LAND BANK OF THE PHILIPPINES
NOTES TO FINANCIAL STATEMENTS
(Amounts in thousands, except as indicated)

1. Corporate Information

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

The Parent is a depository bank of the government and its various instrumentalities. The Parent services requirements of the national government, local government units and government-owned and controlled corporations. As of December 31, 2013, 70 percent of the deposit portfolio came from the government while the rest came from private depositors.

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

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

The accompanying comparative financial statements of the Group and the Parent were authorized for issue by the Parent's Board of Directors on February 24, 2014.

2. Summary of Significant Accounting Policies

2.1 Basis of Financial Statements Preparation

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

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

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

The consolidated financial statements are presented in Philippine peso, and all values are rounded to the nearest thousand pesos (P000) except when otherwise indicated.

2.2 Statement of Compliance

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

2.3 Basis of Consolidation

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

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

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

Significant Accounting Policies

Foreign currency translation

Transactions and balances

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

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

Fair Value Measurement

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

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

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

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

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

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

Short-term investments – Carrying amounts approximate fair values.

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

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

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

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

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

Reclassification of financial assets

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

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

- there is a rare circumstance.

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

Determination of fair value

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

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

'Day 1' difference

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

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

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets

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

Financial assets carried at amortized cost

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

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

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

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

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to 'Provision for credit and impairment losses' in the statement of comprehensive income and the allowance account, reduced. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets are made to reflect and be directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are charged to income.

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of comprehensive income.

Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instruments that are not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments

If an AFS investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that security previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity instruments recognized in the statement of comprehensive income are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as AFS investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

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

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

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

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

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

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

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

Derivative Instruments

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

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

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

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

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

<u>Offsetting financial instruments</u>

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

<u>Fiduciary Activities</u>

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

Subsequent Events

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

Impairment of Property and Equipment, Investment Property and Other Resources

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

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

Investments in Subsidiaries

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

Property and Equipment

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

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

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

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

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

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

Investment properties

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

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

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

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

Intangible Assets

Computer software

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

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

Income Taxes

Income tax on the profit for the year comprises current tax only. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity. Current income tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted as of the balance sheet date, and any adjustment to tax payable in respect to previous years.

Deferred tax assets are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes and the carry forward benefits of the net operating loss carryover (NOLCO) and the minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates that have been enacted or substantially enacted as of the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced, if appropriate.

Employee Benefits

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

Leases

(a) LBP Group is the lessee

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

(ii) Financial lease - leases of assets where the LBP Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deferred credits and other liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(b) LBP Group is the lessor

(i) Operating lease - properties leased out under operating leases are included in investment property in the statement of financial position. Rental income under operating leases is recognized in the statement of comprehensive income on a straight-line basis over the period of lease.

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

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

Revenue Recognition

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

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

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

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

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

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

Borrowing Costs

Borrowing costs are expensed when incurred.

Changes in Accounting Policies and Disclosures

New Interpretations, Revisions and Amendments to PFRS/PAS

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2013. The nature of each new standard and amendment are described below. Unless otherwise indicated, adoption did not impact the consolidated financial statements of the Group:

PAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (OCI) (Amendments)*

The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be classified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group’s financial position or performance.

PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or ‘similar arrangement”, irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period.

a. The gross amounts of those recognized financial assets and recognized financial liabilities;

b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

c. The net amounts presented in the statement of financial position;

d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:

   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. Amounts related to financial collateral (including cash collateral); and

e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Group’s financial position or performance.

PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) No. 12, *Consolidation – Special Purpose Entities.* PFRS10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 requires management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements in PAS 27.

PFRS 11, *Joint Arrangements*

This replaces PAS 31, *Interests in Joint Ventures,* and SIC -13, *Jointly-controlled Entities Non-monetary Contributions by Venturers.* PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

PFRS 12, *Disclosures of Interests in Other Entities*

This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

PFRS 13, *Fair Value Measurement*

This new standard aims to improve consistency and reduce complexity by providing a clarified definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned with IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within PFRS. Apart from the additional disclosures required by PFRS 13, there is no other significant impact on the financial statements as the current fair value measurement followed by the Group is already consistent with the requirements of the new standard.

PAS 19, *Employees Benefits*

The amendment changes the accounting for defined benefit plans and termination benefits. The most significant relates to the accounting for changes in defined benefit obligations and plan assets. The amendment requires the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of PAS 19 and accelerate the recognition of past service costs. The amendment requires all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Standards Issued but not yet Effective

PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.

Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments)*

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 19, *Employees Benefits – Defined Benefit Plans: Employee Contributions (Amendments)*

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reduction of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual period beginning on or after July 1, 2014.

The Group will assess the impact of these amendments on its financial position or performance when they become effective.

Annual Improvements to PFRS/PAS (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 2, *Share-based Payment-Definition of Vesting Condition,*

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group's financial position or performance.

PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual period beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

PAS 24, *Related Party Disclosures – Key Management Personnel*

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have not impact on the Group's financial position or performance.

PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization shall form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual period beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual period beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Annual Improvements to PFRS/PAS (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of "Effective PFRSs"*

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*

The amendment clarifies that PFRS 3 does not apply to the accounting for the information of a joint arrangement in the financial statements of the joint arrangements itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PFRS 13, *Fair Value Measurement – Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

PAS 40, *Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

Effective January 1, 2018

PFRS 9, *Financial Instruments*

This standard as issued reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement mode was completed by IASB in July 2014, replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

The IASB has removed the January 1, 2015 mandatory effective date of IFRS 9 to provide entities sufficient time to make the transition to the new requirements. On July 24, 2014, IASB completed the final element of the comprehensive reform of financial instruments accounting. The package of improvements introduced by PFRS 9 includes a logical model for classification and measurement, a single, forward-looking "expected credit loss" impairment model and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on January 1, 2018 with early adoption permitted.

The Group has yet to assess the impact of the new expected credit loss impairment model over the existing incurred loss mode in PAS 39, as well as the full financial impact of the adoption of PFRS 9.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, Management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

a. Operating lease commitments

The entity has entered into commercial property leases on its investment property portfolio. The entity has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

b. Impairment losses on loans and receivables and HTM investments

The Group reviews its loans and receivables and HTM investments to assess impairment at least on an annual basis or earlier when an indicator of impairment exists. In determining whether an impairment loss should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial asset before the decrease can be identified with an individual asset in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The carrying values of receivables from customers and HTM investments of the Group and the Parent are P363,315,399 and P361,103,483 as of December 31, 2013 and P337,853,490 and P336,057,981 as of December 31, 2012, respectively.

c. Impairment of AFS investments

The Group determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The carrying values of AFS investments of the Group and the Parent are P179,836,155 and P179,836,155 as of December 31, 2013 and P188,721,940 and P188,721,940 as of December 31, 2012, respectively.

d. Classification under HTM investments

The classification of non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. Further, the Group determines whether the investments are quoted or not; unquoted debt investments are classified under Loans and receivables. If the Group fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount or close to maturity – it will be required to reclassify the entire held-to-maturity portfolio as available-for-sale. The investments would therefore be measured at fair value instead of amortized cost. The carrying values of held-to-maturity investments of the Group and the Parent are P40,904,585 and P40,101,183 as of December 31, 2013 and P43,547,220 and P43,271,825 as of December 31, 2012, respectively.

e. Recognition of deferred tax asset

The Group cannot yet establish when it will realize its deductible temporary differences and carry forward benefits of NOLCO and MCIT. When the Group is already in a positive tax position, the Management will review the level of deferred tax assets that it will recognize in the books.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a. Fair value of financial instruments (including derivatives)

The fair value of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by the Risk Management Group. All models are reviewed before they are used to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

b. Useful lives of property and equipment

The Group's Management determines the estimated useful lives and related depreciation charges for its property and equipment. The Bank will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying values of property and equipment of the Group and the Parent are P5,069,832 and P4,981,525 as of December 31, 2013 and P4,761,483 and P4,680,485 as of December 31, 2012, respectively.

4. Cash and Other Cash Items

This account consists of:

	Group		Parent	
	2013	2012	2013	2012
Cash on hand	20,077,969	17,519,841	20,077,683	17,519,837
Checks and other cash items	236,052	285,173	236,052	285,148
Returned checks and other cash items	36,610	58,658	36,610	58,658
Petty cash fund	3,857	3,471	3,731	3,345
Revolving fund	831	887	237	203
Payroll fund	536	349	536	349
	20,355,855	17,868,379	20,354,849	17,867,540

5. Due from Bangko Sentral ng Pilipinas

This account represents the Parent's demand and special deposits in local currency maintained with BSP to meet reserve requirements and to serve as clearing account for interbank claims consistent with BSP guidelines.

