CELEBRATING OUR JOURNEY TO GOLD

50 years

2013 ANNUAL REPORT

LANDBANK

CELEBRATING OUR JOURNEY TO GOLD

2013 ANNUAL REPORT

P25 B

Authorized capital composed of P20B common stocks and P5B preferred stocks

1,010

In-house and external training programs for employees

P11.79B

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

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

179

New ATMs

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

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

12,898

Number of hours donated by employees

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

881,356

Small farmers and fishers benefited from loans

P17 B

Outstanding LGU loans on agri-aqua-related projects

P6 B

Trading gains from treasury operations

P244.6B

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

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

50K

Seedlings planted

1963

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

1969

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

1973

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

1986

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

1990

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

1992

President Fidel Ramos appointed Jesli Lapus as President of LANDBANK.

1995

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

1998

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

1998

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

2000

Margarito B. Teves was appointed LANDBANK President and CEO.

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

2004

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

2005

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

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

LANDBANK strengthened its Corporate Social Responsibility (CSR) programs.

2012

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

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

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VISION

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

MISSION

To Our Clients and Publics:

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

To Our Employees:

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

FINANCIAL HIGHLIGHTS

GROUP (AUDITED)

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

GROSS LOAN PORTFOLIO (In Billion Pesos)

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

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

MESSAGE FROM THE PRESIDENT OF THE PHILIPPINES

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

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

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

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

Congratulations on the publication of your 2013 Annual Report.

President Benigno S. Aquino III
Republic of the Philippines
Manila
March 2015


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

CHAIRMAN'S AND PRESIDENT'S REPORT

PROGRESS IN RESILIENCE

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

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

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

Pursuit of Mandate

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

I. Mandated Sector
- Small farmers including agrarian reform beneficiaries and their associations
- Small fishers and their associations

II. Support for Agriculture and Fisheries
- Agri-business
- Aqua-business
- Agri-aqua-related Projects of LGUs and GOCCs

III. Support for National Government Priority Programs (including PPP projects)
- Micro, small and medium enterprises
- Communications
- Transportation
- Housing (socialized, low-cost and medium-cost)
- Education
- Health care
- Environment-related projects
- Tourism
- Utilities

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

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

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

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

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

Institutional Viability

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

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

Customer Service

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

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

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

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

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

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

Enhancing Countryside Banking by Pursuing Inclusive Growth

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

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

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

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

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

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

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

Sec. Cesar V. Purisima
Chairman

Gilda E. Pico
Gilda E. Pico
President and CEO


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MASSEY FERGUSON

OPERATIONAL HIGHLIGHTS

PURSUIT OF MANDATE

LOANS TO SMALL FARMERS AND FISHERS

P51.6 BILLION

LOANS TO OFW BORROWERS

P248.8 MILLION

LOANS TO MSMEs

P37.5 BILLION

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

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

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

PROGRAMS FOR THE PRIORITY SECTORS

Loans to the Mandated Sector

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

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

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

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


80.5%
Share of loans for priority sectors


P22.7 BILLION
Loans to Agri-aqua businesses

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

Loans in Support of Agriculture and Fisheries

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

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

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

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

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

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

- *Other Priority Projects of LGUs*

Cognizant of the need to develop communities to stimulate countryside growth and development, LANDBANK extends credit assistance to support other priority projects of LGUs. These include socialized and low cost housing, education, health care, and environment.

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

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

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

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

Loans Supporting Other National Government Priority Programs

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

- *Loans for Microenterprises and Small and Medium Enterprises*

LANDBANK's loan portfolio for micro, small, and medium enterprises (MSMEs) continues to expand due to increasing demand. LANDBANK channels its microfinance loans through conduits such as rural banks, NGOs, and microfinance institutions. On the other hand, SME loans are extended through direct lending to SME borrowers.

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

- *Loans for Livelihood*

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

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

- *OFW Reintegration Program*

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

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

LANDBANK financed both agri and non-agri loans of OFW-borrowers. Agri-loans include grains trading, piggery, poultry, agri-supply, post-harvest, bakery, fruits and vegetables, copra trading, and fishery. Non-agri loans, on the other hand, include grocery, apartment, general merchandise, commercial buildings, hardware, private utility vehicle, internet café, restaurant, water station, construction, trucking, auto supply, RTW, motor parts, and gas station, among others.

- *Environment-related projects*

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

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

- *Carbon Finance Support Facility*

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

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

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

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

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

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

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

- *Carbon Seller Participation Agreement*

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

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

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

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

  - *Gintong Pabahay*

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

- *Utilities*

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

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

SUPPORT TO THE COMPREHENSIVE AGRARIAN REFORM PROGRAM

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

CARP Land Transfer Operations

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

Landowners Compensation and Assistance

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

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

Land Amortization Collections from CARP Farmer-Beneficiaries

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

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

LANDBANK-administered Agrarian Reform Fund for CARP

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

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

SUPPORT PROGRAMS FOR AGRICULTURAL CREDIT

Agricultural Guarantee Fund Pool (AGFP)

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

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

Philippine Crop Insurance Corporation (PCIC)

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

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

Credit Surety Fund (CSF)

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

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

Agricultural Credit Support Project (ACSP)

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

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

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

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

The CAP-PBD is dubbed as the “little brother” of the ACSP whose targeted beneficiaries are also ARBs. They complement each other in terms of providing additional credit funds to ARBOs that did not meet specific lending criteria.

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

AGRICULTURAL CREDIT EXPANSION PROGRAM

Food Supply Chain Program (FSCP)

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

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

Sikat Saka Program (SSP)

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

Under the Program, LANDBANK provides direct financial assistance to the small palay farmers (SPF). The Program also provides an integrated support package through the attached agencies of the DA. The beneficiaries under the SSP are issued with DA Sikat Saka ATM Cards where the loan proceeds are credited and loan payments are debited. As of end-2013, the SSP released P383 million to 3,544 SPFs.

Agrarian Production Credit Program (APCP)

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

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

Masustansyang Inumin para sa Likas Na Kalusugan (MILK)

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

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

Kalikasang Kabuhayan sa Wastong Pamayanan (KAWAYAN)

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

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

Integrated Support for Development of Aquaculture (ISDA)

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

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

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

The BRIGHTNESS Program is the Bank's response to the need to energize the barangays to spur socio-economic growth and generate more employment in the countryside. A joint partnership between LANDBANK and the National Electrification Administration, this credit program on rural electrification will provide financing assistance to qualified electric cooperatives and wholesale power aggregators.

CACAO 100

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

AWARDS AND RECOGNITIONS

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

2013 GAWAD SA PINAKATANGING KOOPERATIBA (Gawad PITAK) WINNERS

Major Awards:

OUTSTANDING AGRI-BASED COOPERATIVES

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

OUTSTANDING NON-AGRI-BASED COOPERATIVES

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

PLATINUM CATEGORY

Sorosoro Ibaba
Development Cooperative
Sorosoro Ibaba, Batangas City

HALL OF FAME CATEGORY

Agri-based Cooperative

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

Non-agri-based Cooperative

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

GININTUANG GAWAD PITAK
NON-AGRI-BASED COOPERATIVE

Dingle Government Workers
Multi-Purpose Cooperative
Dingle, Iloilo

Special Awards

OUTSTANDING COOPERATIVE IN MICROFINANCE OPERATION

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

BEST COOPERATIVE IN AGRI-TOURISM

Lamac Multi-Purpose Cooperative
Pinamungajan, Cebu

ULIRANG MAGSASAKA CATEGORY

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

2013 GAWAD ENTREPRENEUR WINNERS

ENTREPRENEUR OF THE YEAR

Ms. Nora Liwanag
Roxas, Oriental Mindoro

OUTSTANDING AGRI-BASED ENTREPRENEUR

Sps. Amelia and Emmanuel Santos
Bambang, Nueva Vizcaya

OUTSTANDING NON-AGRI-BASED ENTREPRENEUR

Sps. Maria Nova and Salvador Veluz
Lucban, Quezon

BAGONG BAYANI ENTREPRENEUR

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

Ms. Nora Liwanag and son Francis of RE Liwanag Ricemill receive the award as ***Entrepreneur of the Year 2013.***

The Sorosoro Ibaba Development Cooperative of Batangas City bagged the first ever ***Platinum Award in the 2013 Gawad PITAK.***

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

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

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

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

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

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

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

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

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

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

2013 GAWAD CFI WINNERS

GOLDEN AWARD

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

MOST OUTSTANDING CFI (NATIONAL)

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

MOST OUTSTANDING CFI (REGIONAL)

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

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

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

SPECIAL AWARDS

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

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

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

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

CITATIONS FOR LANDBANK

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

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

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

OPERATIONAL HIGHLIGHTS

CUSTOMER SERVICE

TOTAL NUMBER OF LANDBANK CARDHOLDERS

7.68 MILLION

TOTAL NUMBER OF PARTNER COOPERATIVES

1,500

TOTAL CCT DISBURSEMENTS

P41.7 BILLION

Expansion and Widening of Delivery Channels

- *New Branches*

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

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

- *New ATMs*

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

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

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

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

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

- *Mobile ATMs*

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

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

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

341 LANDBANK branches *as of end-2013*

220 Luzon

53 Visayas

68 Mindanao

1,213 LANDBANK ATM *as of end-2013*

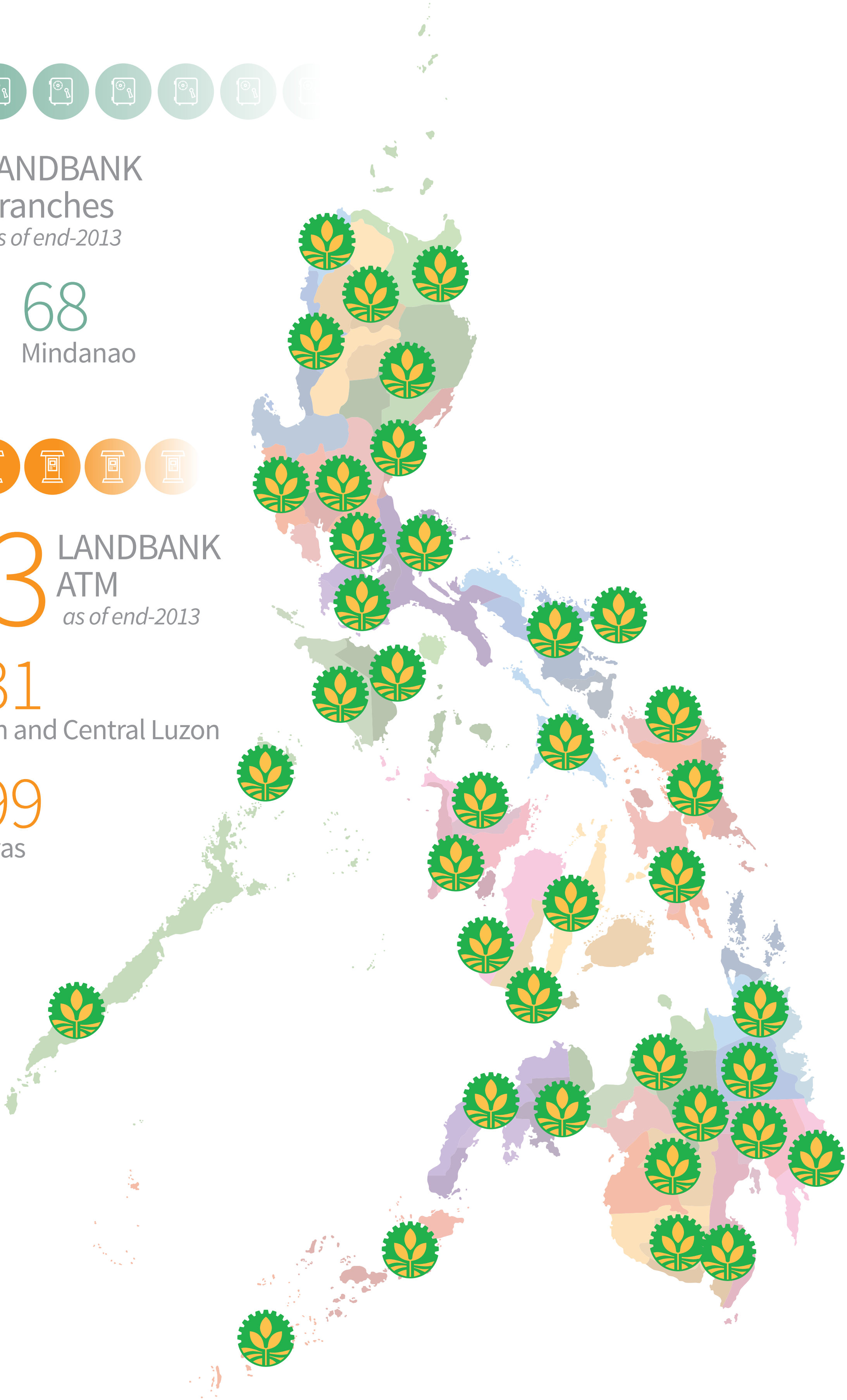
307 NCR

231 North and Central Luzon

208 South Luzon

199 Visayas

268 Mindanao



- *Lending Units*

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

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

- *Conduit Banks*

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

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

- *Cooperatives*

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

- *Remittance Tie-ups/Partnerships*

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

The Overseas Remittance Group continued to strengthen its overseas network in 2013 by establishing tie-ups with 15 remittance agencies, and utilizing its membership with Eurogiro to forge remittance partnerships with Korea Post, Japan Post Bank, and Bangkok Bank. By end-2013, LANDBANK was able to partner with a total of 140 remittance entities resulting in a wider reach to more Filipinos overseas.

