to make it more responsive to the requirements of the Bank. Under this reconfiguration, the balance sheet and liquidity function of the then Treasury Group was separated from its trading function paving for the setting up of the Asset-Liability Management Group (ALMG). With the reconfiguration, the TIBS now consists of three groups - the Financial Markets Group, the Asset-Liability Management Group, and the Investment Banking Group.

Operations Sector

At the helm of the Operations Sector (OS) is EVP Andres C. Sarmiento who undertakes the provision of Bank-wide operational support including accounting services and the development and implementation of information technology system-related infrastructure.

Specifically, the Banking Services Group under the OS supervises central cash vault servicing such as cash withdrawals from the Bangko Sentral ng Pilipinas (BSP), cash deliveries to the Bank's cash centers in the NCR and nearby provinces, ATM monitoring and transactions reconciliation, check monitoring, sorting and clearing, and the processing of collections and remittances from branches, as well as the allocation

and reimbursement of the National Government's Modified Disbursement Scheme (MDS).

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

The Controllership Group is in charge of the supervision of the performance of general accounting, inter-office floats management, preparation of the Bank's financial statements and reports for external regulatory bodies, Bank-wide budget preparation and control, management of the Bank's tax position, and documentation of operations and preparation of procedural guidelines on Bank operations.

The Technology Management Group oversees information technology (IT) management functions, particularly coordination on the Bank's IT plans, designing of IT architecture, oversight on the implementation of IT programs in coordination with the designated project teams, management and enhancement of IT infrastructure and applications, as well as provision of technical evaluation or advice for end-user selection of application software and hardware.

Corporate Services Sector

The Corporate Services Sector is headed by SVP Julio D. Climaco, Jr. and handles the overall supervision of delivery of human resource support services (through the Human Resources Management Group), administration of the Bank's facilities, properties and supplies (through the Facilities and Procurement Services Group), and the management of the Bank's Provident Fund (through the Provident Fund Office) as well as the management and administration of LANDBANK's media and external relations programs (through the Corporate Affairs Department).

The LANDBANK Incentive Structure

On the basis of various Republic Acts (RA 3844 as amended by RA 7907) and issuances from the National Government (Office of the President Administrative Orders, DBM Circulars, GCG Circulars), LANDBANK implements an incentive structure that is comparable with that of the private sector. The Bank incentives to employees and staff include, among others, basic pay, contribution to Provident Fund, and other benefits (e.g. medical benefit, death and disability) and allowances (e.g. representation and travelling allowance or RATA, meal and children allowance, longevity pay). The Bank likewise provides night shift differential to employees who are required to work overnight.

Remuneration Policy

In order to attract and retain its pool of quality and competent employees, LANDBANK adopts a remuneration policy that is internally equitable, externally competitive, and which rewards good performance.

CORPORATE GOVERNANCE

The LANDBANK Board of Directors

As a government financial institution wholly owned by the Philippine National Government, all nine members of the LANDBANK Board are appointed by the President of the Republic of the Philippines, none of whom has any shareholdings in the Bank.

The Secretary of the Department of Finance serves as the Chairman of the LANDBANK Board with the LANDBANK President and CEO as the Vice Chairman. The other ex-officio members are the Secretaries of the Department of Labor and Employment, the Department of Agrarian Reform, and the Department of Agriculture. Four private sector representatives, two of whom are representatives of the Agrarian Reform Beneficiaries, complete the list of the LANDBANK Board of Directors.

In 2013, the LANDBANK Board is composed of the following:

- ◆ Honorable Cesar V. Purisima
Secretary, Department of Finance (DOF) and Chairman, LANDBANK Board

DOF Undersecretary Jeremias N. Paul, Jr. (alternate director)

- ◆ Gilda E. Pico
LANDBANK President and CEO and Vice Chairperson, LANDBANK Board

- ◆ Honorable Proceso J. Alcala
Secretary,
Department of Agriculture

DA Undersecretary Antonio A. Fleta (alternate director)

- ◆ Honorable Virgilio R. de los Reyes
Secretary,
Department of Agrarian Reform

DAR Undersecretary
Anthony N. Paruñgao
(alternate director)

- ◆ Honorable Rosalinda D. Baldoz
Secretary,
Department of Labor
and Employment

DOLE Undersecretary Danilo P. Cruz (alternate director)

- ◆ Director Domingo I. Diaz
Representative, Private Sector

- ◆ Director Tomas T. de Leon, Jr.
Representative, Private Sector

- ◆ Director Crispino T. Aguelo
Representative,
Agrarian Reform Beneficiaries

- ◆ Director Victor Gerardo J. Bulatao
Representative,
Agrarian Reform Beneficiaries

As stipulated in the BSP Manual of Regulations of Banks, an independent director should neither be an officer nor a majority stockholder of the Bank, should not be related to any director or officer of the Bank, and must not be retained as a professional adviser, consultant or counsel of the Bank. In 2013, the Bank's independent directors were Victor Gerardo J. Bulatao and Tomas T. de Leon, Jr.

The Functions of the LANDBANK Board

The LANDBANK Board institutes the Bank's overall policies and strategic directions which serve as guide by the LANDBANK management and operating units in the conduct of overall business operations. The LANDBANK Board maintains the oversight and upholds good corporate governance which requires strong adherence to ethical standards and strict compliance with legal, institutional and regulatory requirements, among others. The Board also safeguards the Bank's accountability to its various stakeholders.

Board Performance and Attendance

LANDBANK sustains the implementation of the Annual Performance Rating System for its Board of Directors and four Board-level committees, namely, the Audit Committee, the Risk Management Committee, the Trust Committee, and the Corporate Governance Committee. The self-rating performance assessment of the Board and the four Board-level committees is a corporate governance initiative that was developed in coordination with the Institute for Corporate Directors. It is aimed at regularly monitoring and gauging the directors' performance against internationally-accepted principles of corporate governance and industry best practices. The Bank's standards of corporate governance and improvement in business performance were boosted after the implementation of the rating system.

The self-rating instrument evaluates the effectiveness of the Board and four Board-level committees in the performance of their principal duties and responsibilities both as individual directors and as a collegial body.

The LANDBANK Board held 24 regular meetings and one special meeting in 2013 with an average attendance recorded at 82.5 percent. Perfect attendance was logged by LANDBANK President and CEO Gilda E. Pico.

The LANDBANK Board and the Board-level Committees

In order to achieve efficiency in the discharge of its oversight functions, the LANDBANK Board delegates specific functions and responsibilities to the six Board-level committees. The Board-level committees which provide effective assistance as a body to the LANDBANK Board in the exercise of its duties and responsibilities are the Corporate Governance Committee, the Audit Committee, the Risk Management Committee, the Investment and Loan Committee, the Trust Committee, and the Agri-Agra Social Concerns Committee.