6. Due from Other Banks

This account consists of:

	Group		Parent	
	2013	2012	2013	2012
Deposit with local banks	119,205	762,286	69,267	127,976
Deposit with foreign banks	3,077,076	3,423,309	3,071,220	3,417,453
	3,196,281	4,185,595	3,140,487	3,545,429

The Group maintains nostro accounts on global basis with 23 foreign depository banks totaling 30 and 28 bank accounts in 2013 and 2012, respectively, the most significant of which are as follows:

2013	2012
1. Wells Fargo Bank, N.A.	1. Wells Fargo Bank, N.A.
2. Standard Chartered Bank, N.Y.	2. Standard Chartered Bank, N.Y.
3. Standard Chartered Bank, Tokyo	3. Standard Chartered Bank, Tokyo
4. Mizuho Corporate Bank	4. Mizuho Corporate Bank
5. Bank of New York	5. The Bank of Tokyo

Deposits with foreign banks as of December 31, 2013 include special deposit account with Standard Chartered Bank - Tokyo and Bank of Tokyo-Mitsubishi, UFJ amounting to JPY211.08 million and JPY0.13 million, respectively, which are restricted for disbursements on special lending projects.

7. Interbank Loans Receivables

This account consists of the Parent's loans receivable from foreign banks amounting to P7,036,608 and P11,168,108 as of December 31, 2013 and 2012, respectively.

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

	2013			2012		
Domestic	2.00%	to	2.75%	3.62%	to	4.12%
Foreign	0.05%	to	0.35%	0.01%	to	1.35%

8. Securities Purchased under Agreements to Resell

This account consists of:

	Group		Parent	
	2013	2012	2013	2012
Government Securities Purchased under Reverse Repurchase Agreement	6,122,000	25,000,000	6,122,000	25,000,000
	6,122,000	25,000,000	6,122,000	25,000,000

Securities Purchased under Agreements to Resell of the Group carry interest rate at 3.50% as of December 31, 2013 and 2012.

9. Financial Assets at Fair Value Through Profit or Loss

This consists of:

	Group		Parent	
	2013	2012	2013	2012
Government Securities - Domestic	6,215	22,746	6,215	22,746
Government Securities - Foreign	260,099	239,261	260,099	239,261
Private Securities - Domestic	92,116	82,351	92,116	82,351
Derivative with positive fair value	1,988,647	3,469,219	1,988,647	3,469,219
	2,347,077	3,813,577	2,347,077	3,813,577

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

	2013			2012		
Domestic	4.80%	to	10.50%	0.46%	to	10.50%
Foreign	1.62%	to	8.00%	1.42%	to	5.00%

Financial Assets at FVPL includes the foreign exchange (FX) risk cover of the Parent's borrowings from multilateral agencies amounting to P1.95 billion in 2013 and P3.41 billion in 2012 which is treated as a derivative financial instrument per BSP Monetary Board Resolution No. 1063 dated August 14, 2008.

Under a Memorandum of Agreement between the National Government (thru the Department of Finance) and the Parent, the former shall guarantee and assume the FX risk relating to foreign currency denominated borrowings from multilateral agencies (i.e. World Bank, Asian Development Bank, JICA, etc.) which are relent in local currencies. The fair value changes on the FX risk cover are reported immediately in the income statement. As of December 31, 2013, the outstanding notional amount of the FX risk cover amounted to US$15.77 million and JPY9,236.71 million and EUR11.67 million.

Prior to 2007, the value of the FX risk cover as an option derivative varies on the movement of the foreign exchange rates of the Bills Payable. Beginning 2007, in accordance with Monetary Board Resolution No. 1063 dated August 14, 2008, the Bank applied the standard option valuation model approach which resulted in a decrease in the derivative asset amounting to P1.46 billion and P4.78 billion in 2013 and 2012, respectively.

The derivative with positive fair value comprise of the following:

	2013	2012
Foreign Exchange Risk Cover	1,948,909	3,409,977
Forward Contracts	39,738	59,242
	1,988,647	3,469,219

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

10. Available for Sale Investments

This account consists of:

	Group		Parent	
	2013	2012	2013	2012
Domestic				
Government	136,723,341	142,725,458	136,723,341	142,725,458
Private	16,029,515	16,934,213	16,029,515	16,934,213
Foreign				
Government	18,516,809	21,496,106	18,516,809	21,496,106
Private securities	1,307,577	268,933	1,307,577	268,933
Investment in non-marketable securities, net of allowance for probable losses of P1,436,564 in 2013 and P1,450,739 in 2012	7,258,913	7,297,230	7,258,913	7,297,230
	179,836,155	188,721,940	179,836,155	188,721,940

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

	2013			2012		
Domestic	1.62%	to	12.87%	3.75%	to	13.47%
Foreign	2.75%	to	10.62%	2.03%	to	10.51%

Available-for-sale investments-Domestic Private include 42 million MERALCO shares of stocks with market value of P10.542 billion which are subject to legal disputes.

In November 2008, MERALCO unlawfully cancelled the 42 million shares of stocks registered in the name of the Parent and reissued the same in favor of another individual allegedly in compliance with the Demand to Comply issued by the Sheriffs of the Department of Agrarian Reform (DAR) Regional Adjudicator. Of these 42 million shares, 3.37 million shares had been negotiated by another party; 37.23 million shares remained quarantined at the Philippine Depository and Trust Corporation (PDTC); and another 1.4 million shares has not yet been lodged with PDTC. However, the execution sale which was the basis for the issuance of the Demand to Comply was null and void from the beginning because of the Supreme Court's Temporary Restraining Order (TRO) enjoining the sale and the Resolution quashing all acts done pursuant to the Adjudicator's Writ. On December 17, 2008, the DAR Adjudication Board so ordered and required:

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

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

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

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

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

The Other party filed a Motion for Reconsideration and is also seeking a referral of the case to the Supreme Court, sitting En Banc. The Supreme Court has not required the

Parent to file a Comment on the Petition, but the Parent commented and opposed the referral of the case to the entire Supreme Court, arguing that the decision of a Division of the Supreme Court is the decision of the entire court.

In a Resolution dated 25 June 2012, the Supreme Court denied with finality the other party's Motion for Reconsideration, including the motion for referral to the Supreme Court *En Banc* and the motion seeking the inhibition of Justice Bersamin from the case.

The other party sought leave of court to file a Second Motion for Reconsideration and filed a Motion seeking a clarification of the ruling re: Justice Bersamin's inhibition from the case. The Supreme Court later issued a Resolution simply noting other party's motion.

As the Supreme Court had issued an *Entry for Judgment* involving the decision dated 14 December 2011, LBP immediately filed a "Motion for the Issuance of Writ of Execution" with the Regional Agrarian Reform Adjudicator (RARAD), Region IV-A.

The other party filed several motions to further delay the implementation of the Supreme Court's final and executory Decision dated 14 December 2011. LBP countered these with several "Very Urgent Manifestations and Motions" debunking the other parties arguments and reiterated its main contention that the execution of the High Court's ruling in this case is completely ministerial in nature, which should be granted with utmost dispatch.

The Regional Adjudicator had already denied the dilatory motion such as "Motion to Intervene," "Motion to Inhibit" and "Motion to Dismiss."

The Regional Adjudicator after it had disposed of the other party's dilatory motions, issued a "Writ of Execution" on 01 April 2013 several months after LBP filed the "Motion for the Issuance of Writ of Execution" because other party was accorded the procedural due process to which she was entitled.

MERALCO partially complied with the Sheriff's Demand to Comply dated 12 April 2013 when 38,635,950 shares of stock were restored in the name of LBP. The Securities Transfer Services, Inc. issued the corresponding stock certificates in the name of LBP on 25 June 2013. Of the total recovered shares, 2,750 shares representing stock dividends have not yet been recognized in the book.

As of December 31, 2013, the Parent received a total of P1,365 million cash dividend on the 38,635,950 restored MERALCO shares. There are still 3,366,800 shares of stock not yet restored in favor of the Parent. Efforts are being made to recover fully the MERALCO shares and the dividends accruing thereto by seeking the issuance of another *Demand to Comply* and *Notice of Garnishment* from the Sheriff of the Regional Agrarian Reform Adjudicator (RARAD) and with the assistance of the Department of Agrarian Reform (DAR) Secretary and Department of Agrarian Reform Adjudication Board (DARAB) Chairman, who has functional and administrative supervision over all DARAB personnel, including its Sheriffs.

Accumulated market gains/losses on AFS government and private issues as of December 31, 2013 amounted to P15,884.34 million. Net unrealized gains/losses on AFS was P16,337.53 million.