Convenience and Access to Banking Services

- *Phonebanking*

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

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

- *Mobile Banking*

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

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

- *Point of Sale (POS)*

The LANDBANK ATM/debit card offers the convenience of cashless purchase using the POS terminals of accredited establishments.

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

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

- *Retail Internet Banking*

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

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

- *Institutional Internet Banking*

The LANDBANK weAccess is the internet banking facility available for institutional clients, both private and government. Various corporate banking services can be accessed online by logging on to www.lbpweaccess.com. These weAccess online banking services include balance inquiry, account statement, fund transfer, account sweeping, bills payment, auto debiting, auto crediting, payroll, check status inquiry, and loan information.

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

- *LANDBANK Visa Debit Card*

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

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

- *Interbank Fund Transfer*

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

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

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

- *LANDBANK Remittance System (LBRS)*

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

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

Customer-Centric Bank Products and Services

- *Bank Products*

  - *Deposits*

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

    - *Chinese Yuan Deposit Accounts*

To improve the Bank's competitive position and to extend services to the growing Filipino-Chinese business community, LANDBANK, in 2013, introduced the Chinese Yuan (CNY) savings and time deposit accounts. The CNY deposit products were launched in time for the Chinese celebration of the Year of the Water Snake in February 2013 and were initially made available in Binondo Branch and in the Cash Department at the LANDBANK Plaza. Minimum deposit requirements for the Chinese Yuan savings and time deposit accounts are CNY2,500 and CNY5,000, respectively.

  - *Loans*

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

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

  - *Treasury and Investments*

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

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

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

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

- *Trust*

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

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

Even with the challenges of the phase-out of SDA, 2013 was a banner year for the Unit Investment Trust Fund (UITF) business of the Bank. The UITF portfolio grew by over 300 percent compared to its performance in 2012. In February 2013, several amendments on the UITF products were implemented as approved by the Bangko Sentral ng Pilipinas (BSP). The amendments aimed to provide more flexibility for better asset management, affordability, cost effectiveness, and increased market reach. Trust fees of UITF products were also reduced in order to encourage maximum participation by the different market segments.

- *Services*

  - *Customer Care Center*

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

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

  - *Services to Overseas Filipinos*

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

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

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

Cash Management Services for the National Government

- *Modified Disbursement Scheme*

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

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

- *Continuous Form Checks*

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

- *Revenue Collection Services and Other Services*

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

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

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

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

- *Conditional Cash Transfer (CCT)*

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

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

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

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

Under the two-stage certification audit, six NCR branches were subjected to Stage 1 certification while 21 Branches and EOs underwent the Stage 2 certification audit. The other NCR branches will be covered by surveillance audit of the CIP during the three-year validity period. Stage 1 audit assesses the adequacy of the documented system in meeting the requirements of ISO 9001:2008. This includes the suitability of management inputs, policies, objectives, targets, procedures, resources, implementation controls, monitoring, measurement, and improvement of processes. On the other hand, Stage 2 audit assesses the implementation and effectiveness of the documented quality management system in achieving planned objectives and targets.

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

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

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

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

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

INFORMATION TECHNOLOGY SUPPORT AND BANK PROCESSES AUTOMATION

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

IT Projects/Initiatives Completed in 2013

- *BancNet ISO Standard Compliance*

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

- *Inter-Bank Fund Transfer (IBFT)*

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

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

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

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

LANDBANK introduced an alternative mobile banking facility through SMS.

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

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

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

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

- *LANDBANK Remittance System (LBRS) Release I*

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

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

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

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

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

- *Trade Finance System (TFS)*

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

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

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

- *Anti-Money Laundering Interfaces*

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

- *Major Enhancements on Internet Banking Facilities*

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

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

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

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

IT Infrastructure Initiatives Completed in 2013

- *IT Infrastructure Upgrade*

  - *Midrange Systems Disk Storage Upgrade*

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

  - *Mainframe Disk Storage Upgrade*

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

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

- *Wide Area Network (WAN) Upgrade*

  - *Deployment of WAN Accelerators*

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

- *Upgraded the Network Security Infrastructure*

To improve response time and security of internet based applications:

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

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

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

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

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

OPERATIONAL HIGHLIGHTS

INSTITUTIONAL VIABILITY

CONSOLIDATED NET INCOME

P11.79 BILLION

TOTAL ASSETS

P849.3 BILLION

REGULAR LOAN PORTFOLIO

P303.3 BILLION

ORGANIZATIONAL STRUCTURE

The organizational structure of the Land Bank of the Philippines is shown in Figure 1. The Bank is governed by the Board of Directors with the President and CEO as the Head of the Institution. The President supervises Bank units that directly report to the President and the five sectors of the Bank namely, (1) the Agricultural and Development Lending Sector, (2) the Branch Banking Sector, (3) the Treasury and Investment Banking Sector, (4) the Corporate Services Sector, and (5) the Operations Sector. The President and CEO also exercises administrative supervision over the units that are reporting directly to the Board of Directors.

LAND BANK OF THE PHILIPPINES

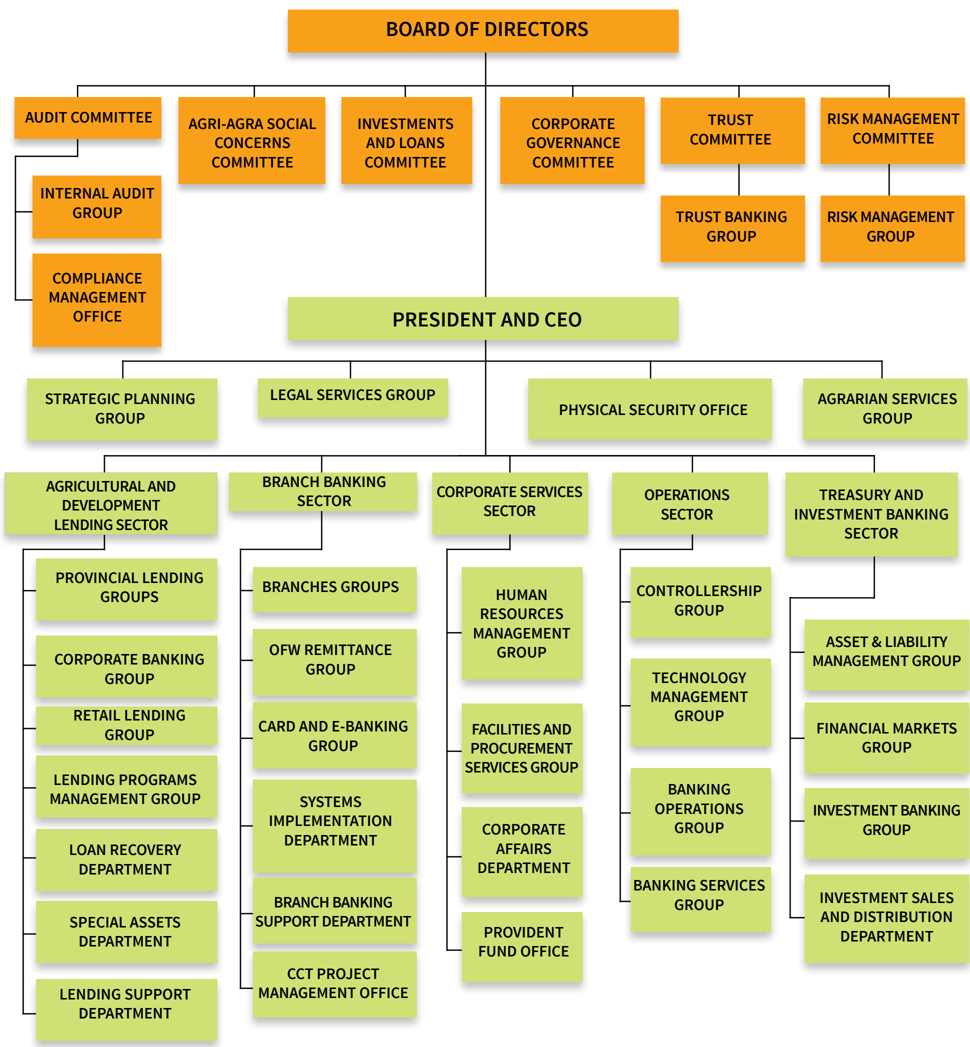


Figure 1. LANDBANK Organizational Structure

Office of the Board of Directors

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

Units Under the LANDBANK Board of Directors

- *Internal Audit Group (IAG)*

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

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

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

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

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

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

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

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

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

- *Trust Banking Group (TBG)*

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

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

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

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

- *Risk Management Group (RMG)*

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

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

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

- *Compliance Management Office (CMO)*

The Compliance Management Office (CMO) reports directly to the Audit Committee and handles the identification and dissemination of laws and regulations to provide guidance and direction to the Bank on compliance matters. It coordinates with Bank units on compliance matters, monitors responses to off-site and onsite audit examinations, evaluates the Reports on Crimes and Losses, and monitors fines and penalties imposed by the regulatory bodies as well as interfaces with regulatory authorities, standard setters, and external experts. The CMO also handles the Anti-Money Laundering System management and monitoring.

Office of the President and CEO

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

Agricultural and Development Lending Sector

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

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

Branch Banking Sector

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

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

Treasury and Investment Banking Sector

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

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

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

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

- *Reorganization of the Treasury and Investment Banking Sector*

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

Operations Sector

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

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

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

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

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

Corporate Services Sector

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

The LANDBANK Incentive Structure

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

Remuneration Policy

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

CORPORATE GOVERNANCE

The LANDBANK Board of Directors

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

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

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

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

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

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

- Honorable Proceso J. Alcala
  Secretary,
  Department of Agriculture

  DA Undersecretary Antonio A. Fleta
  (alternate director)

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

  DAR Undersecretary
  Anthony N. Paruñgao
  (alternate director)

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

  DOLE Undersecretary Danilo P. Cruz
  (alternate director)

- Director Domingo I. Diaz
  Representative, Private Sector

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

- Director Crispino T. Aguelo
  Representative,
  Agrarian Reform Beneficiaries

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

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

The Functions of the LANDBANK Board

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

Board Performance and Attendance

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

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

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

The LANDBANK Board and the Board-level Committees

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

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

- *Corporate Governance Committee*

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

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

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

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

- *The Audit Committee*

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

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

1. IAG Audit Plan and Major Programs for CY 2013;
2. Revision of the Risk-Based Compliance Methodology Manual;
3. Simplified Anti-Money Laundering Compliance Testing Sampling Methodology;
4. Amendments to the Money Laundering and Terrorist Financing Prevention Program;
5. Updating of the Bank's Compliance Program; and
6. CMO's Alerts Timing Threshold/ Turnaround Policy.