The Board-level committees are governed by individual charters that stipulate the committee's composition, authority, duties and responsibilities. The Board members are remunerated in accordance with the GOCC Governance Act of 2011 (Republic Act 10149). The four non-ex-officio members receive a per diem of P40,000 for every Board session attended in addition to the honorarium for every meeting attended as respective members of the Board-level committees.

▪ *Corporate Governance Committee*

The Corporate Governance Committee (CGCom) serves as the Board's oversight in ensuring that the LANDBANK Board and management consistently observe and practice good corporate governance principles and guidelines, and compliant with the requirements of the Governance Commission for GOCCs (GCG) and other regulators. The CGCom's thrust is to

ensure that the LANDBANK Board and management continuously adhere to the spirit of good corporate governance.

The CGCom is comprised of the LANDBANK President and CEO, the Secretaries of the Department of Labor and Employment and Department of Finance, and three private sector representatives, two of whom are the independent directors.

In 2013, Directors Tomas T. De Leon, Jr. and Victor Gerardo J. Bulatao served as chairman and vice chairman of the CG Com, respectively. The other members of the committee are LANDBANK President and CEO Gilda E. Pico, DOF Secretary Cesar V. Purisima, DOLE Secretary Rosalinda D. Baldoz, and private sector representative Director Domingo I. Diaz.

During the year, the CGCom held four meetings where proposals for reorganization of department/units were discussed and approved. Also, the committee ensured the Bank's compliance with reportorial requirements of the various regulatory bodies such as the GCG, the BSP, the Presidential Management Staff, and the Securities and Exchange Commission.

▪ *The Audit Committee*

The Audit Committee is tasked to provide assistance to the LANDBANK Board in fulfilling its oversight responsibilities over the Bank's financial reporting policies, practices and control, internal and external audit as well as compliance functions.

In 2013, the Audit Committee approved six major initiatives and proposals of the Internal Audit Group (IAG) and Compliance Management Office (CMO), namely:

1. IAG Audit Plan and Major Programs for CY 2013;
2. Revision of the Risk-Based Compliance Methodology Manual;
3. Simplified Anti-Money Laundering Compliance Testing Sampling Methodology;
4. Amendments to the Money Laundering and Terrorist Financing Prevention Program;

5. Updating of the Bank's Compliance Program; and
6. CMO's Alerts Timing Threshold/ Turnaround Policy.

To encourage the units to work towards "Exemplary" performance and emulate best practices in the years ahead, five units that attained "Exemplary" rating in 2012 were awarded by the Audit Committee and the LANDBANK President and CEO with Certificates of Recognition and cash prize of P 50,000.00 per unit.

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

The five-member Audit Committee is composed of the private sector representatives and the Agriculture Secretary.

In 2013, the Audit Committee was chaired by Director Victor Gerardo J. Bulatao with Director Tomas T. de Leon, Jr. as the vice chair. The other members were Directors Crispino T. Aguelo and Domingo I. Diaz and DA Secretary Proceso J. Alcala.

The Audit Committee held 15 meetings in 2013 with an average attendance of 77 percent.

▪ *The Risk Management Committee*

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

In addition, the RiskCom exercises oversight functions on all matters pertinent to risk management including the development of risk strategies, policies, guidelines, procedures and

systems as well as the system of authority limits delegated by the LANDBANK Board to management.

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

The RiskCom convenes twice monthly in order to allow timely risk reporting specifically those pertaining to market, liquidity and interest rate risks.

The RiskCom has five members and is chaired by Director Tomas T. de Leon, Jr. The Finance Secretary sits as vice chair while the rest of the committee members are Directors Domingo I. Diaz and Crispino T. Aguelo, and the Agriculture Secretary.

In 2013, the RiskCom held 19 meetings with an average attendance of 74 percent.

▪ *The Trust Committee*

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

In line with BSP Circular No. 766 (promulgated in 2012), the Trust Committee approved in 2013 various guidelines and policies to aid in the conduct of proper administration of LANDBANK's trust business, namely: (1) Account Review Guidelines; (2) Dual Signatory Policy; (3) Investment Policy Statement; (4) Asset Allocation, Securities Selection and Managing Portfolio; (5) Supplement to Client Profiling; (6) Pre-Need Policy; (7) Personal Retirement Trust Account (PRTA); (8) Winding Down of SDA, and; (9) Trust Fee Policy.

The Trust Committee is composed of five members with the DOLE Secretary as Chairman and the DOF Secretary as Vice Chairman. Members are the DAR Secretary, the LANDBANK President and

CEO Gilda E. Pico, and the TBG Head. The Committee held seven meetings in 2013 with an average attendance of 80 percent.

▪ *The Agri-Agra Social Concerns Committee*

The Agri-Agra Social Concerns Committee (AASCC) is the Board-level committee that focuses on the strengthening of the CARP implementation. Among others, the Committee (1) formulates non-credit policies to improve the delivery of services on CARP and other agri-agra matters; (2) serves as clearing house for LANDBANK's CARP-related non-credit programs; and (3) monitors the status of implementation of the Bank's various non-credit agri-agra and social concerns programs.

The AASCC is composed of five members, namely, Directors Victor Gerardo J. Bulatao and Crispino T. Aguelo (both agrarian reform beneficiaries representatives), the Secretaries of Agriculture and Agrarian Reform and the LANDBANK President and CEO. The Committee Chairman was Director Bulatao while LANDBANK President and CEO Pico was vice chairperson.

Nine meetings were held in 2013 by the AASCC with an average attendance of 80 percent. Perfect attendance was logged by LANDBANK President and CEO Gilda E. Pico, DAR Secretary Virgilio R. de los Reyes, and Director Crispino T. Aguelo.

▪ *The Investment and Loan Committee*

The Investment and Loan Committee (ILC) provides support to the LANDBANK Board in reviewing and monitoring the performance of the loan and investment portfolios of the Bank. Also part of the ILC functions are (1) the evaluation, approval or recommendation to the LANDBANK Board (for its consideration and approval) the proposals for loans and investments in accordance with the Bank's Codified Approving/Signing Authority (CASA) and the Investment Policy Guidelines and Strategy, respectively; and (2) the review and recommendation to the LANDBANK

Board of credit and investment policies and guidelines that will govern the Bank's credit and investments portfolio.

In November 2013, the LANDBANK Board approved the charter of the Investment and Loan Committee to provide the guidelines, set the direction, and to govern the activities of the ILC in the performance of its mandated functions.

LANDBANK's ILC is composed of the LANDBANK President and CEO and the four private sector representatives. In 2013, the ILC was chaired by LANDBANK President and CEO Gilda E. Pico while Director Domingo I. Diaz served as the committee vice chairman.