The difference in the amount outstanding of the local currency accumulated market gains/losses and net unrealized gains/losses on AFS as of December 31, 2013 in the amount of P453.19 million, represents the remaining unamortized portion of the net unrealized gain or loss, that has been recognized directly in equity when the Available-for-sale securities has been reclassified to Held to maturity securities on various dates. The said amount shall be continuously amortized to profit or loss over the remaining life of the Held-to-maturity securities.

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

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

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

	Acquisition Cost As of December 31, 2013 (In US Dollars) In Millions	Book Value As of December 31, 2013 (In US Dollars) In Millions	Percentage in MRTC
▪ MRT III Bonds	149.27	215.60	
▪ MRT III Preferred Shares	54.00	54.00	
Securitized ERPs	203.27	269.60	26.65%
Unsecuritized ERPs	90.58	89.15	11.12%
	293.85	358.75	37.77%

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

11. Held to Maturity Investments

This account consists of:

	Group		Parent	
	2013	2012	2013	2012
Government				
Domestic	36,504,244	35,753,568	35,700,842	35,478,173
Foreign	4,400,341	7,793,652	4,400,341	7,793,652
	40,904,585	43,547,220	40,101,183	43,271,825

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

	2013			2012		
Domestic	6.25%	to	18.25%	2.08%	to	18.24%
Foreign	2.88%	to	10.62%	2.88%	to	14.90%

12. Loans and Receivables

This account consists of:

	Group		Parent	
	2013	2012	2013	2012
Interbank loans receivable	21,707,225	21,052,152	21,707,225	21,052,152
Allowance for credit losses	(409,846))	(336,197)	(409,846)	(336,197)
	21,297,379	20,715,955	21,297,379	20,715,955
Loans to Government	78,813,536	83,461,514	80,632,037	84,726,554
Allowance for credit losses	(30,262)	(23,638)	(30,262)	(23,638)
	78,783,274	83,437,876	80,601,775	84,702,916
Agrarian Reform and other Agriculture Loans	45,470,004	37,923,835	45,446,063	37,920,541
Allowance for credit losses	(723,679)	(890,419)	(723,679)	(890,419)
	44,746,325	37,033,416	44,722,384	37,030,122
Microfinance Loans	4,399,067	2,718,282	4,399,067	2,718,282
Allowance for credit losses	(181,141)	(201,005)	(181,141)	(201,005)
	4,217,926	2,517,277	4,217,926	2,517,277
SME/MSE Loans	21,366,914	19,719,571	21,366,914	19,719,571
Allowance for credit losses	(1,284,008)	(1,077,329)	(1,284,008)	(1,077,329)
	20,082,906	18,642,242	20,082,906	18,642,242
Contract to Sell	2,548,535	2,943,408	2,548,535	2,943,408
Allowance for credit losses	(68,576)	(38,234)	(68,576)	(38,234)
	2,479,959	2,905,174	2,479,959	2,905,174
Loans to Private Corporation	116,884,935	98,593,481	115,396,117	97,341,313
Allowance for credit losses	(407,277)	(1,579,172)	(235,266)	(1,395,313)
	116,477,658	97,014,309	115,160,851	95,946,000

	Group		Parent	
	2013	**2012**	**2013**	**2012**
Loans to Individuals for Housing Purposes	2,547,012	2,529,124	2,547,012	2,529,124
Allowance for credit losses	(55,840)	(56,437)	(55,840)	(56,437)
	2,491,172	2,472,687	2,491,172	2,472,687
Loans to Individual for Consumption	831,643	787,465	829,381	787,095
Allowance for credit losses	(89,470)	(50,520)	(89,470)	(50,520)
	742,173	736,945	739,911	736,575
Loans to Individual for Other Purposes	8,864,128	4,644,503	8,864,129	4,644,507
Allowance for credit losses	(170,801)	(145,792)	(170,801)	(145,792)
	8,693,327	4,498,711	8,693,328	4,498,715
	300,012,099	**269,974,592**	**300,487,591**	**270,167,663**
Accrued interest receivable	2,782,723	2,518,852	2,776,387	2,515,133
Allowance for credit losses	(365,763)	(241,166)	(365,742)	(241,157)
	2,416,960	2,277,686	2,410,645	2,273,976
Accounts receivable	1,534,689	1,284,812	1,515,367	1,260,439
Allowance for credit losses	(767,390)	(802,119)	(731,471)	(767,887)
	767,299	482,693	783,896	492,552
Sales contract receivable	1,298,580	1,478,005	1,298,099	1,477,233
Allowance for credit losses	(12,492)	(16,078)	(12,492)	(16,078)
	1,286,088	1,461,927	1,285,607	1,461,155
Due from ARF	21,045	126,468	21,045	126,468
Unquoted debt securities	16,780,323	18,956,400	16,780,323	18,956,400
Allowance for credit losses	(766,807)	(692,058)	(766,807)	(692,058)
	16,013,516	18,264,342	16,013,516	18,264,342
Lease contract receivable	1,922,660	1,744,821	0	0
Allowance for credit losses	(28,853)	(26,259)	0	0
	1,893,807	1,718,562	0	0
	322,410,814	**294,306,270**	**321,002,300**	**292,786,156**

Interest rates on loans in 2013 range from 1.375 per cent to 39.00 per cent for peso denominated loans and from 0.240 per cent to 30.00 per cent for foreign currency denominated loans.

Unquoted debt securities of the Parent classified as loans consist of government and private securities amounting to P4,460.71 million and P11,552.80 million, respectively, as of December 31, 2013 and P6,254.82 million and P12,009.53 million, respectively, as of December 31, 2012. The account includes Metro Rail Transit Corporation's (MRTC) Bonds with face value of $0.77 million (P34.36 million) and a book value of $0.72 million (P31.82 million) acquired in 2003 through dation in partial payment of loan principal and interest amounting to P445.94 million. Also included in the total amount are MRTC Bonds with book value of $215.60 million (P9,571.61 million) which form part of LBP's interests in the said company purchased in accordance with the approval of the Bank's Board of Directors in November 2008 and broken down as follows:

	Face Value	Book Value	
	USD	USD	PHP
FX Regular	304.39	145.37	6,453.57
FCDU	139.20	70.95	3,149.86
	443.59	216.32	9,603.43

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

Outstanding equity investments on closed rural banks and its corresponding borrowings account from BSP have been excluded from Unquoted Debt Securities Classified as Loans account and from the Bills Payable account, respectively, provided that these accounts have already been written-off by BSP.

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

Under PFRS/PAS 39, had this loss been booked/charged in the period of sale, the impact would be a reduction of P2.05 billion from the 2005 surplus account of P14.376 billion after considering the valuation reserve on assets sold.

On August 31, 2012, the total unamortized Deferred Charges amounting to P3,443.73 million was written down against the Retained Earnings-Free account. This was approved by the Board of Directors on August 28, 2012 per Board Resolution No. 12-607. This one time cleaning of deferred charges is in accordance with BSP Memorandum No. M-2012-036 dated July 24, 2012 allowing banks which booked their losses from sale/transfer of non-performimg assets to SPV as “deferred charges” to accelerate in full the remaining unamortized losses to be charged directly to retained earnings instead of Profit or Loss, subject to the condition that this shall be recognized and booked as transaction for the year 2012 or for fiscal year ending 2013.

Allowance for credit losses

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

	2013	2012
Balance, January 1	4,214,884	6,848,479
Provision	1,274,712	0
Write-offs	(924,218)	(268,898)
Transfers and other adjustments	(1,316,489)	(2,364,697)
Balance, December 31	3,248,889	4,214,884

As of December 31, 2013 and 2012, the breakdown of Gross Loans as to secured and unsecured follows:

	Parent			
	2013		2012	
	Amount	%	Amount	%
Secured loans:				
Guarantee of the Republic of the Philippines	59,069,775	19.45	60,355,232	22.00
Various guarantees	104,371,568	34.36	89,785,085	32.72
Various mortgages	70,091,303	23.08	60,928,932	22.21
	233,532,646	76.89	211,069,249	76.93
Unsecured loans	70,203,834	23.11	63,313,298	23.07
Gross loan at amortized cost	303,736,480	100.00	274,382,547	100.00

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

As of December 31, 2013 and 2012, NPLs not fully covered by allowance for credit losses are as follows:

	Parent	
	2013	2012
Total NPLs	7,317,991	8,119,105
NPLs fully covered by allowance for probable losses	(1,312,686)	(962,041)
Net NPLs	6,005,305	7,157,064

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

13. Investment in Subsidiaries

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

Name	Amount
LBP Leasing Corporation	310,253
LBP Insurance Brokerage, Inc.	52,500
LBP Resources and Development Corporation	51,467
Masaganang Sakahan, Inc.	24,555
LBP Financial Services, Italy	47,051
	485,826

On 10 January 2011, the LBP Board of Directors under Board Resolution No. 11-029 approved the voluntary closure of LBP Financial Services, SpA, Italy (LFSS). The full repatriation of the LFSS is still on the process of negotiating with the Posteitaliane for the repatriation of the remaining funds to Land Bank.