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

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

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

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

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

- *The Risk Management Committee*

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

In addition, the RiskCom exercises oversight functions on all matters pertinent to risk management including the development of risk strategies, policies, guidelines, procedures and systems as well as the system of authority limits delegated by the LANDBANK Board to management.

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

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

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

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

- *The Trust Committee*

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

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

The Trust Committee is composed of five members with the DOLE Secretary as Chairman and the DOF Secretary as Vice Chairman. Members are the DAR Secretary, the LANDBANK President and CEO Gilda E. Pico, and the TBG Head. The Committee held seven meetings in 2013 with an average attendance of 80 percent.

- *The Agri-Agra Social Concerns Committee*

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

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

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

- *The Investment and Loan Committee*

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

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

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

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

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

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

GOOD GOVERNANCE AS A WAY OF LIFE

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

The LANDBANK Board exercises oversight on all risk-related functions and activities of the Bank based on a top-down structure. The overall risk management oversight function of the LANDBANK Board is rendered through the Risk Management Committee (RiskCom). As the overseer of bank-wide risks, the RiskCom is responsible for approving policies and evaluating the operating effectiveness of the Bank's controls and risk management framework.

RISK MANAGEMENT PHILOSOPHY

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

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

- The LANDBANK Board, through the RiskCom, exercises oversight on all risk-related functions and activities of the Bank based on a top-down structure;

- The Risk Management Group (RMG) is independent from risk-taking units and performs the oversight function for all major risk areas (credit, market and liquidity, operational, and other bank-wide risks). RMG reports functionally to the RiskCom and administratively to the President and CEO of the Bank; and

- The Bank adopts the Enterprise Risk Management (ERM) approach to risk management. ERM looks at the group-wide risks of the Bank from a top viewpoint and analyzes and addresses identified risks together with concerned risk-taking units. ERM reinforces risk analysis as it cross-functionally examines risk interdependencies and dissects the sources of risks.

RISK EXPOSURES AND ASSESSMENT

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

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

RISK MANAGEMENT TOOLS

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

- *Value-at-Risk (VaR).* The Bank uses this approach to derive quantitative measures for the Bank's trading book market risks under normal market condition. The VaR for a total portfolio represents a measure of the Bank's diversified market risk in that portfolio.

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

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

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

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

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

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

- *Regular Risk Reporting.* Reporting of the Bank's major risks (credit, market, liquidity, interest rate, equities, foreign exchange and operational risks) is made during RiskCom bi-monthly meetings. Summary of risk reports taken up at the RiskCom are submitted on a monthly basis to the LANDBANK Board for confirmation. Risk reports include, among others, a view of the Bank's loan portfolio quality, liquidity gap, market risk profile, deposit profile and operational concerns encountered and addressed by various business units.

CREDIT RISK MANAGEMENT

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

- *Credit Risk Assessment*

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

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

For all client types, credit risk management is supplemented by credit rating systems which were developed for corporations, small and medium enterprises, financial institutions, cooperatives, and local government units. The ratings of clients are being used, among others, as basis for determining the credit worthiness of loan clients. Independent review of the ratings after loan approval is done by RMG to support the Internal Credit Risk Rating System (ICRRS) ratings as required by the BSP. For 2013, RMG completed the post-validation of 406 ICRRS ratings of corporate clients.

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

- *Credit Risk Exposure and Credit-related Commitments*

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

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

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

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

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

- *Collateral and Other Credit Enhancements*

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

The following are the main collaterals accepted by the Bank:

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

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

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

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

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

- *Credit Stress Testing*

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

- *Credit Risk-Weighted Assets*

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

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

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

MARKET RISK MANAGEMENT

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

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

- *Market Risk-Weighted Assets*

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

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

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

- *Market Risk Management Framework*

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

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

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

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

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

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

- *Managing Market Risk Components*

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

- **Interest Rate Risk Management**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. Assets and liabilities are classified into rate and non-rate sensitive, fixed interest rate and floating interest rate. The slotting/ bucketing is based on expected time of cash flows or liquidation. Floating rate assets are bucketed according to re-pricing date or amortization, not maturity date. For loans, the amounts are validated with data sources or originating units of the Bank and bucketing is matched with the FRP Report being submitted to the BSP. LANDBANK adopts two perspectives in measuring Interest Rate Risk as follows:

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

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

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

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

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

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

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

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

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

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

- **Foreign Exchange Risk Management**

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

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

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

- *Market Risk Measurement and Validation Models*

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

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

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

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

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

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

  For the fourth quarter of 2013, HS VaR model back-testing results showed minimal exceptions for the Equities and Government Securities portfolios and generally fell in the safe zone. These results indicated the accuracy and consistency of the HS VaR models for the two portfolios. For Foreign Exchange and Foreign Securities portfolios, back-testing resulted to a considerable number of exceptions and were in the problematic zone. The Bank has addressed the exceptions through model review and enhancement, as well as, the conduct of parallel back-testing.

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

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

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

LIQUIDITY RISK MANAGEMENT

- *Liquidity Risk Management Framework*

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

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

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

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

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

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

- *Liquidity Risk Measurement Tools*

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

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

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

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

PARENT
2013

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

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

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

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

- *Measures to Limit Liquidity Risk*

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

- *Diversified funding sources.* The Bank has identified several sources of funding such as cash from operations, sale of Government Securities (GS) under Available for Sale (AFS), Government and retail deposit sources, interbank market and borrowings from BSP, among others;

- *Consolidated liquidity risk measurement.* LANDBANK performs comprehensive liquidity risk measurement and control using as tool the Consolidated Liquidity Gap Report covering the entire LANDBANK Group; and

- *Liquidity risk model enhancement.* For 2013, enhancements were made on the liquidity risk model as a result of independent model validation by a third party auditor.

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

- *Distinguished Core from Solid Core Deposit.* Further refinement was made in the calculation of core deposit to enhance the model and liquidity analysis by determining the Solid Core Deposit level. Solid Core Deposit is defined as the stable deposit in a particular account with a given probability defined as the confidence level, over a given time horizon. It is based on the distribution of historical data of deposit and is calculated by marking the point where 99 percent of all deposits have better values than the remaining 1 percent (used statistical process known as 1st Percentile).

- *Determination of behavioural withdrawal pattern for bucketing Savings and Demand Deposit*. Savings and demand deposits are non-maturity deposits. An additional analysis made to proximate scenario is to simulate behavioural withdrawal pattern. This is done by observing pattern of deposit decays of the total end-of-day data for demand deposit account based on a five-year historical demand deposit data. The highest withdrawal percentage change is determined for each tenor bucket. The percentages are used as basis for slotting the non-core amount under the different tenors. The remaining non-core deposit amount which is unpositioned or unbucketed is placed in the '1 to 7 days' category.

- *Classification of Deposits as Core and Non-Core in the LGR*. For clarity, deposits were reclassified as core and non-core deposits. Core deposits comprising of calculated core deposits of Savings, Demand, and Time are slotted based on the contractual maturity of core deposits. Non-core deposits are slotted based on the bucketed deposit data sourced from the Data Warehouse System. Non-core Demand and Savings are slotted using two approaches: bucketed in the '1 to 7 days' category and based on the behavioural withdrawal pattern for Demand and Savings deposits.

- *Creation of Asset Reserve Account under Assets*. The Bank separated the Reserve Asset Account from the Government Securities and the Private Debt Account. An Asset Reserve Account was created where securities tagged as Liquidity Reserve were slotted based on their contractual maturity for easier liquidity analysis.

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

OPERATIONAL RISK MANAGEMENT

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

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

- *Risk Measurement/Risk Exposure*

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

The development and use of the aforementioned risk management tools contributed to the reinforcement of operational risk management in the Bank. Controls implemented in the previous years resulted in the low risk profile of the Bank's operations posting manageable actual losses of P23,546,463 in 2013. A greater portion of the actual losses (around 60 percent) was accounted for by the Basel II risk event "Damage to Physical Assets" in view of the natural and man-made disasters that occurred in the past year. The aggregate actual operational losses represent five percent of the P43,493 million ORWA calculated under the BIA model, which is indeed a very substantial variance.

- *Controls/Tools for Monitoring/Mitigating Operational Risks*

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

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

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) HIGHLIGHTS

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

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

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

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

In conclusion, the results of the 2013 risk assessment and capital management reveal that the Bank has more than sufficient capital to finance the performance of its banking functions, and address the risks under the most probable and stressed scenarios.

STRENGTHENING COMPLIANCE MANAGEMENT THROUGH ENHANCED POLICIES AND MONITORING SYSTEMS

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

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

- *AML System Enhancements*

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

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

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

In line with the Money Laundering and Terrorist Prevention Program (MLLP) developed in 2011, the Bank revisited and updated during the year the MLLP Manual to strengthen its detection and monitoring processes against anti-money laundering, specifically funds diverted to terrorism and similar activities. The Manual incorporated various provisions from R.A. 10167 (An Act To Further Strengthen The Anti-Money Laundering Law, Amending For the Purpose Sections 10 and 11 of R.A. 9160) and R.A. 10168 (The Terrorism Financing Prevention and Suppression Act of 2012), as well as, new internal policies and issuances compliant with the Bangko Sentral ng Pilipinas (BSP) and the Anti-Money Laundering Council (AMLC).

- *New AML Policies*

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

- *Regulatory Compliance and Other Initiatives*

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

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

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

- *AML Training and Related Activities*

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

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

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

HUMAN RESOURCE MANAGEMENT

Service Excellence and Transparency (LANDBANK Citizen's Charter)

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

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

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

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

Learning and Development

As LANDBANK renewed its corporate life, so was the vow to strengthen the foundation of its human resource. The Bank recognizes the importance of human resources as the starting point towards achieving institutional goals. Thus, the Bank invests heavily to enhance the competency of its most important asset – its employees.

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

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

- *Training Programs and Skills Development*

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

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

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

As part of continuing development of the ODP and MTP graduates, the ODD implemented learning sessions during the year. In May 2013, Dr. Cielito Habito discussed a holistic view of the Philippine Economy and its criticality in understanding the future of the banking industry while Director Domingo Diaz spoke about Inspirational Leadership in December 2013.

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

Further, to contribute to the Bank's thrust for organizational excellence, the Bank maximized the slots of scholarship grants for employees intending to pursue post graduate studies on fields relevant to the needs of the Bank through the Graduate Education Program (GEP). Twenty of these GEP scholars successfully obtained their Master's degree. Also, 54 supervisors in the Head Office continued their in-house Masters in Business Administration program being conducted in partnership with the College of the Holy Spirit – Manila (CHS-Manila) and the Concordia International College (CIC). In support to field- based bank officers, the partnership with the CHS-Manila and CIC was expanded bringing the in-house MBA program to Cebu and Metro Davao with 15 and 18 enrollees, respectively.

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

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

Lastly, an Organization Climate Survey (OCS), in partnership with the Ateneo Center for Organization Research and Development (CORD), was started in November 2013. The survey aims to identify organizational strengths and weaknesses as it relates to leadership, management, and human resource development.

Health and Work-Life Balance

In 2013, LANDBANK continued to implement various programs that promote health, wellness and work-life balance. These programs include the following:

- *LANDBANK Day Care Center (LBDCC) Program and Lactation Station*

In 2004, the LBDCC was established as part of the Bank's commitment to assist its parent-employees. The LBDCC implements holistic programs that aim to hone artistic and creative inclinations of each child. With the Day Care Center, LANDBANK employees can productively work in confidence that their children are safe and are learning and enjoying various activities. In 2013, 25 children of employees were enrolled in the LBDCC.

LANDBANK also continues to operate a lactation station for the employees of the Bank who are breastfeeding their infant child. The establishment of a lactation station is in support of the national campaign to promote breast milk as a source of nutrition for infant and young children. In 2013, 20 breastfeeding mother-employees visited the lactation station.

- *Wellness programs*

LANDBANK regularly conducts wellness programs to promote employee wellness and camaraderie. In 2013, the LANDBANK Head Office conducted seven Sports Events and 21 learning group sessions under the Wellness Program. The sports events were participated in by a total of 828 employees while 978 employees joined the learning group sessions. At the LANDBANK branches and field offices, customized wellness programs were implemented attuned to the needs and situation of the employees in their respective units. This include the conduct of fun run events participated by staff of different branches and field offices.