ILC held 49 meetings in 2013 with an average attendance of 94 percent. A total of 234 loan accounts were approved by the ILC while 226 loan accounts were approved and endorsed to the LANDBANK Board for approval or confirmation. There were 55 credit-related policies and programs deliberated on and approved for implementation. Further, a total of 25 investment accounts were approved and endorsed by the ILC to the LANDBANK Board for confirmation.

REINFORCING RISK MANAGEMENT THROUGH IMPROVED RISK MEASUREMENTS AND ASSESSMENT TOOLS AND CONTROLS

GOOD GOVERNANCE AS A WAY OF LIFE

The corporate governance structure of LANDBANK adheres to the standards of best practice, which upholds the convergence of audit, compliance and risk management as the foundation of a resilient financial institution. The governance structure ensures adequacy, effective implementation, and strict observance of guidelines, policies and procedures that constitute the Bank's controls.

The LANDBANK Board exercises oversight on all risk-related functions and activities of the Bank based on a top-down structure. The overall risk management oversight function of the LANDBANK Board is rendered through the Risk Management

Committee (RiskCom). As the overseer of bank-wide risks, the RiskCom is responsible for approving policies and evaluating the operating effectiveness of the Bank's controls and risk management framework.

RISK MANAGEMENT PHILOSOPHY

Risk management, a fundamental component of good governance, is embedded in all business functions of LANDBANK, whether these are undertaken at the strategic, portfolio or transactional level. As a financial institution involved in various banking activities that expose it to various risks, LANDBANK measures, analyzes, monitors, and controls identified risks. The Bank manages all risks in accordance with set principles, properly aligned organizational structure, defined duties and responsibilities, established policies and procedures, as well as, with appropriate measurement, monitoring, and control processes.

The following outlines the Bank's approach to risk management:

- The LANDBANK Board, through the RiskCom, exercises oversight on all risk-related functions and activities of the Bank based on a top-down structure;
- The Risk Management Group (RMG) is independent from risk-taking units and performs the oversight function for all major risk areas (credit, market and liquidity, operational, and other bank-wide risks). RMG reports functionally to the RiskCom and administratively to the President and CEO of the Bank; and
- The Bank adopts the Enterprise Risk Management (ERM) approach to risk management. ERM looks at the group-wide risks of the Bank from a top viewpoint and analyzes and addresses identified risks together with concerned risk-taking units. ERM reinforces risk analysis as it cross-functionally examines risk interdependencies and dissects the sources of risks.

RISK EXPOSURES AND ASSESSMENT

The matrix below summarizes the Bank's various risk exposures.

Risk	Description
1. Credit Risk	Credit is the Bank's core business. Credit risk arises from counterparty's inability to meet the terms or perform within the bounds of its contract with the Bank. Credit risk in LANDBANK comes in two forms - Counterparty Credit Risk: Loans and Counterparty Credit Risk: Investments.
2. Market Risk	Investments comprise a substantial portion of the Bank's total assets and a major source of the Bank's income. As a market-maker, the Bank should be able to manage the values of its traded financial instruments to prevent losses and erosion of capital.
3. Operational Risk	People, process, systems, external and internal events and legal risks could present loss exposures if not properly managed.
4. Liquidity Risk	The Bank's liquidity is buoyed by the diversity of its fund sources. However, the Bank has to brace itself for unplanned changes or decreases in funds, as well as, manage maturities of its assets and liabilities in order to preclude liquidity risk.
5. Interest Rate Risk	The Bank holds financial instruments whose values could be affected by changes in interest rate, thus the Bank manages its interest rate exposures as well.
6. Concentration Risk	Hefty credit exposures to particular industries or group of borrowers, if not managed, could lead to concentration risk. Regulatory requirements to monitor concentration risk, including the recently-issued Real Estate Exposure, form part of the Bank's credit portfolio risk management and reporting.

RISK MANAGEMENT TOOLS

LANDBANK makes use of various quantitative tools and metrics for measuring, monitoring, and managing risks. Some of these tools are common to a number of risk categories, while others are continuously being developed to respond to particular features of specific risk categories. The following are some of the important quantitative tools and metrics the Bank uses to measure, manage, and report risk:

- Value-at-Risk (VaR). The Bank uses this approach to derive quantitative measures for the Bank's trading book market risks under normal market condition. The VaR for a total

portfolio represents a measure of the Bank's diversified market risk in that portfolio.

- Stress Testing. Analysis of credit, market, counterparty and liquidity risk is supplemented with stress testing. Stress test helps the Bank determine the effects of potentially extreme and probable market developments on the value of its market risk sensitive exposures, on its highly liquid and less liquid trading positions, as well as, on investments. For liquidity risk management purposes, the Bank performs stress tests to evaluate the impact of sudden stress events on its liquidity position.

Stress testing is an integral component of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and is done annually for all the eight risk categories under the "Business as Usual" and "Worst Case" scenarios. The Bank is an active participant in the industry-wide BSP Uniform Stress Testing which is conducted semi-annually.

- Scenario Analysis. This is a tool that generates forward-looking "what-if" simulations for specified changes in market factors and examines the scenarios impact on the Bank's current portfolio and liquidity position.

Scenario analysis is also done for the Bank's large loan exposures, which simulates the impact of various levels of loan default on Credit Risk Weighted Assets and on the Capital Adequacy Ratio.

- Independent Model Validation. Risk models developed and used by the Bank are subjected to independent model validation by the Internal Audit Group or a third party auditor. An independent validation is also being done by the Basel Officer for Market Risk who reports directly to the Head of the Risk Management Group.

- Regulatory Risk Reporting. The Bank submits to BSP, on a quarterly basis, the results of Capital Adequacy Ratio (CAR) Calculation. This is in compliance with BSP Memorandum Circular No. 538, s. of 2006 re: calculation of the Bank's CAR consistent with the revised International Convergence of Capital Measurement and Capital Standards.

- Regular Risk Reporting. Reporting of the Bank's major risks (credit, market, liquidity, interest rate, equities, foreign exchange and operational risks) is made during RiskCom bi-monthly meetings. Summary of risk reports taken up at the RiskCom are submitted on a monthly basis to the LANDBANK Board for confirmation. Risk reports

include, among others, a view of the Bank's loan portfolio quality, liquidity gap, market risk profile, deposit profile and operational concerns encountered and addressed by various business units.

CREDIT RISK MANAGEMENT

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

▪ Credit Risk Assessment

Credit risk assessment is a function of the Bank's lending sector and is guided by established policies and procedures which are regularly reviewed and enhanced. In close coordination with the lending units, RMG issued 37 credit policies, bulletins and executive orders in 2013, to complement, update or enhance existing credit policies and guidelines.