14. Investment Property

This account consists of:

	Group					
	2013			2012		
	Land	**Building**	**Total**	**Land**	**Building**	**Total**
At Cost						
At January 1	5,919,834	2,548,500	8,468,334	6,093,723	2,517,587	8,611,310
Additions (Disposals)	244,114	315,845	559,959	(159,181)	33,571	(125,610)
Reclassification	0	0	0	(14,708)	(2,658)	(17,366)
At December 31	6,163,948	2,864,345	9,028,293	5,919,834	2,548,500	8,468,334
Accumulated depreciation and impairment						
At January 1	601,367	1,005,358	1,606,725	690,923	844,489	1,535,412
Depreciation	0	88,258	88,258	0	88,594	88,594
Transfers/Adjustment	0	(40,695)	(40,695)	0	61,453	61,453
Reclassification	0	0	0	(2,392)	(1,407)	(3,799)
Impairment	96,003	(8,824)	87,179	(87,164)	12,229	(74,935)
At December 31	697,370	1,044,097	1,741,467	601,367	1,005,358	1,606,725
Net book value	5,466,578	1,820,248	7,286,826	5,318,467	1,543,142	6,861,609

	Parent					
	2013			2012		
	Land	**Building**	**Total**	**Land**	**Building**	**Total**
At Cost						
At January 1	5,843,808	2,467,317	8,311,125	6,008,365	2,466,958	8,475,323
Additions (Disposals)	239,174	306,720	545,894	(164,557)	359	(164,198)
At December 31	6,082,982	2,774,037	8,857,019	5,843,808	2,467,317	8,311,125
Accumulated depreciation and impairment						
At January 1	598,305	970,848	1,569,153	688,531	810,774	1,499,305
Depreciation	0	85,399	85,399	0	86,391	86,391
Transfers/Adjustment	0	(40,696)	(40,696)	0	61,454	61,454
Impairment	96,003	(8,824)	87,179	(90,226)	12,229	(77,997)
At December 31	694,308	1,006,727	1,701,035	598,305	970,848	1,569,153
Net book value	5,388,674	1,767,310	7,155,984	5,245,503	1,496,469	6,741,972

Depreciation and amortization of the Group amounting to P88,258 and P88,594 and of the Parent amounting to P85,399 and P86,391 in 2013 and 2012, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Investment properties acquired through foreclosure as of December 31, 2013 which are still within the redemption period by the borrowers and with on-going court case amounted to P569,569 and P718,339, respectively. Properties amounting to P54,820 are agricultural lands covered by the government's agrarian reform program. As of December 31, 2013 and 2012, the aggregate market value of the investment properties amounted to P9,747,624 and P9,199,142, respectively, for the Group and P9,610,693 and P9,067,151, respectively, for the Parent. Fair value has been determined based on valuations made by independent and/or in-house appraisers. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

15. Property and Equipment

This account consists of:

	Group									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2013	Total 2012
At Cost										
At January 1	491,983	63,804	4,237,246	391,842	90,370	4,923,570	334,706	72,810	10,606,331	10,140,556
Additions	29,454	136,995	90,541	84,807	35,969	670,248	21,223	1,730	1,070,967	835,878
Disposals	0	0	(6,832)	(3,778)	(22,511)	(206,696)	0	(4,529)	(244,346)	(201,063)
Transfers	27,099	(193,711)	62,981	(30,579)	(13,430)	(64,014)	0	0	(211,654)	(169,040)
At December 31	548,536	7,088	4,383,936	442,292	90,398	5,323,108	355,929	70,011	11,221,298	10,606,331
Accumulated Depreciation, Amortization & Impairment loss										
At January 1	0	0	1,710,341	173,432	78,861	3,591,658	221,857	57,108	5,833,257	5,490,452
Depreciation & amortization	0	0	140,120	35,736	1,312	306,215	39,468	1,941	524,792	531,409
Disposals	0	0	(114)	(4,525)	(12,518)	(207,841)	0	0	(224,998)	(188,101)
Transfers/Adjustments	0	0	23,783	(10,654)	(4,821)	(6,448)	0	(3,835)	(1,975)	(503)
At December 31	0	0	1,874,130	193,989	62,834	3,683,584	261,325	55,214	6,131,076	5,833,257
Allow for Losses	0	0	7,214	43	2,825	3,581	0	6,727	20,390	11,591
Net book value	548,536	7,088	2,502,592	248,260	24,739	1,635,943	94,604	8,070	5,069,832	4,761,483

	Parent									
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	Total 2013	Total 2012
At Cost										
At January 1	491,983	63,804	4,157,164	391,702	78,243	4,893,886	282,539	62,407	10,421,728	9,961,429
Additions	29,454	136,995	90,310	84,774	31,866	668,558	12,801	0	1,054,758	823,256
Disposals	0	0	(6,832)	(3,778)	(22,511)	(206,484)	0	(4,529)	(244,134)	(199,431)
Transfers	27,099	(193,711)	62,981	(30,579)	(13,430)	(63,728)	0	0	(211,368)	(163,526)
At December 31	548,536	7,088	4,303,623	442,119	74,168	5,292,232	295,340	57,878	11,020,984	10,421,728
Accumulated Depreciation & Amortization										
At January 1	0	0	1,683,451	173,432	71,131	3,569,726	176,750	55,162	5,729,652	5,389,127
Depreciation & amortization	0	0	137,186	35,651	286	304,466	38,510	0	516,099	523,504
Disposals	0	0	(114)	(4,525)	(12,518)	(207,801)	0	0	(224,958)	(186,750)
Transfers/Adjustments	0	0	23,783	(10,655)	(4,821)	(6,196)	0	2,632	(4,723)	3,771
At December 31	0	0	1,844,306	193,903	54,078	3,660,195	215,260	57,794	6,025,536	5,729,652
Allow for Losses	0	0	7,214	43	2,825	3,581	0	260	13,923	11,591
Net book value	548,536	7,088	2,452,103	248,173	17,265	1,628,456	80,080	(176)	4,981,525	4,680,485

Depreciation and amortization of the Group amounting to P524,792 and P531,409 and of the Parent amounting to P516,099 and P523,504 in 2013 and 2012, respectively, are included in depreciation and amortization expense in the statement of comprehensive income.

Office equipment, furniture and vehicles with carrying amount of P234,534 and P166,421 in 2013 and 2012, respectively, are temporarily idle. The carrying amounts of properties which are held for disposal are P27,736 and P31,357 in 2013 and 2012, respectively.

16. Other Resources

This account consists of:

	Group		Parent	
	2013	**2012**	**2013**	**2012**
Accrued interest receivable	2,483,371	2,803,854	2,483,371	2,803,854
Sundry debits	1,166,090	820,169	1,166,090	820,169
Prepaid expenses	253,328	346,876	255,700	362,804
Other intangible assets	379,540	279,066	378,046	277,111
Documentary stamps	19,359	85,536	19,359	85,536
Stationery & supplies on hand	135,665	103,584	134,192	102,472
Accounts receivable	135,752	121,281	129,190	114,994
Inter-office float items	8,175	7,117	8,175	7,117
Others	500,445	1,421,901	439,060	1,356,112
	5,081,725	5,989,384	5,013,183	5,930,169

17. Allowance for Credit Losses

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

	2013	2012
Balance at beginning of year:		
Loan portfolio	4,214,884	6,848,479
Other assets	3,873,224	3,986,833
	8,088,108	10,835,312
Provisions charged to operations	1,463,467	364,941
Accounts charged off and others	(936,965)	(268,898)
Transfer/adjustments	(1,249,525)	(2,843,247)
	(723,023)	(2,747,204)
Balance December 31	7,365,085	8,088,108
Balance at end of year:		
Loan portfolio	3,248,889	4,214,884
Receivables from customers and other assets	4,116,196	3,873,224
	7,365,085	8,088,108

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

The account includes provision for credit losses/impairment losses of P1,463,467 for the year detailed as follows:

	Parent
Loans and receivables	1,274,712
Other loans and receivables	181,561
Property and equipment	2,332
Other resources	4,862
	1,463,467

18. Deposit Liabilities

This account consists of:

	Group		Parent	
	2013	**2012**	**2013**	**2012**
Domestic				
Demand deposits	348,115,219	244,420,867	348,297,024	244,538,483
Savings deposits	315,781,131	258,570,832	315,892,068	258,592,482
Time certificate of deposits	1,412,692	1,513,053	1,412,692	1,513,053
Long Term Negotiable Certificate of Deposits	5,000,180	588,292	5,000,180	588,292
	670,309,222	505,093,044	670,601,964	505,232,310
Foreign				
Savings deposit –FCDU/EFCDU	8,235,863	8,718,573	8,242,106	8,724,584
Time certificate of deposit-FCDU/EFCDU	25,214,069	29,892,112	25,214,069	29,892,112
	33,449,932	38,610,685	33,456,175	38,616,696
	703,759,154	543,703,729	704,058,139	543,849,006

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.18 to 5.37 per cent in 2013 and 0.38 to 4.00 per cent in 2012. Foreign deposit rates range from 0.13 to 2.45 per cent and from 0.15 to 3.70 per cent in 2013 and 2012, respectively.