- *Employee volunteerism*

As part of encouraging employee volunteerism, LANDBANK regularly conducts bloodletting sessions in partnership with the Philippine Red Cross. In 2013, the Bank conducted bloodletting activities in August and December. A total of 310 donors participated with approximately 139,500 cc of blood donations collected. In support of other volunteerism programs, LANDBANK employees also donated time and its corresponding value. In 2013, Bank employees donated a total of 12,898 hours with a value of P2,891,715.62 to fund other volunteerism projects.

In the aftermath of the Typhoon Yolanda, the LANDBANK Medical Clinic, in partnership with Medicard Philippines, Inc. conducted a medical mission for Bank personnel and their family members who were affected by the typhoon. Joining the team were physicians and nurses fielded by MediCard. A total of 90 patients benefitted from this medical mission.

LANDBANK SUSTAINS PROGRAMS FOR ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEMS

LANDBANK's Environmental Management Systems certification was maintained following the successful surveillance audits, conducted by TUV SUD – third party EMS auditor, on five out of 18 certified branches during the first quarter of 2013. The ISO 14001 EMS certification was also expanded to include four new branches, namely, Balanga, Biñan, Tacloban and Alabel last October 2013. Briefings and internal audit are conducted periodically to provide updates and assess compliance to EMS requirements.

The EMS Working Committee, in coordination with the Corporate Affairs Department, continues to espouse initiatives that strive to promote environmental conservation, protection and management. Among the projects initiated and completed in 2013 were the following:

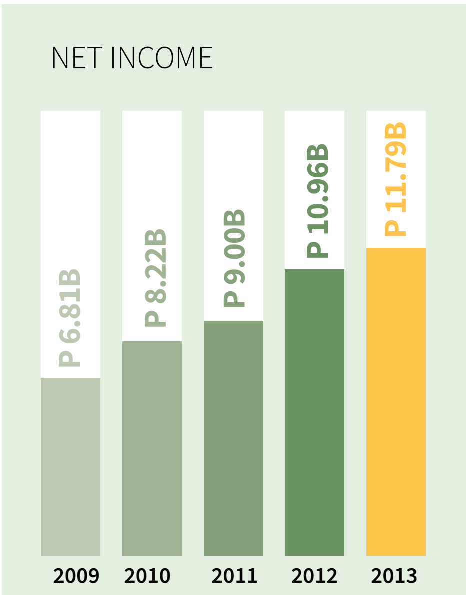
- Periodic clean-up activities of the Manila Bay conducted through the Manila Bay SUNSET Partnership Program in cooperation with volunteer partner institutions;
- Reforestation and protection of 40 hectares of denuded watershed located in six provinces in partnership with peoples' organization, thus, providing them with additional source of livelihood;
- Planting of 50,600 seedlings in selected watersheds all over the country from January 1 to August 10, 2013 as part of the 50th anniversary celebration of LANDBANK;
- Preparation of plots for organic gardening at the 12th floor of the LANDBANK Plaza in Malate, Manila;
- Continuous conduct of EMS-related training courses and workshops such as the First Responders Training, Basic Rescue Awareness and Bomb Identification, and Management Courses for FERT members, among others;
- Sustained Environmental Awareness Programs such as the recognition of the Most Environment-Friendly Floors and Departments at the LANDBANK Plaza, particularly, Most Paper Efficient Department and Most Water-Efficient Floor, participation of employees to promotional events (International Coastal Clean-up, Manila Bay Clean-up Run); and
- Regular monitoring of Resource Consumption on diesel, gasoline, water, electricity and management of solid and hazardous wastes at the LANDBANK Plaza and in all field units.

FINANCIAL HIGHLIGHTS

NET INCOME

2013 is a record-setting year for the banking sector in terms of income, with LANDBANK continuing to be among the most profitable with P11.79 billion consolidated net income for the year. The Bank's 2013 net income is P828 million or 8 percent higher than its P10.96 billion net income in 2012. It is also the Bank's highest-ever net income recorded on its 50th year of operation.

Net interest income increased to P21.3 billion or by P1.5 billion due to higher interest income combined with lower interest expense. Interest income is higher by P503 million due to more aggressive lending activities. Interest expense on the other hand is lower by P1.0 billion despite the higher deposit base due to the low interest rate prevailing for several years now.



Other operating income reached P14.7 billion from P10.8 billion in 2012 mainly due to significant revenues from gains in trading activities. Similar to other banks, 2013 was a stellar year for the Bank's treasury operation that recorded more than P6.0 billion in trading gains.

LANDBANK CAPITAL STRUCTURE AND CAR COMPUTATION
(In P Millions)

	GROUP		PARENT	
	Dec. 2013	**Dec. 2012**	**Dec. 2013**	**Dec. 2012**
Tier 1 Capital				
Core Tier 1 Capital				
- Paid-up Common Stock	11,971.00	11,971.00	11,971.00	11,971.00
- Retained Earnings	32,300.47	27,823.47	32,300.47	27,823.47
- Undivided Profits	11,823.65	10,343.86	11,823.65	10,343.86
Total	**56,095.12**	**50,138.33**	**56,095.12**	**50,138.33**
Deductions from Tier 1				
Net Unrealized Losses on AFS Equity Sec. Purchased	0.01	10.99	0.01	10.99
Unsecured DOSRI Loans (including DBPL)	243.25	1,441.26	243.25	1,441.26
Deferred Income Tax	883.35	1,322.57	822.46	1,260.02
Total	**1,126.61**	**2,774.82**	**1,065.72**	**2,712.27**
Net Tier 1 Capital	**54,968.52**	**47,363.51**	**55,029.40**	**47,426.06**
Tier 2 Capital (limited to 100% of total Tier 1 Capital)				
Upper Tier 2				
- Net Unrealized Gains on AFS Equity Sec. Purchased	3,998.05	4,476.74	3,998.05	4,476.74
- General Loan Loss Provision	3,387.40	2,938.89	3,367.79	2,926.59
Total Upper Tier 2 Capital	7,385.45	7,415.63	7,365.84	7,403.33
Lower Tier 2 (limited to 50% of total Tier 1 Capital)				
- Subordinated Notes (P 6,934 M) - June 2009	6,934.00	6,934.00	6,934.00	6,934.00
- Subordinated Notes (P 10,500 M) - January 2012	10,500.00	10,500.00	10,500.00	10,500.00
Total Lower Tier 2 Capital	**17,434.00**	**17,434.00**	**17,434.00**	**17,434.00**
Total Tier 2 Capital	**24,819.45**	**24,849.63**	**24,799.84**	**24,837.33**
Gross Qualifying Capital	79,787.97	72,213.14	79,829.24	72,263.39
Deductions from Gross Qualifying Capital	1,271.55	1,221.74	2,556.06	2,445.11
Adjusted Tier 1 Capital	**54,332.74**	**46,752.64**	**53,751.38**	**46,203.51**
Adjusted Tier 2 Capital	**24,183.67**	**24,238.76**	**23,521.81**	**23,614.78**
Total Qualifying Capital	**78,516.41**	**70,991.40**	**77,273.20**	**69,818.29**

Risk-Weighted Assets	Dec. 2013	Dec. 2012	Dec. 2013	Dec. 2012
Credit Risk-Weighted Assets				
- RW On-Balance Sheet Assets	305,530.62	273,639.87	303,569.66	272,410.27
- RW Off-Balance Sheet Assets	33,022.51	20,020.23	33,022.51	20,020.23
-Counterparty RW Assets in the Trading Books	187.14	228.89	187.14	228.89
Deduction: Gen loan loss provision in-excess of permitted	(2,686.67)	(184.90)	(2,687.43)	(179.01)
Total Credit Risk-Weighted Assets	**336,053.60**	**293,704.09**	**334,091.88**	**292,480.38**
Market Risk-Weighted Assets				
- Interest Rate Exposure	176.64	306.24	176.64	306.24
- Equity Exposure	150.08	108.47	150.08	108.47
- Foreign Exchange Exposure	1,145.66	235.89	1,145.66	235.89
- Options	5,382.73	8,864.89	5,382.73	8,864.89
Total Market Risk-Weighted Assets	6,855.10	9,515.49	6,855.10	9,515.49
Total Operational Risk-Weighted Assets*	44,373.73	43,572.43	43,492.67	42,875.83
Total Risk-Weighted Assets	**387,282.43**	**346,792.01**	**384,439.65**	**344,871.70**
Risk-Based Capital Adequacy Ratio (CAR)	**20.27%**	**20.47%**	**20.10%**	**20.24 %**
Tier 1 Capital Ratio	**14.03%**	**13.48%**	**13.98%**	**13.40 %**
Total LBP Capital (Per Balance Sheet)	**82,143.14**	**83,973.10**	**79,956.15**	**81,903.43**

*15% of the average Gross Income of the previous three years

STATEMENT OF CONDITION

The Bank continues to be the fourth largest bank in three major balance sheet accounts – assets, loans and deposit liabilities.

Total assets reached P849.3 billion, P157.8 billion or 23 percent higher than the P 691.5 billion assets in 2012. Regular loans increased by P29 billion or 11 percent to P303.3 billion from P274.2 billion in 2012. Investments however declined by P13 billion or 6 percent to P223.1 billion from P236.1 billion in 2012 as securities of various classifications all slightly declined. The Bank's loan and investment exposures were fully covered by deposits that reached P703.8 billion, which is P160 billion or 29 percent higher than the previous year's deposits amounting to P543.7 billion. Government deposits amounted to P495.2 billion, accounting for 70 percent of total deposits.

CAPITAL AND CAPITAL RATIOS

The Bank has P25.0 billion authorized capital composed of P20.0 billion common stocks and P5.0 billion preferred stocks. The common stocks are fully subscribed by the National Government including the P12.0 billion paid-up capital.

The Bank's total capital as of end-2013 stood at P82.1 billion, which is P1.8 billion or 2 percent lower than the P84.0 billion capital level in 2012. The lower 2013 capital is caused by unfavorable market conditions that resulted in P8.4 billion decline in other comprehensive income that negated the increase in retained earnings from its record net income.

The Bank's Tier 1 ratio improved to 14.03 percent in 2013 from 13.48 percent in 2012 due to higher retained earnings combined with decline in unsecured DOSRI loans and deferred income tax. The Bank's Capital Adequacy Ratio (CAR) however, slightly declined to 20.27 percent from 20.47 percent as its tier 2 capital is relatively flat and unable to compensate for the increase in risk-weighted assets.

The Bank's 20.27 percent CAR is significantly higher than the regulatory requirement and internal threshold level of 10 and 13 percent, respectively. Likewise, its tier 1 ratio of 14.03 percent is comfortably ahead of the 6 percent regulatory requirement.


LANDBANK
GOLD CUP

OPERATIONAL HIGHLIGHTS

RENEWAL OF CORPORATE LIFE AND 50th ANNIVERSARY CELEBRATION

The year 2013 is a milestone for LANDBANK as it celebrated its 50th founding anniversary. It was, likewise, the year when RA 10374 “An Act Extending The Life Of The Land Bank Of The Philippines, Further Amending Republic Act Number 3844, Otherwise Known As The Agricultural Land Reform Code, as Amended” was approved by President Benigno S. Aquino III on March 5, 2013. RA 10374 extends LANDBANK’s corporate life by 50 years, renewable for another 50 years.

On its 50th year, LANDBANK pledges anew to be at the forefront of “empowering the countryside, nurturing progress countrywide.” In pursuit of this, the Bank remains committed in pursuing development work that will intensify its rural engagement and support to the national government’s priority programs on poverty alleviation, inclusive growth, food security, and agricultural productivity.

The Bank remains aggressive in channeling financial and technical support to its mandated and priority sectors, which include small farmers and fishers and their associations, agri- and aqua-businesses, agri-aqua-related projects of local government units and government-owned-and-controlled corporations, micro, small and medium enterprises, communications, transportation, housing, education, healthcare, environment-related projects, and tourism.

The Bank highlighted its 50th anniversary with a year-round celebration of meaningful events and activities in 2013.