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

For all client types, credit risk management is supplemented by credit rating systems which were developed for corporations, small and medium enterprises, financial institutions, cooperatives, and local government units. The ratings of clients are being used,

among others, as basis for determining the credit worthiness of loan clients. Independent review of the ratings after loan approval is done by RMG to support the Internal Credit Risk Rating System (ICRRS) ratings as required by the BSP. For 2013, RMG completed the post-validation of 406 ICRRS ratings of corporate clients.

In the same year, the Bank approved the executive order implementing the automated credit rating system model for Local Government Units. The manual credit rating models for Rural, Thrift and Cooperative Banks developed under the first phase of the Credit Risk Engine System (CRES) underwent calibration while the model for cooperatives, corporates, and SMEs were at the initial stage of model development.

▪ *Credit Risk Exposure and Credit-related Commitments*

Credit risk with respect to derivative financial instruments is limited to those

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

The table below shows the maximum exposure to credit risk for the components of the Balance sheet, including derivatives. The maximum exposure is shown net, after the effect of mitigation through the use of master netting and collateral arrangements.

	Group		Parent	
	2013	2012	2013	2012
On-Balance sheet financial assets				
Cash and balances with BSP (excluding Cash on hand)	249,858,094	85,551,095	249,774,284	85,444,272
Due from banks	3,196,281	4,185,595	3,140,487	3,545,429
Interbank loans receivable	7,036,608	11,168,108	7,036,608	11,168,108
Securities purchased under resale agreements	6,122,000	25,000,000	6,122,000	25,000,000
Financial assets designated at fair value through profit or loss-Held for trading	2,347,077	3,813,577	2,347,077	3,813,577
Available-for-Sale investments	175,334,921	183,842,973	175,334,921	183,842,973
Held-to-maturity investments	40,904,585	43,547,220	40,101,183	43,271,825
Loans and receivables	259,852,659	229,451,782	258,444,145	227,931,668
Total	744,652,225	586,560,350	742,300,705	584,017,852
Off-Balance sheet items				
Financial guarantees	3,161,981	1,501,618	3,161,981	1,501,618
Loan commitments and Contingent liabilities	63,002,492	40,122,768	63,002,492	40,122,768
	66,164,473	41,624,386	66,164,473	41,624,386
Total Credit Risk Exposure	810,816,698	628,184,736	808,465,178	625,642,238

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

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

▪ *Collateral and Other Credit Enhancements*

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

The following are the main collaterals accepted by the Bank:

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

The Bank also obtains guarantees from corporations which are counter-guaranteed by the Philippine National Government and from other corporations accredited by the Bank. In the case of agricultural and agri-related loans that are vulnerable to the effects of climate and weather disturbances, borrowers are encouraged to avail of guarantee and insurance mechanisms to shield them, as well as, the Bank from risk events.

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

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

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

▪ *Credit Stress Testing*

The Bank regularly conducts stress testing of its large exposures covering various scenarios arising from risk events with high probability of occurrence. Utilizing such scenarios, tests were done to determine the magnitude of impact of the large exposures on the Bank's loan portfolio quality, the credit risk weighted assets (CRWA) and ultimately, the Capital Adequacy Ratio (CAR). The results of the stress tests enabled the Bank to visualize and create courses of actions and options to mitigate, if not eliminate, the resulting risk.

▪ *Credit Risk-Weighted Assets*

LANDBANK's Gross Credit Risk-Weighted Assets (CRWA) as of end-2013 was at P336,779.315 million broken down as follows:

Nature of Item	Amount
Total Risk Weighted On-Balance Sheet Assets	303,569.663
Total Risk Weighted Off-Balance Sheet Assets	33,022.511
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives & Repo-style Transactions)	0.000
Total Counterparty Risk-Weighted Assets in the Trading Book	187.141
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book	0.000
Total Risk-Weighted Securitization Exposures	0.000
Total	336,779.315

The total Credit Risk-Weighted Assets net of General Loan Loss Provision was P334,091.883 million. CRWA is 86.90 percent of the aggregate RWA of P384,439.649 million.

MARKET RISK MANAGEMENT

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

Risk exposures differ depending on whether these are calculated for financial accounting or under International Financial Reporting Standards (IFRS). The standardized approach is used in the calculation of capital charge for all risk exposures. The Basel 2 Pillar 3 disclosures are generally based on the measures of risk exposure used to calculate the regulatory capital required. For the Market Risk component, the table below provides a breakdown of Market Risk Weighted Assets for market risk portfolio exposures calculated using the standardized approach.

▪ Market Risk-Weighted Assets

As of end-2013, the Market Risk-Weighted Assets (MRWA) of the Bank stood at P6,855.098 million, broken down as follows:

Item	Nature of Item	Amount (in Php M)
A.	Using Standardized Approach	
A.1	Interest Rate Exposure	176.638
A.2	Equity Exposure	150.075
A.3	Foreign Exchange Exposure	1,145.660
A.4	Options	5,382.725
	TOTAL MARKET RISK WEIGHTED ASSETS	6,855.098

The total MRWA represents 1.78 percent of the aggregate Risk Weighted Assets of P384,439.649 million.

▪ Market Risk Management Framework

LANDBANK is exposed to market risks in both its trading and non-trading banking activities. Operations are regulated by market risk policies such as the approval process and approving authorities on exposure limits. Market risks are controlled by restricting trading operations to a list of permissible instruments contained in the Investment Policy Guidelines and Strategy of the Bank within authorized limits set by the LANDBANK Board.

The Bank assumes market risk in market making and position taking in government securities and other debt instruments, equity, foreign exchange, and other securities, as well as, in derivatives or financial instruments that derive their values from price, price fluctuations and price expectations of an underlying instrument (e.g. foreign exchange). The Bank's exposure on derivatives is currently limited to currency swaps and currency forwards to manage foreign exchange exposure. Although the Bank is also exposed to derivatives that are embedded in some financial contracts, these are considered insignificant in volume.

The Bank's primary instrument in managing market risk is the limit setting process using a system of market risk limits set based on industry-accepted methodologies. This is combined with risk sensitivities, Value-at-Risk (VaR), Stress Testing, Capital Adequacy Ratio and other capital monitoring measures to manage market risks. The main objective is to measure and control the risk-taking activities and ensure that limits are established based on the level of risk tolerance defined by the LANDBANK Board and the ability of the Bank to absorb market shocks guided by regulatory requirements (such as the CAR) and application of risk mitigating measures (e.g., Management Action Triggers for Net Unrealized Gains/Losses to monitor capital impact, VaR diversification for portfolio management, etc.).