19. Bills Payable

This account consists of:

	Group		Parent	
	2013	**2012**	**2013**	**2012**
Bangko Sentral ng Pilipinas	98,049	104,839	98,049	104,839
Domestic borrowings	838,946	965,925	554,946	665,925
Foreign borrowings	22,917,368	26,052,836	22,917,368	26,052,836
	23,854,363	27,123,600	23,570,363	26,823,600

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

Creditor/Funder	2013	2012
World Bank/IBRD	7,949,896	9,114,846
Asian Development Bank (ADB)	765,434	956,799
Japan International Cooperation Agency (JICA)	12,571,958	14,449,084
Kreditanstalt fur Wiederaufbau (KfW)	1,630,080	1,532,107

	22,917,368	26,052,836

The total foreign borrowings of P22,917.37 million is guaranteed by the National Government. Foreign borrowings relent in local currency amounting to P18,572.92 million are provided with foreign exchange risk cover (FXRC) by the National Government. This has historical value of P18,696.65 million. The Bank's foreign borrowings from multilateral and bilateral agencies have maturities ranging from 15 to 40 years.

Interest rates on foreign and domestic borrowings in 2013 range from 0.61 to 2.7 per cent and 0.75 to 9.83 per cent, respectively, while for 2012, the rates range from 0.69 to 2.70 per cent and 0.75 to 9.83 per cent, for foreign and domestic borrowings, respectively.

20. Unsecured Subordinated Debt

This account consists of:

	Issue Date	Maturity Date	2013	2012
Domestic	June 09, 2009	June 09, 2019	6,934,000	6,934,000
	January 27, 2012	January 27, 2022	10,500,000	10,500,000
			17,434,000	17,434,000

21. Other Liabilities

This account consists of:

	Group		Parent	
	2013	2012	2013	2012
Accrued interest, fringe benefits, taxes and other expense payable	3,209,570	3,603,134	3,154,252	3,523,704
Accounts payable	6,035,861	4,466,110	6,063,374	4,509,959
Due to Agrarian Reform Fund	3,489,744	3,171,595	3,489,744	3,171,595
Sundry credits	936,598	229,174	936,598	229,174
Unearned income	59,062	79,606	59,163	79,743
Withholding tax payable	163,334	188,749	161,845	187,321
Miscellaneous liabilities	3,137,321	3,027,580	3,223,502	3,091,128
Others	851,689	1,504,759	719,538	1,291,992
	17,883,179	16,270,707	17,808,016	16,084,616

22. Income and Other Taxes

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

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

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

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

	Group		Parent	
	2013	**2012**	**2013**	**2012**
Current:				
Normal income tax (NIT)	2,845,399	1,351,220	2,769,835	1,271,157
Minimum corporate income tax (MCIT)	0	0	0	0
	2,845,399	1,351,220	2,769,835	1,271,157
Deferred	276,427	(477,329)	277,284	(464,691)
	3,121,826	873,891	3,047,119	806,466

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

	Group		Parent	
	2013	**2012**	**2013**	**2012**
Statutory income tax	4,411,686	3,551,884	4,311,123	3,459,355
Tax effects of:				
FCDU income	(536,930)	(527,345)	(536,930)	(527,345)
Tax exempt & tax paid income	(3,415,292)	(3,002,167)	(3,404,370)	(3,001,132)
Other deductible/Non-deductible expense	336,840	230,928	336,370	230,928
Non-deductible interest expense	1,204,892	1,166,950	1,204,892	1,166,950
Deferred tax asset	276,427	(477,329)	277,284	(464,691)
Others	844,203	(69,030)	858,750	(57,599)
	3,121,826	873,891	3,047,119	806,466

Deferred tax assets of P571,630 for the prior years' excess MCIT over NIT was utilized as tax credits against normal income tax due for taxable year 2012. There was no deferred tax asset recognized by the Parent for 2013. Subsidiaries recognized deferred tax assets of P66,790 and P66,151 for CY 2013 and CY 2012, respectively. Details of the excess MCIT over NIT of the Parent are as follows:

Year incurred	Amount	Utilized	Balance
2009	186,179	186,179	-
2010	197,429	197,429	-
2011	188,022	188,022	-
	571,630	571,630	-

Below are the temporary differences for which no deferred tax asset is recognized by the Parent since Management believes that it is not probable that future taxable profits will be available against which the asset can be utilized:

	2013	**2012**
Allowance for credit losses	13,512,037	13,023,828
	13,512,037	13,023,828

Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 19-2011 and 15-2010

Supplementary information Under RR No. 19-2011

In addition to the required supplementary information under RR No. 15-2010, on December 9, 2011, the BIR issued RR No. 19-2011 (and as further amended by RR No. 2-2014 dated January 24, 2014) which prescribes the new annual income tax forms that will be used for filing effective taxable year 2011. Specifically, companies are required to disclose certain tax information in their respective notes to financial statements. For the taxable year December 31, 2013, the Parent Company reported the following revenues and expenses for income tax purposes:

Revenues	
Services/operations	16,177,837
Non-operating and taxable other income:	
Trading and securities gain	8,818,165
Service charges, fees and commissions	809,088
Profit from assets sold	222,565
Income from trust operations	158,022
Others	917,404
	10,925,244
Expenses	
Cost of services:	
Compensation and fringe benefits	5,817,973
Others	5,406,142
	11,224,115
Itemized deductions:	
Compensation and fringe benefits	1,421,096
Taxes and licenses	2,312,529
Security, messengerial and janitorial	563,134

Communications, light and water	353,182
Information technology expenses	356,636
Depreciation	190,000
Bad debts	937,122
Repairs and maintenance	153,351
Transportation and travel	169,197
Management and professional fees	266,506
Rent	49,213
Representation and entertainment	104,372
Others	2,246,833
	9,123,171

Supplementary information Under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

I. The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2013 are as follows:

Documents / transactions	DST PAID
Debt instruments, bonds, certificate of time deposits	1,641,027
Mortgages, pledges, deed of assignments/trust	46,596
Foreign bills of exchange, letters of credit	40,977
Acceptance of bills of exchange payable in the Philippines	12,945
Bank, checks, drafts and telegraphic transfer/others	5,993
Total	1,747,538

II. All other taxes, local and national, paid for 2013:

National	
Percentage taxes (GRT)	2,246,645
Fringe benefits tax	8,070
National taxes	538
	2,255,253
Local	
Real estate tax	35,750
Local business tax	23,086
Mayor’s Permit/Municipal License/Other Regulatory Fees/License Permit	50,501
Other local taxes	8,289
	117,626
Total	2,372,879

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

Tax on Compensation and benefits	840,076
Creditable withholding taxes	135,551

Final withholding taxes	961,750
Total	1,937,377

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

Tax Credits against Income Tax	548,542
Tax Credits against Gross Receipts Tax	44,249
Total	592,791

23. Retirement Cost

The Parent has separate funded contributory defined contribution retirement plans covering all its officers and regular employees. Under the retirement plans, all concerned officers and employees are entitled to cash benefit after satisfying certain age and service requirements. Total expenses charged against operations in 2013 and 2012 amounted to P552.988 million and P546.833 million, respectively.

24. Lease Contracts

Operating lease commitments – as lessee

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

	Parent	
	2013	**2012**
Within one year	340,920	306,128
After one year but not more than five years	693,031	720,450
More than five years	232,162	230,607
	1,266,113	1,257,185

Operating lease commitments – as lessor

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

	Parent	
	2013	**2012**
Within one year	24,735	40,241
After one year but not more than five years	10,151	18,157
More than five years	510	0
	35,396	58,398

25. Related Party Transactions

In the ordinary course of business, the Parent has loan transactions with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70 per cent of which must be secured by their respective deposits and book value of their respective investments in the Parent. In the aggregate, loans to DOSRI generally should not exceed the respective total unimpaired capital or 15 per cent of total loan portfolio, whichever is lower, of the Parent.