50,000 trees @ 50th

In partnership with the Department of Environment and Natural Resources, LANDBANK employees all over the country, together with their families, planted 50,000 seedlings in selected watersheds all over the country from January 1 to August 10, 2013. The DENR provided all seedlings free of charge, as well as the preparation of the planting sites. Seedlings planted on each site were those endemic in the area such as fruit-bearing trees (guyabano, pomelo, jackfruit), coffee and mangroves, among others.

The "50K@50th" campaign was capped by the planting of the ceremonial 50,000th tree by LANDBANK President and CEO Gilda E. Pico, Board Directors and senior Bank officers last August 3 in Tagaytay City. Environment Undersecretary Demetrio Ignacio, Jr. and Tagaytay City Vice Mayor Celso De Castro also joined the event. During the event, the Molave tree was pronounced as the LANDBANK Institutional Tree as it is considered as one of the sturdiest tree species with roots spreading horizontally on the ground. This can be likened to LANDBANK's wide reach in the countryside and its support to nation-building.

"50k@50th" is LANDBANK's contribution to the National Greening Program of the National Government.

State of the Bank Address

To usher the Bank's golden anniversary celebration, LANDBANK President and CEO Gilda E. Pico delivered a special State of the Bank Address (SOBA) where she lauded the institution's achievements in the past 50 years recognizing the contributions of past and present officers and staff.

To cap the President's address, the Board of Directors and management led the recitation of the Landbankers' Pledge of Commitment and the signing and pinning of leaves on a "tree of commitment." The tree symbolizes Landbankers signifying their commitment towards the attainment of the Bank's vision and mission, anchored on its core values of STEP (social responsibility, trust, excellence and professionalism).

The SOBA was seen and heard simultaneously in four host areas - Prince Plaza Hotel in Baguio City, Tanauan Branch in Batangas, Golden Valley Hotel in Cebu, and Davao Training Center in Davao City.

Client Appreciation Night

LANDBANK's clients and partners were treated to a night of entertainment as LANDBANK's way of expressing gratitude for their continuing support to the institution and its mission of developing the countryside and for being part of LANDBANK's 50 years of development work.

The cultural show, dubbed as "Kaagapay sa Tagumpay" (Partners in Progress), was staged by the Cultural Center of the Philippines specially for LANDBANK partners and clients. The show was held at the PICC Reception Hall on August 12, 2013 with top caliber performers providing the entertainment.

Gawad Patnubay

In celebration of its 50th anniversary, LANDBANK also launched the Gawad PATNUBAY (Pag-aaral Tungo sa Maunlad na Bayan) Scholarship Program for students enrolling in agriculture, fishery, animal husbandry, forestry, and entrepreneurial courses offered by farm schools in the country. Under the said program, LANDBANK will also finance start-up capital of small business projects of scholars which have high market potential as well as the expansion of an existing family enterprise project of students from partner schools.

Client Recognition Programs

As part of its anniversary celebrations, LANDBANK also recognized the outstanding performance of its partners and clients through client recognition programs.

Gawad PITAK awards were given to outstanding farmers cooperatives, while the Gawad CFI were handed out to partner rural banks that extended outstanding support to small farmers and fishers credit needs. Similarly, the Gawad Entrepreneur and KAAGAPAY were granted to SMEs and corporate clients in recognition of their contribution to the growth of commerce and employment in the countryside *(see list of winners on page 23 to 27.)*

Manila Bay SUNSET Program

As part of its commitment for the environment, LANDBANK continues to partner with various agencies and entities for the clean-up of the Manila Bay. LANDBANK, together with the Members of the Manila Bay SUNSET Partnership Program, Inc., joined the Cooperative Development Authority in the annual clean-up activity held on October 5, 2013. Close to a thousand volunteers participated in the activity.

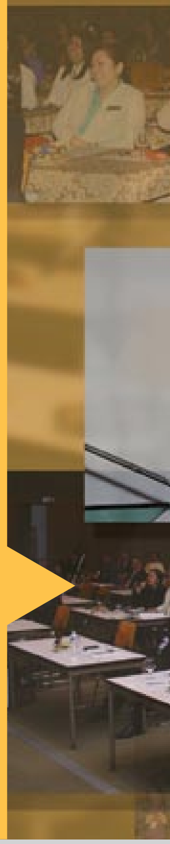
The Program also welcomed the Polystyrene Packaging Council of the Philippines as its newest member, further expanding the partnership's activities in rehabilitating Manila Bay.

The Manila Bay SUNSET Partnership Program, Inc., initiated and headed by LANDBANK, is a SEC-registered corporation of various members from the public and private sectors working towards protecting Manila Bay.


GAWAD PITAK
50 years

MEDIUM-TERM GOALS 2014-2018

STRATEGIC PLANNING



As the Bank prepares for its new corporate life, LANDBANK conducted a series of activities leading to the development of a new five-year Medium Term Development Plan. The plan builds on the challenges and successes of the Bank in the past 50 years, and considers significant industry developments including changes in the macroeconomic and regulatory environment, and technological landscape.

In developing the Medium Term Plan, the Bank conducted research on the different development finance models as adopted in different economies, learning sessions from industry experts and practitioners and consultation activities with the LANDBANK Board, management and key officers. The learning and key takeaways from all of the preparatory activities were used as inputs in assessing and examining the LANDBANK Vision and Mission, and in crafting the medium term plan for 2014 to 2018.

For the medium term, LANDBANK sets its vision towards becoming the top universal bank promoting inclusive growth and improving the quality of life in the countryside through the delivery of innovative financial and other services in all provinces, cities and municipalities.

In support to its vision, LANDBANK will use the best technology solutions to deliver responsive financial and support services to its clients, while promoting sustainable development and environmental protection; and will develop and nurture talents that will exemplify the highest standards of ethics and excellence consistent with the best in the world.

As it pursues its vision and mission, LANDBANK in the next five years, will:

1. **ACTIVELY PARTICIPATE IN NATIONAL DEVELOPMENT PROGRAMS** by aligning the Bank's thrust to the National Government priority programs and providing them financial assistance and other support services needed. Correspondingly, the Bank will continue to expand credit to its mandated sector such as the small farmers, fishers and agrarian reform beneficiaries, and to other priority sectors such as those supporting agriculture and aquaculture as well as the priority programs of the National Government such as micro, small and medium enterprises (MSMEs), education and health, among others.

2. **STRIVE FOR SERVICE EXCELLENCE** by proactively understanding the needs of the customers and by developing and introducing customer-centric products and services. Additionally, LANDBANK will continue to process land transfer in a timely manner and provide assistance with efficiency to the landowners under the Comprehensive Agrarian Reform Program.

3. **PURSUE FINANCIAL VIABILITY AND SUSTAINABILITY** by increasing revenue from both traditional (e.g., lending and deposit taking) and non-traditional sources (e.g., trading securities, investment banking and trust banking). The Bank shall likewise endeavour to further increase its private deposits and optimize its capital.

4. **PROMOTE OPTIMAL BUSINESS PROCESSES** by outsourcing non-core processes and building on strategic alliances. The Bank will likewise install a robust risk management system to optimize capital allocation, and institute quality management system in all aspects of operations with the end-view of developing world class operations.

5. **CULTIVATE AN AGILE ORGANIZATION** by developing and nurturing talents that will exemplify highest standards of ethics and excellence and establishing a high-performance based culture with a shared way of thinking including on innovation and environment protection. The Bank will further strengthen its IT infrastructure in order to adapt to the changing IT landscape.

LBP LEASING CORPORATION (LBP Lease)

LBP Leasing Corporation (LBP Lease) continues to complement services of LANDBANK by making available various leasing and financial facilities that support priority sectors in the acquisition of equipment and other capital assets as well as in providing working capital requirements which allow them to expand, upgrade or modernize their operations. Among the priority sectors serviced by the Corporation are small and medium enterprises (SMEs), rural banks, government agencies including Government-Owned and-Controlled Corporations (GOCCs), large corporations, and agri-business companies.

In 2013, LBP Lease's total portfolio amounted to P3.4 billion as against the P2.9 billion in 2012. Of the total amount, P650.3 million are lease/loans for SMEs, P1,184.3 million for government agencies including GOCCs, P1,498.3 million for large corporations, and P83.8 million for other sectors. Despite a three percent decline in gross revenues in 2013, LBP Lease registered an eight percent growth in Net Income After Tax (NIAT) due to careful management of expenditures. LBP Lease ended the year with NIAT of P158.5 million and total resources of P3.7 billion.

LBP LEASE FINANCIAL HIGHLIGHTS

In ₱ Millions	2013	2012	Growth
Gross Revenues	505.6	520.0	-3%
Total Expenses	303.4	333.6	-9%
Net Income After Tax	157.9	145.6	8%
Net Income After Other comprehensive Income	158.5	145.6	9%
Total Resources	3,711.9	3,132.3	19%
Total Liabilities	2,436.0	1,920.3	27%
Total Equity	1,275.9	1,212.0	5%

In 2013, LBP Lease launched three credit programs to reinforce its support to the National Government priority programs particularly on increasing agricultural productivity and production efficiency. The new programs involve, among others, marketing arrangements with anchor companies which serve as market of agricultural produce and partnerships with various government agencies so accounts can be covered by programs that will help mitigate credit risk.

The Poultry/Hog Growers Farm Modernization/Expansion Financing Program is a case in point where LBP Lease extended credit facilities for the construction and upgrading of tunnel vent housing for a more efficient production operation. The program is specifically meant for growers with tie-ups with Poultry/Hogs Integrators like San Miguel Food, Inc., Bounty Fresh Food, Inc., and Bounty Agro Ventures, Inc.

Another program implemented in 2013 was the UV Express Re-fleeting program where LBP Lease tied up with the Land Transportation and Franchising Regulatory Board and Land Transportation Office, and provided financing to UV Express operators for the replacement of vehicles that have been in use for over 13 years. The re-fleeting program thus allowed for the deployment and dispatch of roadworthy vehicles for the safety and convenience of the commuting public.

LBP Lease also pursued the Trucking Companies Modernization Program where it established arrangements with companies that outsource its trucking operations, and for the said companies to extend credit facilities to their truckers for the acquisition of brand new and re-manufactured/reconditioned trucks.

MASAGANANG SAKAHAN, INC. (MSI)

The year 2013 was the year of continuous improvement in the management and business operations of Masaganang Sakahan Inc. (MSI). MSI steadfastly pursued its mission of promoting and extending marketing support and services to cooperatives of small farmers and fishers and other SME conduits in the countryside, while maintaining a good balance of its business objectives to make the company viable and sustainable in the long term.

MSI FINANCIAL HIGHLIGHTS

In ₱ Millions	2013	2012	Growth
Gross Revenues	31.7	23.7	34%
Total Expenses	20.4	15.4	32%
Net Income After Tax	11.5	8.9	29%
Total Resources	179.6	170.0	6%
Total Liabilities	70.8	63.4	12%
Total Equity	108.8	106.6	2%

The improvements which MSI introduced in its operation are evident in the company's financials. In 2013, MSI was able to reach Gross Profit of P31.7 million which is 34 percent higher compared to P23.7 million in 2012. Net Income After Tax (NIAT) also posted improvement of 29 percent from last year's P8.9 million to this year of P11.5 million. MSI's total resources reached P179.6 million, higher by six percent compared to last year's P170.0 million. The total liabilities also increased by 12 percent from last year's P63.4 million to this year's P70.8 million.

In 2013, MSI procured palay and milled rice for processing and trading purposes from 45 cooperatives with 60,092 farmer-beneficiaries and 86 SMEs. The combined value for the traded palay and milled rice amounted to P172.6 million, six percent higher than last year's 2012 level of P162.7 million.

In line with its milled rice trading business, the MSI adopted a two-pronged approach of aggressive marketing and strengthened logistical capability to develop business volume. MSI also acquired two new cargo trucks to boost the logistical capability of its marketing efforts and provide additional handling services to cooperatives.

To foster closer ties with the farmers, MSI held the Cooperatives Recognition Program in July 2013 with the year's theme "Sustaining Partnership Towards Sufficiency". The said program recognized the support and contribution of LANDBANK-assisted cooperatives in the success of the MSI Payment-In-Kind Program. This recognition program was attended by the cooperatives' officers, LANDBANK representatives and a member representative of the MSI Board of Directors. The awardees were Bantug Agri Multi-Purpose Cooperative (1st Place), Talabutab Norte Multi-Purpose Cooperative, Inc. (2nd Place), and Bantug Multi-Purpose Cooperative, Inc. (3rd Place).