The LANDBANK Board, as duly recommended by the Risk Management Committee and the Asset and Liability Committee (ALCO), defines and sets various market risks limit for each trading portfolio, which limits are allocated and conveyed to the traders in the trading units of the Bank.

Risk limits are monitored on a regular basis using existing system infrastructure. The unit's risk monitoring process is supported by the middle office monitoring system. A management loss alert is triggered whenever losses during a specified period equal or exceed the specified management loss alert level. The Bank controls and minimizes the losses that may be incurred in daily trading activities through the VaR and Stop Loss Limits.

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

▪ Managing Market Risk Components

The following discusses the market risk components and the respective risk mitigation techniques:

► Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. Assets and liabilities

are classified into rate and non-rate sensitive, fixed interest rate and floating interest rate. The slotting/ bucketing is based on expected time of cash flows or liquidation. Floating rate assets are bucketed according to re-pricing date or amortization, not maturity date. For loans, the amounts are validated with data sources or originating units of the Bank and bucketing is matched with the FRP Report being submitted to the BSP. LANDBANK adopts two perspectives in measuring Interest Rate Risk as follows:

- ◆ *Earnings Perspective.* The Bank uses the Earnings-at-Risk (EaR) Model to estimate changes in net interest income (NII) under a variety of rate scenarios over a twelve-month horizon. It is a simulation method that analyzes the interest rate risk in the banking book in terms of earnings (accrual basis). EaR measures the loss of NII resulting from upward/downward interest rate movements in a "Business as Usual" environment, either through gradual movements or as a one-off large interest rate shock over a particular time horizon.

The following table sets the re-pricing gap position of the Bank as of end-2013 and the increase (decline) in earnings for upward and downward interest rate shocks in the banking book:

2013 (in Php Millions)				
Financial Assets	1 to 30 Days	>1 to 3 Months	>3 to 6 Months	>12 Months
Due from BSP	133,950.00	-	-	-
Total Loans	34,905.77	32,525.09	30,747.99	18,489.26
Total Investments	2,428.35	80.33	1,515.06	3,916.88
Sales Contract Receivables	35.46	5.67	18.42	149.21
Total Financial Assets	171,319.58	32,611.10	32,281.47	22,555.35
Financial Liabilities				
Deposits	228,090.19	97,885.80	20,497.78	4,041.86
Bills Payable	-	1,733.91	6,893.54	89.81
Total Financial Liability	228,090.19	99,619.72	27,391.32	4,131.67
Repricing Gap	(56,770.61)	(67,008.62)	4,890.14	18,423.68

2013								
	Change in Interest Rates (in basis points)							
	-200	-150	-100	-50	+50	+100	+150	+200
EaR (In P'Million)	1,590	1,192	795	394	(397)	(795)	(1,192)	(1,590)

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

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

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

2013									
(In ₱ Million)	Change in Interest Rates (in basis points)								
	-200	-100	-50	-25	Base	25	50	100	200
EVE-at-Risk	4,873	2,418	1,232	601		-599	-1,285	-2,382	-4,730

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

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

► Foreign Exchange Risk Management

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

The Bank had the following significant exposures denominated in foreign currencies as of end-2013:

(In thousands)			
	US\$	Others	Total
Assets			
Foreign Currency & Coins on Hand /Cash & other cash items	12,517	1,193	13,710
Due from banks	63,426	6,008	69,434
Held for trading	5,859	-	5,859
Available for sale investments	419,595	5,600	425,195
IBODI	458,582	-	458,582
Interbank loans receivable	158,500	-	158,500
Loans and receivables	65,576	95,927	161,503
Investment in subsidiaries	923	306	1,230
Other assets	11,783	1,561	13,344
Total Assets	1,196,761	110,595	1,307,356
Liabilities			
Deposit liabilities	747,279	6,138	753,417
Bills payable	87,574	428,662	516,236
Others	55,120	2,707	57,827
Total Liabilities	889,973	437,507	1,327,480

▪ *Market Risk Measurement and Validation Models*

- ▶ *Value-at-Risk Analysis.* Value at Risk (VaR) is a statistical approach for measuring the potential variability of trading revenue. It is used to measure market risk in the trading book under normal conditions, estimating the potential range of loss in the market value of the trading portfolio, over a one-day period, at the 99 percent confidence level, assuming a static portfolio.

VaR is calculated by simulating changes in the key underlying market risk factors (e.g., interest rates, interest rate spreads,

equity prices, foreign exchange rates) to determine the potential distribution of changes in the market value of the Bank's portfolios of market risk sensitive financial instruments. Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management.

The Value-at-Risk disclosure for the trading activities is based on internally developed Historical Simulation VaR Calculation Model. The Bank continuously pursues initiatives to improve processes in preparation for the Bank's migration towards an Internal Model Approach for capital

charging. The VaR disclosure is intended to ensure consistency of market risk reporting for internal risk management, for external disclosure and for regulatory purposes.

- ▶ **Back-Testing.** Back-testing is a standard measure in determining the accuracy and predictive ability of risk models being used by the Bank. In back-testing, the focus is on the comparison of actual and hypothetical daily changes in portfolio value with the results of model-generated risk measures such as VaR.

Back-testing results are presented to the ALCO and the RiskCom. The Committees analyze actual performance against VaR measures to assess model accuracy and to enhance the risk estimation process in general. The BSP has not raised any issue on the Bank's VaR and back-testing models.

Back-testing compares the 1-day 99 percent aggregate VaR calculated on positions at the close of each business day, with the revenues generated by those positions on the following business day. These back-testing revenues include non-trading revenues, such as fees and commissions, and estimated revenues from intraday trading. A "back-testing exception" occurs when back-testing revenues are negative and the absolute value of those revenues is greater than the previous day's VaR.

For the fourth quarter of 2013, HS VaR model back-testing results showed minimal exceptions for the Equities and Government Securities portfolios and generally fell in the safe zone. These results indicated the accuracy and consistency of the HS VaR models for the two portfolios. For Foreign Exchange and Foreign Securities portfolios, back-testing resulted to a considerable number

of exceptions and were in the problematic zone. The Bank has addressed the exceptions through model review and enhancement, as well as, the conduct of parallel back-testing.

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

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

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

LIQUIDITY RISK MANAGEMENT

▪ *Liquidity Risk Management Framework*

The LANDBANK Board has delegated the responsibility of managing the overall liquidity of the Bank to the Asset and Liability Committee (ALCO). This Committee meets twice a month or more frequently as required by prevailing situations. Senior management is responsible for effectively executing the

liquidity strategy and overseeing the daily and long-term management of liquidity risk.