BSP Circular 547 dated September 21, 2006 prescribed the DOSRI rules for government borrowings in government-owned or controlled banks. Said circular considered as indirect borrowings of the Republic of the Philippines (ROP), loans, other credit accommodations and guarantees to: (a) Government-Owned and Controlled Corporations (GOCCs); and (b) Corporations where the ROP, its agencies/departments/ bureaus, and/or GOCCs own at least 20 per cent of the subscribed capital stocks.
Total outstanding DOSRI loans of the Parent as of December 31, 2013 amounted to P64,465 million of which P62,107 million are government borrowings covered by BSP Circular 547.

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

	2013				2012			
	Key Management Personnel	**Subsidiaries**	**Others (GOCCs, Provident Fund and Rural Banks)**	**Total**	**Key Management Personnel**	**Subsidiaries**	**Others (GOCCs, Provident Fund and Rural Banks)**	**Total**
Receivables from customers	24,758	1,911,545	64,439,892	66,376,195	13,292	1,370,681	65,732,439	67,116,412
Deposit liabilities	0	298,985	0	298,985	0	145,277	0	145,277
Other liabilities	0	472,500	0	472,500	0	314,909	0	314,909
	24,758	2,683,030	64,439,892	67,147,680	13,292	1,830,867	65,732,439	67,576,598

The following are the significant transactions with subsidiaries:

	2013	**2012**
Sales/(Purchases)	(24,168)	(16,129)
Interest income	65,639	68,441
Interest expense	(169,755)	(140,356)
Lease expense	(45,907)	(48,572)
Other income	1,657	1,789
Other expenses	(32,139)	(186,464)
	(204,673)	(321,291)

Transactions with other related parties:

Compensation of key management personnel:

	Group		**Parent**	
	2013	**2012**	**2013**	**2012**
Short-term employee benefits	121,113	111,957	106,421	97,069

	Group		Parent	
	2013	**2012**	**2013**	**2012**
Post-employment benefits	31,141	30,825	26,189	27,103
Other long-term benefits	37,428	33,642	37,428	33,642
Total	189,682	176,424	170,038	157,814

Terms and conditions of transactions with related parties:

The sales to and purchases from related parties are made at normal market prices and settlement is made in cash. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2013 and 2012, the Group has not made any provision for doubtful accounts relating to amounts owed by related parties. This assessment is undertaken each financial year through examination of the financial position of the related party and the market in which the related party operates.

26. Trust Operations

The Parent is authorized under its Charter to offer trust services and administer trust funds through its Trust Banking Group. The Parent accepts funds entrusted by clients and undertakes as trustee to invest such funds in acceptable securities or other investment outlets. Trust funds or assets under Management of the Parent under its trust operations amounted to P57,263,059 and P90,174,388 as at December 31, 2013 and 2012, respectively.

Summary of Assets under Management is as follows:

	2013	2012
Special Purpose Trust	3,246,336	5,458,265
Other Fiduciary Accounts	9,193,862	9,921,083
Agency	24,850,846	52,626,718
Trust	19,972,015	22,168,322
	57,263,059	90,174,388

In compliance with the requirements of the General Banking Law, government securities with total face value of P950,000 in 2013 and P1,015,000 in 2012 are deposited with BSP as security for the Parent's faithful performance of its fiduciary obligation.

27. Derivative Financial Instruments

Derivative instruments – fair values are estimated based on quoted market prices, prices provided by independent parties or values determined using accepted valuation models with observable inputs.

Freestanding Derivatives

Currency Forwards

As of December 31, 2013, the outstanding notional amount of the currency sell forward/swap agreements with maturity of less than six months amounted to P15,965.90 million with market value of P16,205.84 million while the currency bought amounted to P1,740.25 million with a market value of P1,777.07 million.

Foreign Exchange (FX) Risk Cover

The foreign exchange risk cover on foreign borrowings is a derivative financial instrument per BSP Monetary Board Resolution No. 1063 dated August 14, 2008 and its fair value changes are reported in the statement of comprehensive income. As of December 31, 2013, the outstanding notional amount of the FX risk cover amounted to US$15.77 million, JPY9,236.71 million and EUR11.67 million.

Embedded Derivatives

Embedded Credit Derivatives

This includes credit default swaps embedded in host debt instruments and with credit linkages to reference entities. As of December 31, 2013, the Parent has no such outstanding credit derivatives.

Embedded Optionalities in Debt Investments

This includes call, put, extension, and conversion options in debt securities and loan receivables. The embedded call, put and extension options are deemed to be closely related to their host contracts, while the put option embedded in a debt investment is not deemed to be significant.

Embedded Currency Derivatives

The Group has currency derivatives embedded in host non-financial contracts such as lease agreements and purchase orders. As of December 31, 2013, these currency derivatives are not deemed to be significant.

28. Commitments and Contingent Liabilities

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities which are not presented in the financial statements. The Group does not anticipate material losses from these commitments and contingent liabilities.

The Group is contingently liable for lawsuits or claims filed by third parties which are either pending decision by the courts or under negotiation, the outcome of which is not presently determinable. In the opinion of Management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material effect on the Group's financial statements.

The following is a summary of various commitments and contingencies at their equivalent peso revalued amounts arising from off-balance sheet items which the Parent has contracted:

	Parent	
	2013	**2012**
Trust Department accounts	57,263,059	90,174,388
Commitments	57,319,997	33,455,852
Standby/commercial letters of credit	8,456,839	7,414,952
Derivatives	11,558,208	13,100,414
Outstanding guarantees	387,637	753,583
Spot exchange contracts	1,331,850	985,200
Late deposits received	426,750	515,083
Outward bills for collection	54,782	53,211
Others	866,960	909,076
	137,666,082	147,361,759

29. Financial Performance

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

	2013	**2012**
Net interest margin ratio	3.67%	3.52%
Return on average assets	1.56%	1.61%
Return on average equity	14.33%	13.60%

30. Capital Funds

The Parent complies with the provision of RA 7656 on dividend declaration to the National Government (NG) and with the loan and guarantee agreements between the World Bank, the Parent and the Department of Finance (DOF).

On May 14, 2013 and October 17, 2013, the Parent remitted cash dividends to the National Government in the amount of P6.0 billion and P308.0 million, respectively. Hence, an aggregate of P6.308 billion covering its CY2012 net income.

For CY2013 net income, the Parent remitted P6.0 billion cash dividend on April 28, 2014.

Capital Management

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

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

Regulatory Qualifying Capital

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

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10 per cent for both stand-alone basis (head office and branches) and consolidated basis (Parent and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

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

	(Amounts in Millions)			
	Group		**Parent**	
	2013	**2012**	**2013**	**2012**
Tier 1 Capital	54,969	47,363	55,029	47,426
Tier 2 Capital	24,819	24,850	24,800	24,837
Gross Qualifying Capital	79,788	72,213	79,829	72,263
Less: Required Deductions	1,272	1,222	2,556	2,445
Total Qualifying Capital	78,516	70,991	77,273	69,818
Risk Weighted Assets	387,282	346,792	384,440	344,872
Adjusted Tier 1 Capital ratio	14.03%	13.48%	13.98%	13.40%
Total Capital adequacy ratio (CAR)	20.27%	20.47%	20.10%	20.25%

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

The Qualifying Capital of the Group and Parent increased as of December 31, 2013 due to 2012 net income of P10.1 billion offset by payment of dividend to NG by P6.3 billion. The increase in the Group's and Parent's risk-weighted assets as of December 31, 2013 was due to the expanded loan portfolio and off book items.

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

31. Financial Risk Management

RISK MANAGEMENT ORGANIZATION

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

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

- The Board of Directors exercises oversight on all risk-related functions and activities of the Bank based on a top-down structure.

- The Board risk management oversight function is rendered through various committees like the Risk Management Committee (RiskCom), the Audit and Compliance Committee (ACC), the Investment and Loan Committee (ILC), the Corporate Governance Committee (CGCom) and the Trust Committee (TrustCom). In general, the RiskCom serves as the overseer for managing the Bank's credit, market, liquidity, operational and other bank-wide risks in a coordinated manner within the organization. Specifically, it approves policies and evaluates effectiveness of the Bank's risk management framework.

- The Risk Management Group (RMG) is independent from risk taking units and performs the oversight function for all major risk areas (credit, market and liquidity, operational and other bank-wide risks). It oversees risk management implementation, monitoring and control.

- Under RMG, which is headed by the Chief Risk Officer, are three departments created to handle specific risk areas as follows: Credit Policy and Risk Management Department (CPRMD), Treasury Risk Management Department (TRMD), and Business Risk Management Department (BRMD) for operational risk, including system, legal, technology and other risks.

- Enterprise Risk Management (ERM) complements the Bank's silo risk management approach and reinforces risk analysis as it cross-functionally examines interdependencies and dissects its sources.