It was also in 2013 when MSI held its first tree planting activity in Sta. Rosa Grains Center Complex, spearheaded by MSI's Board of Directors to ensure MSI's support for the improvement of the environment.

LBP RESOURCES AND DEVELOPMENT CORPORATION (LBRDC)

The LBP Resources and Development Corporation (LBRDC) handles the Bank's construction facility requirements particularly branch construction, relocation and renovation, and automated machine booth construction.

In addition, LBRDC helps the Bank in the disposal of non-performing assets by providing brokering services in the sale or lease of Real and Other Properties Acquired (ROPA) to referrers, property upkeep, and security of the Bank's foreclosed assets. LBRDC also provides housekeeping, sanitation, janitorial, manpower and air-conditioning unit maintenance services.

LBRDC FINANCIAL HIGHLIGHTS

In ₱ Millions	2013	2012	Growth
Gross Revenues	200.3	220.4	-9%
Total Expenses	168.8	194.9	-13%
Net Income After Tax	22.9	18.9	21%
Total Resources	493.2	485.1	2%
Total Liabilities	57.6	66.6	-14%
Total Equity	435.5	418.3	4%

In 2013, LBRDC's total resources grew by two percent from P485.1 million in 2012 to P493.2 million with the acquisition of additional assets used in the business. Even with the decline in construction revenues, LBRDC's income grew by 21 percent to P22.9 million due to the management of expenses and income from non-construction related businesses.

In 2013, LBRDC expanded its business operations and accepted a two-year contract on the air-conditioning unit preventive maintenance services for the Bank's NCR Branches. Also in 2013, LBRDC started the three-year contract on housekeeping, sanitation/janitorial services of the LANDBANK Plaza Headquarters and satellite offices.

LBRDC renewed its contract for another three years for the manpower and janitorial services to HOLCIM Philippines, Inc. (Calumpit and Norzagaray Plant) and continued providing manpower and maintenance services to Ajinomoto Philippines, Corp. and the LBP Insurance Brokerage, Inc.

LBP INSURANCE BROKERAGE, INC. (LIBI)

The LBP Insurance Brokerage, Inc. (LIBI) was established by LANDBANK to service the insurance requirements of the Bank and its clients. It is engaged in the business of general insurance brokerage and management and consultancy services on insurance-related activities. Insurance product lines include fire insurance, life insurance, and other miscellaneous insurance business from engineering, aviation, credit card, floater, pre-need lines, among others.

In 2013, LIBI generated a net premium volume amounting to P533.8 million, four percent lower than the net premium volume of P555.9 million the previous year. The decrease was due to the decline in premium production of the Government Service Insurance System (GSIS) resulting from the unforeseen termination of the Memorandum of Agreement between the LIBI and the GSIS on May 31, 2013.

LIBI FINANCIAL HIGHLIGHTS

In ₱ Millions	2013	2012	Growth
Gross Revenues	115.9	115.3	1%
Total Expenses	31.2	31.0	1%
Net Income After Tax	67.5	67.6	-0.15%
Total Resources	995.5	904.1	10%
Total Liabilities	159.7	101.3	58%
Total Equity	835.8	802.8	4%

The loss of GSIS transactions, however, did not adversely affect LIBI's performance for the year because premium production in private insurers grew by 35.6 percent from P293.0 million in 2012 to P398.0 million in 2013. The net service fees from insurance brokering likewise increased. During the year 2013, LIBI registered a total Net Income After Tax amounting to P67.5 million. LIBI is also involved in foreign exchange business (LIBI ForEx) with a total volume of USD98 million traded in 2013.

LANDBANK COUNTRYSIDE DEVELOPMENT FOUNDATION, INC. (LCDFI)

The LANDBANK Countryside Development Foundation, Inc. (LCDFI) is a non-stock, non-profit corporate foundation that supports LANDBANK's thrust of promoting countryside development. The Foundation undertakes programs and projects to promote and advance the lives of LANDBANK's key partners and priority sectors including small farmers and fishers, agrarian reform beneficiaries, overseas Filipino workers, indigenous people, and other marginalized sectors. These programs include training and capacity-building, educational assistance, and community development projects. In support of the Bank's thrust, the LCDFI adopts innovative approaches in building stronger and more cohesive cooperative organizations with viable and sustainable business enterprises.

In 2013, LCDFI conducted a total of 136 training sessions to 5,273 participants from Bank-assisted and key cooperatives all over the country. Cooperatives strengthened their operations through the LCDFI training modules on cooperative management and good governance, financial analysis, internal control, strategic planning, risk assessment and management, leadership and values orientation, and cooperative legal issues and remedies. Their technical capabilities are also enhanced through trainings on topics such as account management and credit administration, employee relations and performance management, accounting for non-accountants, entrepreneurship and business management, building effective long-term client relationships, and records management. LCDFI also conducted an additional 20 training sessions specifically targeted to build the capacity of agrarian reform beneficiary organizations to address the challenges and vulnerabilities they face.

LCDFI also organized eight capacity-building trainings for 184 microfinance institutions (MFIs) and countryside financial institutions (CFIs) program partners. Aside from the financial inclusion training that aim to widen the MFI/CFI's reach in grassroots areas, LCDFI also provided training on online business processes that offered MFIs/CFIs innovative business and financial solutions and platforms. In addition, LCDFI also supported 26 financial literacy trainings for 814 MFI/CFI end clients. These trainings equipped the participants in setting financial goals, budgeting, and making spending decisions.

LCDFI's Gabay ng LANDBANK Program provides OFWs and their families with orientation trainings on business start-up, savings, and investment options. These trainings also serve as a one-stop shop for OFWs providing them with information on LANDBANK's financial services and other government agencies' assistance programs and incentives. Eleven OFW entrepreneurship trainings were conducted under this program in 2013.

The Gawad Patnubay Program supports the education of children of agrarian reform beneficiaries. Under this program, LCDFI has been supporting the education of 40 scholars from primary up to secondary level. In March 2013, seven of these scholars graduated with the remainder set to complete their secondary schooling in the following year.

In 2013, through partnerships with grassroots-based microfinance institutions and LANDBANK-assisted key cooperatives, LCDFI implemented and co-sponsored 74 community-based projects (i.e., establishment of water system facilities, improvement of school facilities, livelihood trainings, reforestation program) that seek to address the basic and developmental needs of local communities. These were located in 59 far-flung communities with 21 cooperatives/MFI partners, benefiting an estimated 65,042 grassroots beneficiaries. These community-based projects also include disaster relief for the victims of the Bohol Earthquake and Typhoon Yolanda.

BOARD OF DIRECTORS

SEC. CESAR V. PURISIMA
Chairman
(Secretary - Department of Finance)

GILDA E. PICO
Vice Chairman
President and CEO

CRISPINO T. AGUELO
Director
(Representative - Agrarian Reform Beneficiaries)

VICTOR GERARDO J. BULATAO
Director
(Representative - Agrarian Reform Beneficiaries)

TOMAS T. DE LEON, JR.
Director
(Representative - Private Sector)

DOMINGO I. DIAZ
Director
(Representative - Private Sector)

SEC. PROCESO J. ALCALA
Director
(Secretary - Department of Agriculture)

SEC. ROSALINDA D. BALDOZ
Director
(Secretary - Department of Labor and Employment)

SEC. VIRGILIO R. DELOS REYES
Director
(Secretary - Department of Agrarian Reform)

USEC. DANNY P. CRUZ
Alternate Director
(Department of Labor and Employment)

USEC. ANTONIO A. FLETA
Alternate Director
(Department of Agriculture)

USEC. ANTHONY N. PARUÑGAO
Alternate Director
(Department of Agrarian Reform)

USEC. JEREMIAS N. PAUL, JR.
Alternate Director
(Department of Finance)

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Executive Vice President

RABBONI FRANCIS B. ARJONILLO
Executive Vice President

JOCELYN D.G. CABREZA
Executive Vice President

ANDRES C. SARMIENTO
Executive Vice President

JULIO D. CLIMACO, JR.
Senior Vice President

JOSEPHINE G. CERVERO
First Vice President

TERESITA E. CHENG
First Vice President

NOEMI P. DELA PAZ
First Vice President

LIDUVINO S. GERON
First Vice President

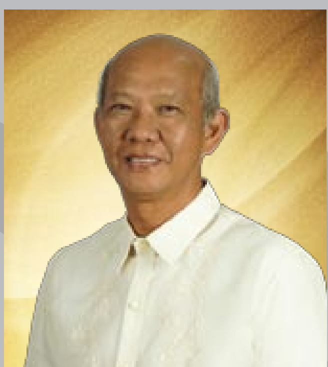
ALEX A. LORAYES
First Vice President

REYNAULD R. VILLAFUERTE
First Vice President

RICARDO S. ARLANZA
Vice President

ANNALENE M. BAUTISTA
Vice President

FELIX L. MANLANGIT
Vice President



NOEL B. MARQUEZ
Vice President

ROSEMARIE M. OSOTEO
Vice President

PETER ANDREW S. GUTIERREZ
LCDFI Executive Director

AGRICULTURAL AND DEVELOPMENT LENDING SECTOR

EDWARD JOHN T. REYES
Senior Vice President

JOSE ABELARDO F. AGREGADO
First Vice President

JOSELITO P. GUTIERREZ
First Vice President

DAISY M. MACALINO
First Vice President

MA. CELESTE A. BURGOS
Vice President

FILIPINA B. MONJE
Vice President

LEILA C. MARTIN
Vice President

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Vice President

GEORGE R. FRANCISCO
LIBI General Manager

MANUEL H. LOPEZ
LBP Lease President and CEO

ROY C. OSCILLADA
MSI President and General Manager

WESLY C. MAGNAYE
First Vice President

JENNIFER A. TANTAN
First Vice President

MARILYN M. TIONGSON
First Vice President

ANA S. CONCHA
Vice President

RENATO G. EJE
Vice President

MAURICIO C. FELICIANO
Vice President

MANUEL JOSE MARI S. INFANTE
Vice President

CAMILO C. LEYBA
Vice President

ANANIAS O. LUGO, JR.
Vice President

RAMON R. MONTELOYOLA
Vice President

RUEL Z. ROMARATE
Vice President

RANDOLPH L. MONTESA
Vice President

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LBRDC President and General Manager

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First Vice President

DONATO C. ENDENCIA
Vice President

CATHERINE ROWENA B. VILLANUEVA
Vice President

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Senior Vice President

YOLANDA D. VELASCO
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Vice President

CAREL D. HALOG
First Vice President

CHRISTOPHER MA. CARMELO Y. SALAZAR
First Vice President

JAMES A. ALDANA
Vice President

LIST OF OFFICERS AND DEPARTMENT HEADS
(as of December 31, 2013)

President and CEO
Gilda E. Pico

Compliance Management Office
VP Annalene M. Bautista

Corporate Secretary
FVP Reynauld R. Villafuerte – Concurrent Head

Physical Security Office
AVP Efren S. Tedor

Internal Audit Group
FVP Noemi P. Dela Paz

Field Operations Audit Department
DM Dina Melanie R. Madrid

Credit Review Department
Mr. Kriden F. Balgomera

Head Office and Systems Technology Audit Department
AVP Constance V. Manuel

Audit Service Team
Mr. Joey A. Rodriguez

Quality Assurance and Support
Ms. Lourdes V. Agustin

Legal Services Group
FVP Reynauld R. Villafuerte

Administrative Legal Department
AVP Virgilio M. Quintana

Banking Legal Services Department
VP Ricardo S. Arlanza

Litigation Department
VP Rosemarie M. Osoteo

CARP Legal Services Department
VP Noel B. Marquez

Field Legal Services Department
VP Felix L. Manlangit

Risk Management Group
FVP Teresita E. Cheng

Business Risk Management Department
AVP Sofia C. Ladores

Credit Policy and Risk Management Department
AVP Danilo E. Quilantang

Treasury Risk Management Department
AVP Rosemarie E. Sotelo

Strategic Planning Group
FVP Liduvino S. Geron

Corporate Planning and Economics and Policy Studies Department
AVP Sheila Marie M. Encabo