As part of the Bank's liquidity management processes, the Asset and Liability Management Group submits to the TIBS Head and the President the Daily Treasury Reports which include the Bank's cash/near cash investments and other data related to liquidity.

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

The Bank formulated a liquidity contingency plan using extreme scenarios of adverse liquidity. The contingency plan focuses on LANDBANK's strategy for coordinating managerial action during a crisis and includes procedures for making up cash flow shortfalls in adverse situations. The plan details the amount of available funds of the Bank (such as unused credit facilities) and the scenarios under which it could use them.

As of end-2013, P97.77 billion or 11.61 percent of the Bank's total assets were represented by Total Loans with remaining maturities of less than one year and P22.71 billion or 2.70 percent of the total assets were invested in trading and investment securities with remaining maturities of one year or less.

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

▪ *Liquidity Risk Measurement Tools*

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

- ▶ *Liquidity Gap Report* The Bank does liquidity gap analysis using the Liquidity Gap Report (LGR). It is a risk measurement tool used in identifying the current liquidity position to determine the ability of the Bank to meet future funding needs. It breaks down balance sheet items according to estimated maturities of assets and liabilities in order to determine any future structural imbalances such as long-term assets growing faster than long-term liabilities.

The Bank has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk, consistent with the nature and complexity of its business activities, overall level of risk, and its risk appetite. The Maximum Cumulative Outflow (MCO) limit set by the LANDBANK Board is one of the tools used to manage and control the liquidity risk in the gap report of the Bank. It is a measure of the liquidity gap between maturing assets and liabilities. The MCO limits put a cap on the total amount of negative gaps in the near time buckets.

The following table sets forth the asset-liability gap position over the detailed time period for the Parent at carrying amounts in million pesos as of 31 December 2013 based on contractual repayment arrangements which take into account the effective maturities as indicated by LANDBANK's deposit retention history.

PARENT 2013						
	Due within 3 mos	Due more than 3 to 6 mos	Due more than 6 mos to 1 year	Due more than 1 year to 5 years	Due more than 5 years	Total
Financial Assets						
Cash and Due from Banks	244,123	0	28,867	0	2	272,992
Total Loans	54,742	32,136	21,979	66,008	159,296	334,161
Total Investments	3,746	951	14,590	66,119	137,364	222,770
Other Assets	1,186	0	272	0	15,702	17,160
Total Assets	303,797	33,087	65,708	132,127	312,364	847,083
Financial Liabilities						
Deposits	285,716	21,311	5,377	466	391,188	704,058
Borrowings	1,768	486	1,400	8,287	13,124	25,065
Other Liabilities and Unsecured Subordinated Debt	580	13	583	2,789	34,039	38,004
Total Capital	0	0	0	0	79,956	79,956
Total Liabilities & Capital	288,064	21,810	7,360	11,542	518,307	847,083
Asset & Liabilities Gap Position	15,733	11,277	58,348	120,585	(205,943)	

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

- ◆ Liquid Asset to Total Assets Ratio;
- ◆ Volatile Liabilities against Liquid Assets Ratio;
- ◆ Volatile Liabilities against Total Assets Ratio; and
- ◆ Liabilities against Assets (Debt/Total Asset Ratio).

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

▪ Measures to Limit Liquidity Risk

To complement the LANDBANK Board and Senior Management oversight on liquidity risk, the Bank has instituted the following measures to limit the risk:

- ▶ Diversified funding sources. The Bank has identified several sources of funding such as cash from operations, sale of Government Securities (GS) under Available for Sale (AFS), Government and retail deposit sources, interbank market and borrowings from BSP, among others;
- ▶ Consolidated liquidity risk measurement. LANDBANK performs comprehensive liquidity risk measurement and control using as tool the Consolidated Liquidity Gap Report covering the entire LANDBANK Group; and
- ▶ Liquidity risk model enhancement. For 2013, enhancements were made on the liquidity risk model as a result of independent model validation by a third party auditor.

The Bank uses the Liquidity Gap Report or the Maximum Cumulative Outflow Model for risk oversight. A summary of major enhancements on the model are as follows:

- ▶ Distinguished Core from Solid Core Deposit. Further refinement was made in the calculation of core deposit to enhance the model and liquidity analysis by determining the Solid Core Deposit level. Solid Core Deposit is defined as the stable deposit in a particular account with a given probability defined as the confidence level, over a given time horizon. It is based on the distribution of historical data of deposit and is calculated by marking the point where

99 percent of all deposits have better values than the remaining 1 percent (used statistical process known as 1st Percentile).

- ▶ Determination of behavioural withdrawal pattern for bucketing Savings and Demand Deposit. Savings and demand deposits are non-maturity deposits. An additional analysis made to proximate scenario is to simulate behavioural withdrawal pattern. This is done by observing pattern of deposit decays of the total end-of-day data for demand deposit account based on a five-year historical demand deposit data. The highest withdrawal percentage change is determined for each tenor bucket. The percentages are used as basis for slotting the non-core amount under the different tenors. The remaining non-core deposit amount which is unpositioned or unbucketed is placed in the '1 to 7 days' category.
- ▶ Classification of Deposits as Core and Non-Core in the LGR. For clarity, deposits were reclassified as core and non-core deposits. Core deposits comprising of calculated core deposits of Savings, Demand, and Time are slotted based on the contractual maturity of core deposits. Non-core deposits are slotted based on the bucketed deposit data sourced from the Data Warehouse System. Non-core Demand and Savings are slotted using two approaches: bucketed in the '1 to 7 days' category and based on the behavioural withdrawal pattern for Demand and Savings deposits.
- ▶ Creation of Asset Reserve Account under Assets. The Bank separated the Reserve Asset Account from the Government Securities and

the Private Debt Account. An Asset Reserve Account was created where securities tagged as Liquidity Reserve were slotted based on their contractual maturity for easier liquidity analysis.

- ▶ Reclassification of Accounts. Some balance sheet accounts were reclassified based on the nature of transactions.

OPERATIONAL RISK MANAGEMENT

The operational risk management process of the Bank is clearly defined in the Risk Management Manual and is performed in three levels for compliance with the BSP and Basel II rulings. The philosophy of *“Risk management is everyone’s responsibility”* exemplifies the Bank’s risk management culture, which is already embedded in its operations. The collective risk management responsibilities are equitably shared from the top level to the lowest staff in the organization.

The Bank adopts the best practice in operational risk reporting by implementing submission of regular reports on risk exposure and losses by independent middle offices (e.g., RMG, Compliance Office, and IAG) to the RiskCom, the AuditCom, and the entire LANDBANK Board.

▪ Risk Measurement/Risk Exposure

As of December 31, 2013, the Bank’s Risk Weighted Assets (RWA) for Operational Risk using the Basic Indicator Approach (BIA) was P43,493 million or 11 percent of the Bank’s entire RWA of P384,440 million.