RISK CATEGORIES

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

Through the Risk Self-Assessment (RSA) process under the ERM, senior management prioritized critical risks in terms of inherent impact and effectiveness of risk management activities. This resulted in the prioritization of 26 critical risks. From these 26 critical risks the top five risks of the Bank were selected, as follows:

- **Market Risk** is the failure to anticipate and manage fluctuations in the values of the Bank's investments and could lead to economic losses.

- **Counterparty Credit Risk-Loans** is the inability to review and analyze the credit quality of potential/existing borrowers to serve as basis for loan approval (at application) and to determine the probability of default (on an ongoing basis), could lead to economic losses.

- **IT Management Risk** is the failure to effectively prioritize IT initiatives and administer IT resources, may lead to lost business and hinder the achievement of the Bank's goals and objectives.

- **People Risks:**

  - **People Development and Performance Risk** is the inability to develop and enhance employee skills and provide a sound employee performance management system may reduce employee motivation and may adversely impact the achievement of desired performance and conduct.

  - **Recruiting and Retention Risk** is the inability of the Bank to attract, retain and develop competent employees, might lead to organizational dysfunction and low morale.

  - **Succession Planning Risk** is the failure to create and implement a feasible continuance plan for key bank positions and employees might adversely affect the stability of organizational leadership and business continuity.

- **Client Relationship Management Risk** is the inability to effectively identify and address the customers' needs which will negatively affect the Bank's reputation and relationship with customers.

The risk profile of the Bank is subjected to regular review and the most recent Risk Self-Assessment yielded the following seven risks (part of the 26 critical risks) that needed to be immediately addressed:

- **Strategic Planning Risk** is the failure to develop, implement and monitor institutional strategies and direction will threaten the Bank's overall viability and growth prospects.

- **Socio-Political Risk** is the failure to understand, address and anticipate political mandates and social and cultural developments will affect the Bank's overall operations.

- **Technology Identification Risk** is the failure to identify and prioritize the appropriate system and technology to support business processes or major initiatives may lead to costly investments and work inefficiencies and may compromise product or service delivery.

- **Measuring and Monitoring of Major Initiatives Risk** is the failure to identify appropriate performance metrics and standards to monitor attainment of objectives and targets may prevent the achievement of desired output and performance.

- **Lending Capacity Risk** is the failure to maximize loanable funds might lead to loss of business opportunities for the Bank.

- **Liquidity Risk** is the failure to properly manage the Bank's cash flows and have sufficient available alternative fund sources at reasonable cost could affect the Bank's ability to meet its obligation as they fall due.

- **Banking Regulation Risk** is the failure to comply with circulars, memoranda, advisories and other issuances of regulatory bodies as applicable to the banking industry, may result in loss of business, administrative/criminal penalties/sanctions and loss to reputations. It is also the failure to set the stage for higher capital requirement in order to strategically align economic capital with regulatory requirements like Basel 3, AMLA amendments, etc.

RISK MANAGEMENT TOOLS

LBP makes use of various quantitative tools and metrics for 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. As part of risk management process, LBP continually evaluates the appropriateness and reliability of risk management tools and metrics to respond to evolving risk environment and simultaneously comply with regulatory requirements and industry best practices. The following are the most important quantitative tools and metrics LBP currently uses to measure, manage and report risk:

- **Value-at-Risk (VaR).** LBP uses this approach to derive quantitative measures for the bank's trading book market risks under normal market condition. Portfolios are formed primarily to diversify risk in trading and investment assets. For a given asset category or portfolio (e.g. government securities, foreign securities, equity investments, foreign exchange), VaR measures the potential loss (in terms of market value) that, under normal market conditions, will not be exceeded with a defined confidence level in a defined period. The VaR for a total portfolio represents a measure of the bank's diversified market risk in that portfolio. The use of VaR for credit risk will commence once the Bank has adopted the advanced approach (Internal Ratings Based). VaR is explained in detail under Market Risk Management.

- **Stress Testing.** Analysis of credit, market, and liquidity risk is supplemented with stress testing. For credit risk, stress testing is done for the Bank's large loan exposures which simulate the impact of varying levels of loan defaults on the Credit Risk Weighted Assets and the Capital Adequacy Ratio of the Bank. For market risk management purposes, stress tests is performed because value-at-risk calculations are based on relatively recent historical data, and thus, only reflect possible losses under relatively normal market conditions. Stress tests help LBP 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. The Bank uses stress testing to determine the amount of economic capital allocation required to cover credit and market risk exposures after evaluating extreme and probable market conditions. For liquidity risk management purposes, the Bank performs stress tests to evaluate the impact of sudden stress events on its liquidity position.

- **Scenario Analysis**. This is a tool that generates forward-looking "what-if" simulations for specified changes in market factors. The scenario analysis simulates the impact of significant changes in domestic and foreign interest rates and events. The implications of specific scenarios are simulated on the current portfolio and liquidity position of the bank.

- **Regulatory Risk Reporting**. The Bangko Sentral ng Pilipinas (BSP), as the banking regulator in the Philippines, assesses LBP's capacity to assume risk in several ways. In compliance with BSP Memorandum Circular No. 538, s. of 2006 re: calculation of the Bank's capital adequacy ratio (CAR) consistent with the revised International Convergence of Capital Measurement and Capital Standards, or popularly known as Basel II, LBP submits on a quarterly basis result of Capital Adequacy Ratio Calculation.

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. Consistent with good corporate governance, the Parent manages credit risk by setting limits for individual borrowers and group of borrowers and industry segments. The Parent also monitors credit exposures, and continually assesses the credit quality of counterparties. For certain clients, credit risk management is supplemented by credit rating systems. Various rating systems, both manual and automated, 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.

Credit derivatives 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 (LC). 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 statement of financial position, including derivatives. The maximum exposure is shown gross, before 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 agreements to resell	6,122,000	25,000,000	6,122,000	25,000,000
Financial assets 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	179,836,155	188,721,940	179,836,155	188,721,940
Held-to-maturity Investments	40,904,585	43,547,220	40,101,183	43,271,825
Loans and receivables	322,410,814	294,306,270	321,002,300	292,786,156
Total	811,711,614	656,293,805	809,360,094	653,751,307
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	877,876,087	697,918,191	875,524,567	695,375,693

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

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

Risk concentrations of the maximum exposure to credit risk

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

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

As of 31 December 2013, the Parent's qualifying capital covering credit risk is P77.273 billion. Based on the BSP definition, the Parent has set the benchmark for large exposures at P3.86 billion.

On the other hand, the Parent's Single Borrower's Limit (SBL) is pegged at P17.813 billion for direct lending and P24.938 billion for wholesale lending.

Overall credit risk management oversight is a function of the Board of Directors (BOD)-level Risk Management Committee. In general, mitigation measures on credit risks are implemented at various levels. However, oversight on credit risk management is vested on the Risk Management Group which is independent from the business function. This is critical in ensuring the integrity and objectivity of the credit risk assessment, pricing, and management process.

The Parent ensures that the credit risks undertaken are commensurate with the risk appetite and the Parent's capacity to manage such risks. Thus, regular monitoring of both the level of risk and equity capital is undertaken to ensure that even in instances of major credit surprises, the Parent could sustain its operations in spite of the losses incurred and continue to be an efficient financial intermediary for development and institutional financing.

The BSP considers that credit concentration exists when total loan exposure to a particular industry exceeds 30 per cent of total loan portfolio. As of 31 December 2013 and 2012, the Parent does not have credit concentration in any particular industry.

As of December 31, 2013 and 2012, information on the concentration of credit as to industry based on carrying amount is shown below:

	Parent			
	2013		**2012**	
	Amount	%	Amount	%
Financial intermediation	31,254,583	10.3	35,438,031	12.9
Agriculture, hunting and forestry	53,637,349	17.7	49,534,597	18.1
Real estate, renting and business activities	40,405,973	13.3	31,790,799	11.6
Public administration and defense	42,427,725	14.0	42,820,308	15.6
Manufacturing	23,191,570	7.6	25,491,954	9.3
Community, social and personal services	10,908,453	3.6	6,566,928	2.4
Electricity, gas and water	46,781,383	15.4	38,439,325	14.0
Wholesale & retail trade, repair of motor vehicles, motorcycles & personal and household goods	17,768,695	5.8	11,557,121	4.2
Transport, storage and communication	20,487,987	6.7	21,177,529	7.7
Construction	9,492,208	3.1	5,248,612	1.9
Private households	1,136,886	0.4	990,202	0.4

	Parent			
	2013		2012	
	Amount	%	Amount	%
Hotel and restaurant	2,052,275	0.7	1,679,392	0.6
Others	4,191,393	1.4	3,647,749	1.3
	303,736,480	100.0	274,382,547	100.0
Allowance for credit losses	(3,248,889)		(4,214,884)	
Total	300,487,591		270,167,663	

Collateral and other credit enhancements

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

The following are the main collaterals accepted by the Bank:

- For commercial lending - cash or government securities, real estate properties, inventory, chattel.