Customer Service and Product Development Department
Ms. Cressida M. Alday-Mendoza

Central MIS Department
Mr. Samuel E. Acuña

Quality Management Office
Ms. Sandra May C. Daraman

Trust Banking Group
FVP Josephine G. Cervero

Trust Operations Department
Ms. Lamelita G. Aquino

Trust Portfolio Management Department
AVP Josefino P. Cerin

Trust Marketing Department
Mr. Camilo G. Sanchez

Trust Business Development Department
Ms. Madonna M. Cinco

Agrarian Services Group
FVP Alex A. Lorayes

Bond Servicing Department
Mr. Ricarte Porfirio A. Rey

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

Landowners Compensation Department
Mr. Rafael L. Berbaño

LBP Countryside Development Foundation, Inc.
Executive Director Peter Andrew S. Gutierrez

AGRICULTURAL AND DEVELOPMENT LENDING SECTOR
EVP Cecilia C. Borromeo

Loan Recovery Department
AVP Emellie V. Tamayo

Special Assets Department
Ms. Emma M. Brosas

Lending Support Department
Ms. Carolyn I. Olfindo

Corporate Banking Group
SVP Edward John T. Reyes

Corporate Banking Department I
VP Lolita T. Silva

Corporate Banking Department II
AVP Vilma V. Calderon

Corporate Banking Department III
AVP Rosario S. Domingo

Public Sector Department
AVP Lucila E. Tesorero

Financial Institutions Department
AVP Cielito H. Lunaria

Lending Programs Management Group
VP Leila C. Martin

Program Management Department I
Mr. Edgardo S. Luzano

Program Management Department II
Mr. Hermeo G. Bautista

Development Assistance Department
Ms. Melinda C. Cruz

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

Fund Sourcing Department
Mr. Ronnie H. Encarnacion

Retail Lending Group
FVP Jose Abelardo F. Agregado

Mortgage Banking Department I
Ms. Teresita F. Ison

Mortgage Banking Department II
Ms. Luz D. Abalos

SME Lending Department
Mr. Edgardo C. Ramirez

Northern and Central Luzon Lending Group
VP Filipina B. Monje

Southern Luzon Lending Group
FVP Daisy M. Macalino

Visayas Lending Group
FVP Joselito P. Gutierrez

Mindanao Lending Group
VP Ma. Celeste A. Burgos

LBP Insurance Brokerage, Inc.
General Manager George R. Francisco

LBP Lease
President and CEO Manuel H. Lopez

Masaganang Sakahan, Inc.
President and General Manager Roy C. Oscillada

BRANCH BANKING SECTOR
EVP Jocelyn DG. Cabreza

Systems Implementation Department
VP Ana S. Concha

Branch Banking Support Department
AVP Marilou L. Villafranca

CCT Program Management Office
Mr. Domingo Conrado G. Galsim

LIST OF OFFICERS AND DEPARTMENT HEADS
(as of December 31, 2013)

Card and Electronic Banking Group
VP Randolph L. Montesa

Debit Cards and Customer Care Department
Mr. Pacifico C. De Paz, Jr.

Electronic Products Department
AVP Althon C. Ferolino

Credit Card Administration Department
AVP Emerita E. Olayvar

eBanking Support Unit
AVP Vivian C. Bedrijo

OFW Remittance Group

Overseas Remittance Marketing and Support Department
Mr. Reo S. Andarino

Domestic Remittance Marketing Department
AVP Jose James T. Figueras

Overseas Remittance Marketing Offices
AVP Manuel I. Inserto

North NCR Branches Group
FVP Jennifer A. Tantan

Relationship Officer (North NCRBG Cluster A)
AVP Ma. Belma T. Turla

Relationship Officer (North NCRBG Cluster B)
Ms. Delma O. Bandiola

Relationship Officer (North NCRBG Cluster C)
Ms. Myrgie O. Mendoza

South NCR Branches Group
FVP Marilyn M. Tiongson

Relationship Officer (South NCRBG Cluster A)
Ms. Mylene B. Macapagal

Relationship Officer (South NCRBG Cluster B)
AVP Rossana S. Coronel

Relationship Officer (South NCRBG Cluster C)
Ms. Ma. Cielito D. Valdivia

North Luzon Branches Group
VP Mauricio C. Feliciano

Central Luzon Branches Group
VP Renato G. Eje

Southeast Luzon Branches Group
VP Ruel Z. Romarate

Southwest Luzon Branches Group
VP Ananias O. Lugo, Jr.

East Visayas Branches Group
VP Ramon R. Monteloyola

West Visayas Branches Group
VP Camilo C. Leyba

East Mindanao Branches Group
FVP Wesly C. Magnaye

West Mindanao Branches Group
VP Manuel Jose Mari S. Infante

CORPORATE SERVICES SECTOR
SVP Julio D. Climaco, Jr.

Provident Fund Office
VP Donato C. Endencia

Corporate Affairs Department
VP Catherine Rowena B. Villanueva

Facilities and Procurement Services Group
FVP Romeo C. Castro

Facilities Management Department
AVP Rodelio D. De Guzman

Procurement Department
Mr. Alwin I. Reyes

Project Management and Engineering Department
Mr. Edwin A. Salonga

Human Resource Management Group
AVP Voltaire Pablo P. Pablo III – Concurrent OIC

Employee Relations Department
AVP Voltaire Pablo P. Pablo III

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

Personnel Administration Department
Mr. Joselito B. Vallada

LBP Resources and Development Corporation
President and General Manager
Simeona S. Guevarra

OPERATIONS SECTOR
EVP Andres C. Sarmiento

Technology Management Group
SVP Alan V. Bornas

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

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

Electronic Banking Systems Department
Mr. Arthur E. Dalampan

Data Center Management Department
AVP Alden F. Abitona

Enterprise Systems Department
AVP Marcelino T. Cabahug

IT Project Management Office
VP Minda D. Rubio

IT Security Office
Ms. Josie M. Castro

Production Control and Administrative Services
Ms. Alona L. Manabat

Banking Operations Group
FVP Conrado B. Roxas

Property Valuation and Credit Information Department
AVP Winston Rochel L. Galang

Foreign and Domestic Remittance Department
Ms. Corazon A. Gatdula

International Trade Department
Ms. Susan I. Mariano

Loans Implementation Department
AVP Maria Edelwina D. Carreon

Banking Services Group
VP Antonio V. Hugo, Jr.

ATM and Cash Management Department
Ms. Amor C. Ronidel

Central Clearing Department
AVP Reynaldo C. Capa

MDS and Collections Management Department
Ms. Erlinda C. Dela Cruz

Controllership Group
SVP Yolanda D. Velasco

Administrative Accounting Department
AVP Gerry D. Villalobos

Agrarian Accounting Department
Mr. Jaime G. Dela Cruz

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

Systems and Methods Department
Ms. Celia G. Barretto

LIST OF OFFICERS AND DEPARTMENT HEADS
(as of December 31, 2013)

Treasury Operations Department
AVP Merceditas N. Oliva

Financial Accounting Department
VP Ma. Eloisa C. Dayrit

TREASURY AND INVESTMENT BANKING SECTOR
EVP Rabboni Francis B. Arjonillo

Investment Sales and Distribution Department
AVP Lolita M. Almazar

Financial Markets Group
FVP Carel D. Halog

Capital Markets Trading Department
AVP Ma. Francia O. Titar

FX Sales and Hedging Solutions Department
Ms. Adelfa R. Masacupan

Rates and FX Trading Department
AVP Christine G. Mota

Asset and Liability Management Group
FVP Christopher Ma. Carmelo Y. Salazar

Balance Sheet Management Department
Ms. Ivy C. Sacramento

Liquidity and Reserve Management Department
AVP Ma. Elizabeth L. Gener

Investment Banking Group
Investment Banking Department I
Investment Banking Department II
VP James A. Aldana

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER I- BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Land Bank of the Philippines
Manila

We have audited the accompanying financial statements of **Land Bank of the Philippines (LBP) and its subsidiaries (referred to as the "Group")** which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in capital funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the GROUP as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 23 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the LBP. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

COMMISSION ON AUDIT

ROSALINDA T. SILAGAN
State Auditor IV

September 05, 2014

STATEMENT OF FINANCIAL POSITION

LAND BANK OF THE PHILIPPINES
STATEMENT OF FINANCIAL POSITION
December 31, 2013
(In thousand pesos)

	NOTE	GROUP		PARENT	
ASSETS		**2013**	**2012**	**2013**	**2012**
Cash and other cash items	4	20,355,855	17,868,379	20,354,849	17,867,540
Due from Bangko Sentral ng Pilipinas	5	249,580,208	85,202,557	249,497,118	85,096,569
Due from other banks	6	3,196,281	4,185,595	3,140,487	3,545,429
Interbank loans receivable	7	7,036,608	11,168,108	7,036,608	11,168,108
Securities purchased under agreements to resell	8	6,122,000	25,000,000	6,122,000	25,000,000
Financial assets at fair value through profit or loss	9	2,347,077	3,813,577	2,347,077	3,813,577
Available for sale investments	3 & 10	179,836,155	188,721,940	179,836,155	188,721,940
Held to maturity investments	3 & 11	40,904,585	43,547,220	40,101,183	43,271,825
Loans and receivables	3, 12 & 17	322,410,814	294,306,270	321,002,300	292,786,156
Investments in subsidiaries	13	0	0	485,826	485,826
Investment property	14	7,286,826	6,861,609	7,155,984	6,741,972
Property and equipment (net)	3 & 15	5,069,832	4,761,483	4,981,525	4,680,485
Non-current assets held for sale		35,524	46,910	8,816	19,099
Other resources - net	16	5,081,725	5,989,384	5,013,183	5,930,169
Deferred income tax	22	66,790	66,151	0	0
		849,330,280	**691,539,183**	**847,083,111**	**689,128,695**
LIABILITIES AND CAPITAL FUNDS					
Liabilities					
Deposit liabilities	18	703,759,154	543,703,729	704,058,139	543,849,006
Bills payable	19	23,854,363	27,123,600	23,570,363	26,823,600
Unsecured subordinated debt	20	17,434,000	17,434,000	17,434,000	17,434,000
Derivative liabilities		302,393	46,941	302,393	46,941
Deposits from other banks		5,101	6,225	5,101	6,225
Treasurer's, Manager's and Cashier's checks		1,114,721	1,376,182	1,114,721	1,376,182
Payment order payable		57,298	91,160	57,298	91,160
Marginal deposits		551,994	754,434	551,994	754,434
Cash letters of credit		2,224,936	759,105	2,224,936	759,105
Other liabilities	21	17,883,179	16,270,707	17,808,016	16,084,616
		767,187,139	**607,566,083**	**767,126,961**	**607,225,269**
Capital Funds	30				
Common stock		11,971,000	11,971,000	11,971,000	11,971,000
Paid-in surplus		101,098	101,098	101,098	101,098
Revaluation increment		61,200	61,200	0	0
Retained earnings free		17,405,307	17,583,138	15,839,741	16,177,974
Retained earnings reserve		24,481,711	18,598,083	24,176,674	18,227,046
Undivided profits		11,790,615	10,962,816	11,530,111	10,724,718
Net unrealized gains on securities available for sale		16,332,210	24,695,765	16,337,526	24,701,590
		82,143,141	**83,973,100**	**79,956,150**	**81,903,426**
		849,330,280	**691,539,183**	**847,083,111**	**689,128,695**

The Notes on pages 109 to 143 form part of these financial statements.