The development and use of the aforementioned risk management tools contributed to the reinforcement of operational risk management in the Bank. Controls implemented in the previous years resulted in the low risk profile of the Bank’s operations posting manageable actual losses of P23,546,463

in 2013. A greater portion of the actual losses (around 60 percent) was accounted for by the Basel II risk event “Damage to Physical Assets” in view of the natural and man-made disasters that occurred in the past year. The aggregate actual operational losses represent five percent of the P43,493 million ORWA calculated under the BIA model, which is indeed a very substantial variance.

▪ Controls/Tools for Monitoring/Mitigating Operational Risks

To identify, measure, monitor, control/mitigate operational risks, the Bank has been implementing the following tools. Likewise, it has continued enhancing said tools and mitigation techniques to fully capture the true risk profile of the Bank:

- ▶ Continuous updating of the Bank’s Internal Policies and Controls (Operation Manuals and Policy Manuals);
- ▶ Risk and Control Self-Assessment (RCSA);
- ▶ Risk Assessment Register (RAR);
- ▶ Risk Assessment Map (RAM);
- ▶ Heat Map;
- ▶ Internal and External Risk-based Audit;
- ▶ Transfer of risk to third party via comprehensive insurance;
- ▶ Table Top Testing;
- ▶ Loss Event Report;
- ▶ Business Continuity Plan;
- ▶ Business Impact Analysis (BIA);
- ▶ Product Management Business Model;
- ▶ Maintenance of database for losses, near miss, potential loss, risk incidents;
- ▶ Continuous review of risk appetite and thresholds; and
- ▶ Adoption of an Integrated Stress Test to assess the vulnerability/resilience of Bank’s preparedness to crises and disasters.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) HIGHLIGHTS

Amid domestic and global economic challenges during the year, LANDBANK showed resiliency and stability and has maintained its position among the top universal banks in the Philippines. The extension of the Bank's corporate life for another 50 years was a milestone in 2013 and served as an impetus to face a challenging but exciting prospect of a renewed, fresh mandate to serve the country and its people for another 50 years.

To prepare the Bank for the challenges ahead, the 2013 ICAAP model was enhanced to further sensitize the assessment of the Bank's 2013 risk profile of the Pillar 1 and Pillar 2 risks and fully integrate ICAAP into the Bank's over all culture particularly at the level of the Business Units. This was reinforced by the strong links forged among the support units and by the risk management and capital management functions. The improvement included a qualitative risk assessment that resulted in a structured approach and uniform presentation of data and quantitative measurement of risks, whereby the impact of losses on the Bank's Capital Adequacy Ratio was assessed based on two scenarios - "Most Probable Scenario" and "Worst case/Stressed" scenarios.

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

The enhanced ICAAP model further defined the escalation procedures in the regular review and monitoring of actual losses vis-a-vis estimated losses. Such procedures are aimed at strengthening risk governance of ICAAP implementation, which is spearheaded by the Management Committee and Risk Management Committee.

In conclusion, the results of the 2013 risk assessment and capital management reveal that the Bank has more than sufficient capital to finance the performance of its banking

functions, and address the risks under the most probable and stressed scenarios.

STRENGTHENING COMPLIANCE MANAGEMENT THROUGH ENHANCED POLICIES AND MONITORING SYSTEMS

LANDBANK further strengthened the implementation of its risk-based compliance management program in 2013.

Several initiatives were undertaken during the year that focused on improving existing policies and controls for effective compliance and enhancing management information systems and tools for timely and adequate monitoring of compliance requirements.

▪ *AML System Enhancements*

The Bank operates the Anti-Money Laundering System (AMLS), a web-based system with analytics capabilities that detect and provide alerts on transactions or accounts qualified as covered transactions (CTRs) and suspicious transactions (STRs). The AMLS was established in compliance with the Anti-Money Laundering Act of 2001 (R.A. 9160, as revised by R.A. 9194) and BSP Circular 706, series of 2011.

To ensure the effective monitoring and reporting of CTRs and STRs and facilitate a wider exchange of information to improve the management of compliance risk on an enterprise-wide level, the Bank upgraded in 2013 the AMLS to interface with the Total Investment Accounting and Portfolio Management System for trust transactions and the LANDBANK Remittance System for remittance transactions in 2013. In the past years, the AMLS has undergone a series of interfaces with other data sources or systems such as the Integrated Treasury System, Inward Remittance System, Electronic Modified Disbursement System, Customer Information/Central Liability System, and CASA, among others.

▪ *Money Laundering and Terrorist Prevention Program (MLLP) Manual*

In line with the Money Laundering and Terrorist Prevention Program (MLLP) developed in 2011, the Bank revisited and

updated during the year the MLLP Manual to strengthen its detection and monitoring processes against anti-money laundering, specifically funds diverted to terrorism and similar activities. The Manual incorporated various provisions from R.A. 10167 (An Act To Further Strengthen The Anti-Money Laundering Law, Amending For the Purpose Sections 10 and 11 of R.A. 9160) and R.A. 10168 (The Terrorism Financing Prevention and Suppression Act of 2012), as well as, new internal policies and issuances compliant with the Bangko Sentral ng Pilipinas (BSP) and the Anti-Money Laundering Council (AMLC).

▪ *New AML Policies*

Pursuant to new issuances from the BSP and the AMLC, the Bank crafted pertinent internal policies on Anti-Money Laundering during the year to align with compliance requirements. The CMO updated as well as enhanced several guidelines involving the handling of current and savings account systematics on accounts subject to freeze order, and related accounts, policy on Know-Your-Client (KYC) requirements for authorized signatories of juridical entities, and the revised guidelines on AMLS and AML Data Entry System, among others.

▪ *Regulatory Compliance and Other Initiatives*

In 2013, the CMO continued to conduct risk assessments and compliance testing of applicable laws, rules, and regulations that may impact on the compliance framework of the Bank.

In 2013, 210 regulations were identified to be applicable to the operations of the Bank. To ensure strict adherence and compliance, the CMO disseminated these regulatory issuances to concerned business units during the year.

The LANDBANK also pursued the utilization of the Compliance Function portal to ensure easy access to relevant laws and issuances by all business units of the Bank. With the creation of the LBP Compliance Database, all applicable regulations adopted by the Bank under its Compliance Program are stored in

an organized way and can be sourced real time from the portal.

▪ *AML Training and Related Activities*

During the year, 34 directors and senior officers actively participated in the AML Refresher Training course conducted by the Executive Director of the Anti-Money Laundering Council.