- For retail lending - mortgages over residential properties.

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

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

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

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

MARKET RISK MANAGEMENT

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

Market Risk Management Framework

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

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

The LBP Board of Directors, Risk Management Committee and the Asset and Liability Committee (ALCO), define and set the various market risks limit for each trading portfolio. The Treasury and Investment Banking Sector (TIBS), particularly the Financial Markets Group (FMG), which manages the Bank's trading units and the Asset and Liability Management Group (ALMG), which manages the Bank's liquidity and reserve positions, conduct risk-taking activities within limits at all times and ensures that breaches are escalated to senior management for appropriate action.

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

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

Managing Market Risk Components

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

Interest Rate Risk Management

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

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

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

Foreign Exchange Risk Management

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

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

	Position Limit	Management Loss Alert	Stop loss Limit
	(In millions)	Monthly	Monthly
Foreign Exchange Trading	$50	$320,000	$430,000
Foreign Securities	$20	$298,000	$398,000

LBP had the following significant exposures denominated in foreign currencies as of December 31, 2013:

	(In thousand Pesos)		
	US$	**Others**	**Total**
Assets			
Foreign Currency & Coins on Hand /Cash & other cash items	555,673	52,960	608,633
Due from banks	2,815,811	266,728	3,082,539
Available for sale investments	18,394,550	248,643	18,643,193
Held to maturity investments	20,358,753	0	20,358,753
Interbank loans receivable	7,036,608	0	7,036,608
Loans and receivables	2,915,775	4,259,250	7,175,025
Investment in subsidiaries	33,652	15,455	49,107
Other assets	462,469	69,281	531,750
Total Assets	**52,573,291**	**4,912,317**	**57,485,608**
Liabilities			
Deposit liabilities	33,175,461	272,476	33,447,937
Bills payable	88,790	0	88,790
Others	6,162,765	19,150,639	25,313,404
Total Liabilities	**39,427,016**	**19,423,115**	**58,850,131**

Equity Price Risk Management

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

Market Risk Measurement Models

*** Value-at-Risk Analysis**

Value at Risk (VaR) is a statistical approach for measuring the potential variability of trading revenue. It is used to measure market risk in the trading book under normal conditions, estimating the potential range of loss in the market value of the trading portfolio, over a one-day period, at the 99 per cent confidence level, assuming a static portfolio. This level implies that on 99 trading days out of 100, the mark-to-market of the portfolio will likely either (1) increase in value, or (2) decrease in value by less than the VaR estimate; and that on 1 trading day out of 100, the mark-to-market of the portfolio will likely decrease in value by an amount that will exceed the VaR estimate.

VaR is calculated by simulating changes in the key underlying market risk factors (e.g., interest rates, interest rate spreads, equity prices, foreign exchange rates) to determine the potential distribution of changes in the market value of LBP's portfolios of market risk sensitive financial instruments. Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management.

The Value-at-Risk disclosure for the trading activities is based on internally developed Historical Simulation VaR Calculation Model as the Bank continuously pursues initiatives to improve processes in preparation to the bank's migration towards an Internal Model Approach for capital charging. The VaR disclosure is intended to ensure consistency of market risk reporting for internal risk management, for external disclosure and for regulatory purposes.

*** Back-Testing**

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

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

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

*** Stress Testing**

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

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

The Bank’s Portfolio Scenario Analysis (PSA) report is a model forecasting the loss return values of a selected portfolio. It calculates the size of possible losses related to a precise scenario. It identifies scenarios 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 per cent.

Liquidity Risk Management

Liquidity Risk Management Framework

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

The Asset and Liability Management Group submits to the TIBS Head and the President, Daily Treasury Reports which include the Bank’s cash/near cash investments and other data related to liquidity which assist senior management in decision making.

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

Liquidity Risk Measurement Models

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

Liquidity is being monitored and controlled thru maturities of assets and liabilities over time bands and across functional currencies as reflected in the Liquidity Gap Report.

This report is prepared to provide senior management and the Board timely appreciation of the Bank's liquidity position.

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

LBP formulated a liquidity contingency plan using extreme scenarios of adverse liquidity which evaluates the Bank's ability to withstand these prolonged scenarios and to ensure that it has sufficient liquidity at all times. The contingency plan focuses on the LBP'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 31 December 2013, P108.86 billion or 12.85 per cent of the Bank's total assets were represented by net loans with remaining maturities of less than one year classified as to original term and P19.29 billion or 2.28 per cent of the total assets were invested in trading and investment securities with remaining maturities of one year or less. The Bank's trading and investment securities account includes securities issued by sovereign issuers, primarily government treasury bills, fixed rate treasury notes, floating rate treasury notes and foreign currency denominated bonds issued by the government. Other resources include amounts due from BSP and other banks accounted for 29.82 percent of LBP's total resources as of 31 December 2013. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

Although the Bank pursues what it believes to be a prudent policy in managing liquidity risk, a maturity gap does, from time to time, exist between the Bank's assets and liabilities. In part, this comes about as a result of the Bank's policy to seek higher yielding assets, a policy which will generally lead to the average maturity of its financial assets exceeding that of its liabilities.

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

	PARENT					
	2013			2012		
	Due Within One Year	Due Greater than One Year	Total	Due Within One Year	Due Greater than One Year	Total
Assets						
Cash and Other Cash Items	20,354,849	0	20,354,849	17,867,540	0	17,867,540
Due from BSP	249,497,118	0	249,497,118	85,096,569	0	85,096,569
Due from Other banks	3,138,986	1,501	3,140,487	3,545,429	0	3,545,429
Interbank loan receivable	7,036,608	0	7,036,608	11,168,108	0	11,168,108
Security Purchased Under agreement to resell	6,122,000	0	6,122,000	25,000,000	0	25,000,000
Loans and Receivables	95,697,641	225,304,659	321,002,300	94,516,020	198,270,136	292,786,156
Investments	19,287,347	203,482,894	222,770,241	24,977,820	211,315,348	236,293,168

	PARENT					
	2013			2012		
	Due Within One Year	Due Greater than One Year	Total	Due Within One Year	Due Greater than One Year	Total
Other Assets	1,457,647	15,701,861	17,159,508	2,692,821	14,678,904	17,371,725
Total Assets	402,592,196	444,490,915	847,083,111	264,864,307	424,264,388	689,128,695
Liabilities						
Deposits						
Demand	348,297,024	0	348,297,024	244,538,483	0	244,538,483
Savings	324,134,174	0	324,134,174	267,317,066	0	267,317,066
Time	26,183,654	443,107	26,626,761	27,915,229	3,489,936	31,405,165
LTCND	0	5,000,180	5,000,180	0	588,292	588,292
Bills Payable	2,275,469	21,294,894	23,570,363	2,424,342	24,399,258	26,823,600
Unsecured Subordinated Debt	0	17,434,000	17,434,000	0	17,434,000	17,434,000
Due to BTr, BSP, & MCs/PCIC	1,373,523	115,561	1,489,084	1,566,127	68,031	1,634,158
Due to Local Banks & Others	5,101	0	5,101	6,225	0	6,225
Other Liabilities & Payables	1,175,956	19,394,318	20,570,274	1,555,778	15,922,502	17,478,280
Total Liabilities	703,444,901	63,682,060	767,126,961	545,323,250	61,902,019	607,225,269

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

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

	Due within 3 mos	Due more than 3 to 6 mos	Due more than 6 mos to 1 year	Due more than 1 year to 5 years	Due more than 5 years	Total
Financial Assets						
Cash and Due from Banks	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 and Capital	288,064	21,810	7,360	11,542	518,307	847,083

	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
Asset & Liabilities Gap	15,733	11,277	58,348	120,585	(205,943)	0

The LBP has established guidelines for liquidity risk limit setting to enable it to properly and prudently manage and control liquidity risk, consistent with the nature and complexity of its business activities, overall level of risk and its risk appetite. The Maximum Cumulative Outflow (MCO) limit set by the Board of Directors 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. MCO limits put a cap on the total amount of negative gaps in the near time buckets.

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

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

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

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

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

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

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

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

2. **<u>Diversified funding sources</u>** - The Bank has identified the following sources of funding:

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

LBP performs a comprehensive liquidity risk measurement and control using as tool the Consolidated Liquidity Gap Report covering the entire LBP Group. Risk models used in liquidity risk management are subjected to independent model validation. The Internal Audit Group is tasked to do model validation. An independent validation is also being done by the Basel Officer for Treasury who reports directly to the Head of the Risk Management Group. For CY2013, incorporated were latest enhancements made on the model as a result of independent model validation by a third party auditor.