LAND BANK OF THE PHILIPPINES
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2013
(In thousand pesos)

		GROUP		PARENT	
	NOTE	**2013**	**2012**	**2013**	**2012**
INTEREST INCOME					
Loans		17,359,647	16,876,895	17,132,296	16,622,317
Investments		9,643,490	9,694,533	9,616,452	9,666,332
Due from Bangko Sentral ng Pilipinas		800,451	709,649	800,451	709,649
Deposit in banks		3,382	12,992	3,355	2,636
Others		3,078	13,022	3,078	12,901
		27,810,048	27,307,091	27,555,632	27,013,835
INTEREST EXPENSE					
Deposit liabilities		4,462,200	5,386,939	4,471,694	5,388,674
Unsecured subordinated debt		1,119,590	1,073,324	1,119,590	1,073,324
Borrowed funds		891,118	1,026,532	882,469	1,008,201
Others		361	5,456	3,928	21,630
		6,473,269	7,492,251	6,477,681	7,491,829
NET INTEREST INCOME		21,336,779	19,814,840	21,077,951	19,522,006
PROVISION FOR CREDIT LOSSES	17	1,478,035	415,709	1,463,467	364,941
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES		19,858,744	19,399,131	19,614,484	19,157,065
OTHER OPERATING INCOME					
Gain from sale/redemption/reclass of non-trading of FA and Liab		8,652,501	3,301,481	8,652,501	3,301,481
Foreign exchange gains from revaluation		1,991,355	2,660,454	1,991,355	2,660,454
Dividends		1,331,354	2,114,705	1,331,354	2,114,705
Fees and commission		971,039	1,042,417	893,714	966,602
Gain from dealings in foreign currency		636,136	662,369	625,574	651,730
Miscellaneous - net		1,158,436	1,016,040	980,659	974,291
		14,740,821	10,797,466	14,475,157	10,669,263
OTHER OPERATING EXPENSES					
Compensation and fringe benefits		7,480,363	6,527,905	7,429,238	6,477,791
Loss on financial assets and liabilities - held for trading		1,968,700	2,844,015	1,968,700	2,844,015
Taxes and licenses		2,442,955	2,053,257	2,415,845	2,020,192
Depreciation and amortization		723,336	967,530	711,050	956,965
Rent		592,117	693,950	703,340	768,244
Miscellaneous expenses		6,479,653	5,273,233	6,284,238	5,227,937
		19,687,124	18,359,890	19,512,411	18,295,144
INCOME BEFORE INCOME TAX		14,912,441	11,836,707	14,577,230	11,531,184
PROVISION FOR INCOME TAX	22	3,121,826	873,891	3,047,119	806,466
NET INCOME		11,790,615	10,962,816	11,530,111	10,724,718
OTHER COMPREHENSIVE INCOME					
Net unrealized gains on securities available for sale		(8,363,555)	1,328,366	(8,364,064)	1,328,366
		(8,363,555)	1,328,366	(8,364,064)	1,328,366
TOTAL COMPREHENSIVE INCOME		**3,427,060**	**12,291,182**	**3,166,047**	**12,053,084**

The Notes on pages 109 to 143 form part of these financial statements.

LAND BANK OF THE PHILIPPINES
STATEMENT OF CHANGES IN CAPITAL FUNDS - GROUP
For the year ended December 31, 2013
(In thousand pesos)

	Common Stock		Retained Earnings	Revaluation	Paid-in	Retained Earnings	Undivided	Net Unrealized Gain on	
	Shares	Amount	Free	Increment	Surplus	Reserve	Profits	Securities	TOTAL
Balance, December 31, 2011	**1,197,100**	**11,971,000**	**18,360,185**	**61,200**	**101,098**	**14,807,083**	**9,056,214**	**23,367,399**	**77,724,179**
Net income during the year							10,962,816		10,962,816
Net unrealized gain on securities								1,328,366	1,328,366
Payment of cash dividends			(5,105,749)						(5,105,749)
Transfer to retained earnings free			9,056,214				(9,056,214)		0
Transfer to retained earnings reserve			(3,036,000)			3,036,000			0
Write-down of unamortized deferred charges			(3,443,730)						(3,443,730)
Write-off of equity investments to close CFIs under LBP Capital infusion and BSP Rehabilitation Programs			(4,322)						(4,322)
PFRS/prior period adjustment			1,717,408			755,000			2,472,408
Closure of excess book value over cost of investment in subsidiaries			(8,977)						(8,977)
Closure/Dissolution of LBP Remittance Co., USA			46,630						46,630
Currency translation difference			1,479						1,479
Balance, December 31, 2012	**1,197,100**	**11,971,000**	**17,583,138**	**61,200**	**101,098**	**18,598,083**	**10,962,816**	**24,695,765**	**83,973,100**
Net income during the year							11,790,615		11,790,615
Net unrealized gain on securities								(8,363,555)	(8,363,555)
Payment of cash dividends			(6,451,468)						(6,451,468)
Transfer to retained earnings free			10,962,816				(10,962,816)		0
Transfer to retained earnings reserve			(2,934,000)			2,934,000			0
Revaluation loss on ten-year syndicated loan of Smart Communications, Inc			(55,469)						(55,469)
PFRS/prior period adjustment			(1,697,820)			2,949,628			1,251,808
Currency translation difference			(1,890)						(1,890)
Balance December 31, 2013	**1,197,100**	**11,971,000**	**17,405,307**	**61,200**	**101,098**	**24,481,711**	**11,790,615**	**16,332,210**	**82,143,141**

The Notes on pages 109 to 143 form part of these financial statements.

LAND BANK OF THE PHILIPPINES
STATEMENT OF CHANGES IN CAPITAL FUNDS - PARENT
For the year ended December 31, 2013
(In thousand pesos)

	Common Stock		Retained Earnings	Paid-in	Retained Earnings	Undivided	Net Unrealized Gain/(Loss) on	
	Shares	Amount	Free	Surplus	Reserve	Profits	Securities	TOTAL
Balance, December 31, 2011	**1,197,100**	**11,971,000**	**17,074,287**	**101,098**	**14,472,046**	**8,838,552**	**23,373,224**	**75,830,207**
Net income during the year						10,724,718		10,724,718
Net unrealized gain on securities							1,328,366	1,328,366
Payment of cash dividends			(5,000,000)					(5,000,000)
Transfer to retained earnings free			8,838,552			(8,838,552)		0
Transfer to retained earnings reserve			(3,000,000)		3,000,000			0
Write-down of unamortized deferred charges			(3,443,730)					(3,443,730)
Write-off of equity investments to close CFIs under LBP Capital infusion and BSP Rehabilitation Programs			(4,322)					(4,322)
PFRS/prior period adjustment			1,711,708		755,000			2,466,708
Currency translation difference			1,479					1,479
Balance, December 31, 2012	**1,197,100**	**11,971,000**	**16,177,974**	**101,098**	**18,227,046**	**10,724,718**	**24,701,590**	**81,903,426**
Net income during the year						11,530,111		11,530,111
Net unrealized gain on securities							(8,364,064)	(8,364,064)
Payment of cash dividends			(6,308,000)					(6,308,000)
Transfer to retained earnings free			10,724,718			(10,724,718)		0
Transfer to retained earnings reserve			(3,000,000)		3,000,000			0
Revaluation loss on ten-year syndicated loan of Smart Communications, Inc.			(55,469)					(55,469)
PFRS/prior period adjustment			(1,697,592)		2,949,628			1,252,036
Currency translation difference			(1,890)					(1,890)
Balance, December 31, 2013	**1,197,100**	**11,971,000**	**15,839,741**	**101,098**	**24,176,674**	**11,530,111**	**16,337,526**	**79,956,150**

The Notes on pages 109 to 143 form part of these financial statements.

STATEMENT OF CASH FLOWS

LAND BANK OF THE PHILIPPINES
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013
(In thousand pesos)

	GROUP		PARENT	
	2013	**2012**	**2013**	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES				
Interest received	27,866,660	26,922,594	27,614,861	26,626,913
Interest paid	(6,473,782)	(7,595,155)	(6,478,367)	(7,595,508)
Fees and commission	971,039	1,042,417	893,714	966,602
Loss on financial assets and liabilities held for trading	(1,968,700)	(2,844,015)	(1,968,700)	(2,844,015)
Gain from dealings in foreign currency	636,136	662,369	625,574	651,730
Miscellaneous income	1,158,436	1,016,035	980,659	974,291
General and administrative expenses	(17,388,154)	(14,969,419)	(17,201,427)	(14,931,930)
Operating income before changes in operating assets and liabilities	**4,801,635**	**4,234,826**	**4,466,314**	**3,848,083**
Changes in operating assets and liabilities				
(Increase)/Decrease in operating assets				
Interbank loans receivable	4,131,500	(3,585,339)	4,131,500	(3,585,339)
Financial assets at fair value through profit or loss	1,466,500	4,613,877	1,466,500	4,613,877
Loans and receivable	(29,310,622)	(16,599,013)	(29,410,270)	(16,869,120)
Other resources	475,359	(214,117)	486,058	(158,926)
Increase/(Decrease) in operating liabilities				
Deposit liabilities	160,055,425	36,445,931	160,209,133	36,391,031
Derivative liabilities	255,452	(87,505)	255,452	(87,505)
Marginal deposits	(202,440)	234,536	(202,440)	234,536
Treasurer's, Manager's and Cashier's Checks	(261,461)	(139,671)	(261,461)	(139,671)
Other liabilities	3,587,994	(1,215,570)	3,727,013	(1,244,160)
Net cash generated from operations	**144,999,342**	**23,687,955**	**144,867,799**	**23,002,806**
Income taxes paid	(3,009,307)	(33,566)	(2,985,961)	0
Net cash generated from operating activities	**141,990,035**	**23,654,389**	**141,881,838**	**23,002,806**
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	(835,473)	(655,718)	(819,471)	(644,628)
(Additions)/Disposals of investment property	(518,337)	112,130	(504,273)	134,765
Disposals of Non-current assets held for sale	11,386	56,183	10,283	65,158
Dividends received	1,331,354	1,135,284	1,331,354	1,135,284
Gain from investment securities	8,652,501	3,301,481	8,652,501	3,301,481
Decrease/(increase) in:				
Available for sale investments	522,230	(44,097,869)	521,721	(44,222,969)
Held to maturity investments	2,642,635	736,422	3,170,642	502,413
Investment in subsidiaries	0	0	0	29,383
Net cash provided by/used in investing activities	**11,806,296**	**(39,412,087)**	**12,362,757**	**(39,699,113)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid	(6,451,468)	(5,105,749)	(6,308,000)	(5,000,000)
Other charges to capital	918,022	2,980,801	917,393	2,928,556
Increase/(decrease) in:				
Bills payable	(3,256,427)	(7,049,849)	(3,240,427)	(6,604,349)
Unsecured subordinated debt	0	10,500,000	0	10,500,000
Net cash provided by/used in financing activities	**(8,789,873)**	**1,325,203**	**(8,631,034)**	**1,824,207**
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,991,355	2,660,454	1,991,355	2,660,454
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**146,997,813**	**(11,772,041)**	**147,604,916**	**(12,211,646)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	17,868,379	16,130,729	17,867,540	16,129,879
Due from Bangko Sentral ng Pilipinas	85,202,557	77,168,221	85,096,569	77,168,221
Due from other banks	4,185,595	2,229,622	3,545,429	1,923,084
Securities purchased under agreements to resell	25,000,000	48,500,000	25,000,000	48,500,000
	132,256,531	**144,028,572**	**131,509,538**	**143,721,184**
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	20,355,855	17,868,379	20,354,849	17,867,540
Due from Bangko Sentral ng Pilipinas	249,580,208	85,202,557	249,497,118	85,096,569
Due from other banks	3,196,281	4,185,595	3,140,487	3,545,429
Securities purchased under agreements to resell	6,122,000	25,000,000	6,122,000	25,000,000
	279,254,344	**132,256,531**	**279,114,454**	**131,509,538**

The Notes on pages 109 to 143 form part of these financial statements.

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) investment*s

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.

<u>Impairment of Financial Assets</u>

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 I*nvestments

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.

Offsetting financial instruments

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

Fiduciary Activities

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

Subsequent Events

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

Impairment of Property and Equipment, Investment Property and Other Resources

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

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

Investments in Subsidiaries

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

Property and Equipment

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

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)

	Group					
	2013			2012		
	Land	Building	Total	Land	Building	Total
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									
									Total	
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	2013	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									
									Total	
	Land	Building Under Construction	Buildings	Leasehold Rights and Improvements	Transportation and Equipment	Furniture and Office Equipment	Transportation Equipment Under Lease	Others	2013	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
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.

- o **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.

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

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

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

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