As risks arising from compliance regulations (amidst a highly-regulated environment) need to be managed and controlled effectively on an enterprise-wide level, the Bank cascaded 13 AML seminars participated in by 485 employees undergoing the LANDBANK In Perspective Program. Further, training courses on Compliance Awareness and Refresher on AML were facilitated by authorized AML and Compliance trainers for a total of 7,683 employees nationwide. As part of the outsourcing requirement for counterparties required by the BSP under Circular No. 706, the Bank also conducted AML briefings to 2,111 client-agencies (out of 2,312 non-covered institutions) availing of the Bank's ATM Payroll Facility.

During the year, trainings on the Compliance Function and Risk-based Compliance Methodology Manual were provided to 112 Compliance Coordinators who are the partners of the CMO in supporting the Bank's thrust towards a strong compliance culture at the business unit level.

HUMAN RESOURCE MANAGEMENT

Service Excellence and Transparency (LANDBANK Citizen's Charter)

LANDBANK is committed to further improve the quality of service and transparency to its customers. The Bank continuously rallies its staff to comply with Republic Act No. 9485 or the Anti-Red Tape Act (ARTA) of 2007, otherwise known as "An Act to Improve Efficiency in the Delivery of Government Service to the Public by Reducing Bureaucratic Red Tape, Preventing Graft and Corruption, and Providing Penalties Thereof". In 2013, the Bank enhanced its Citizen's Charter for Lending Operations and Branch Banking Products and Services.

With the Bank's conscious effort to excel in the delivery of banking services, LANDBANK obtained 99 percent passing rate in the Anti-Red Tape Act Report Card Survey (ARTA-RCS) conducted by the Civil Service Commission (CSC) in 2013. Ninety-nine of the 100 Branches passed the survey. Of the surveyed Branches, 38 were rated "Excellent" which automatically qualifies them to the Citizen's Satisfaction Center Seal of Excellence Award conferred by the CSC after a two-phase validation process. Following closely are three branches which received an "Outstanding" rating, while 53 branches were rated "Good", and five were "Acceptable".

"The result is a validation of our continuing effort to improve on the delivery of our services. With an 'Excellent' rating for 38 of our branches, followed by three 'Outstanding' and 53 'Good', we are all the more challenged to extend quality banking services and uphold integrity, professionalism and values befitting of a reputable government institution." LANDBANK President and CEO Gilda E. Pico said.

The Citizen's Charter is one of the Good Governance Conditions on the grant of the Performance-Based Bonus (PBB) pursuant to Memorandum Circular No. 2013-02 (Performance Evaluation System for the GOCC Sector) issued by the Governance Commission for Government-Owned and -Controlled Corporations on April 29, 2013. The ARTA-RCS aims to rate the performance and client satisfaction in relation to frontline services of government entities. It also intends to obtain feedback on how agencies follow provisions in their Citizen's Charter. The survey was conducted by CSC researchers through interviews with 30 clients who have availed of any frontline service at the branch, using an interviewer-administered survey questionnaire, and accomplishment of an inspection checklist. A total of 3,000 clients (30 clients for each of the 100 branches) served as respondents to the CSC survey.

Learning and Development

As LANDBANK renewed its corporate life, so was the vow to strengthen the foundation of its human resource. The Bank recognizes

the importance of human resources as the starting point towards achieving institutional goals. Thus, the Bank invests heavily to enhance the competency of its most important asset – its employees.

Through the years, the Bank continuously progressed in acquiring talent, extending training, enhancing compensation and rewards management system, in order to attract, hire, and retain outstanding individuals that will work hand-in-hand in accomplishing the Bank's vision and mission.

The Bank consistently provides an environment that promotes career growth and work-life balance for its employees. In 2013, the Bank launched a wide array of programs designed to unlock employee's potential, develop skills attuned to the evolving demand of the banking industry while giving importance to health and wellness.

■ Training Programs and Skills Development

In 2013, the Organization Development Department (ODD) provided Bank personnel with diverse learning and growth opportunities as it implemented 1,010 in-house and external training programs.

The Bank continued implementing major programs under its Management and Leadership Development Framework. In 2013, 64 unit heads graduated from the two batches of the Leadership Development Program which was conducted in partnership with the Ateneo Center for Continuing Education. Two batches of the Leadership Development Program also commenced during the year.

LANDBANK likewise conducts the Officers Development Program (ODP) to train and hone the leadership skills of next-in-line officers. In 2013, the ODP produced 26 graduates who were deployed to various units of the Bank. On the other hand, 30 employees completed the Management Training Program in 2013, which is a preparatory course for the pool of division heads and supervisors.

As part of continuing development of the ODP and MTP graduates, the ODD implemented learning sessions during the

year. In May 2013, Dr. Cielito Habito discussed a holistic view of the Philippine Economy and its criticality in understanding the future of the banking industry while Director Domingo Diaz spoke about Inspirational Leadership in December 2013.

To continuously harness the HR partnership with the other units of the Bank, the ODD conducted Coaching and Mentoring Seminar-Workshop and the Applied Human Resource Management for Line Managers for 141 and 149 Head Office and Field Unit heads, respectively.

Further, to contribute to the Bank's thrust for organizational excellence, the Bank maximized the slots of scholarship grants for employees intending to pursue post graduate studies on fields relevant to the

needs of the Bank through the Graduate Education Program (GEP). Twenty of these GEP scholars successfully obtained their Master's degree. Also, 54 supervisors in the Head Office continued their in-house Masters in Business Administration program being conducted in partnership with the College of the Holy Spirit – Manila (CHS-Manila) and the Concordia International College (CIC). In support to field-based bank officers, the partnership with the CHS-Manila and CIC was expanded bringing the in-house MBA program to Cebu and Metro Davao with 15 and 18 enrollees, respectively.

In 2013, LANDBANK also conducted other training programs meant to strengthen and reinforce corporate values and promote a well-integrated balanced life.

Training Program	Focus of Program	No. of Participants
LANDBANK In Perspective (LIP)	To re-orient employees on the Bank's core values	663
Workplace Ethics and Values Enhancement (WEAVE)	To inculcate among LANDBANK employees the core values required of civil servants in support of the government's Moral Renewal Program (per Malacañang Administrative Order No. 255 approved on January 30, 2009); The two components are: Values Orientation Workshop (VOW) and Public Service Ethics and Accountability (PSEA).	589
Personal and Organizational/ Work Attitude Effectiveness through the Rainbow Life Adventure Program (POWER)	To instill the importance of a well-integrated and balanced life among LANDBANK employees	173
Heroic Leadership (HL) Program	To strengthen the Bank's countryside development initiatives through adoption of a value-driven, sustainable social entrepreneurial approach, going beyond the provision of technical and financial support to our mandated sectors	34