

A Passion for the Countryside



**LAND BANK OF THE PHILIPPINES**


*Ang unanglong May Damdaming Bayan*





## About the Cover

The cover artfully depicts the bright, vibrant and colorful countryside that comes to life with LANDBANK's continued adherence to its mandate, innovative banking products and quality customer service.



LANDBANK shall be the dominant financial institution in countryside development, committed to the highest standards of ethics and excellence in the service of the Filipino people.

## Vision

## Mission

We shall continue to provide timely financial and technical support for our farmers, fisherfolk and other priority sectors.

We shall deliver innovative products and services that are consonant with ecological enhancement and effectively address our clients' needs.

We shall embody professionalism and integrity, providing our employees with a work environment that encourages growth and rewards excellence.

LANDBANK is committed to improving the lives of all its stakeholders and working with them to lead the country to economic prosperity.

# Financial Highlights

(in Billion Pesos)

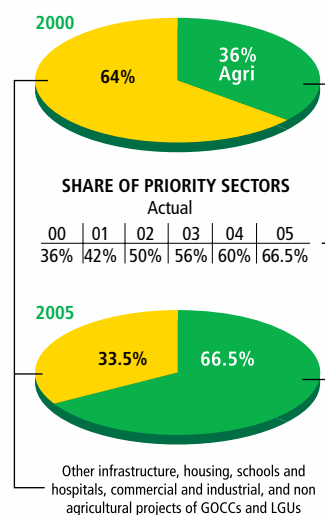
	2005	2004	2003	2002	2001
Total Resources	322.9	306.4	267.9	250.8	229.4
Liquid Assets	90.0	68.2	56.8	56.4	68.2
Earning Assets	239.8	234.4	212.8	194.8	189.3
Loan Portfolio (Net)	143.2	139.0	119.8	105.4	107.6
Investments (Net)	108.2	99.5	95.3	90.3	69.6
Deposit Liabilities	242.8	214.9	184.9	179.5	168.5
Demand	81.1	74.3	68.8	69.8	60.2
Savings	135.4	118.6	96.7	91.8	84.0
Time	26.3	22.0	19.4	17.9	24.3
Capital	26.7	23.1	22.1	20.8	18.9
Gross Revenues	29.1	22.9	18.5	17.9	20.0
Interest Income on Loans	11.5	10.2	8.5	8.1	10.8
Income on Investments	8.1	8.2	7.6	7.5	7.0
Net Income (in P M)	3,019.85	2,704.97	2,001.2	1,658.6	1,507.7
Return on Average Equity %	12.14	12.7	9.34	8.25	9.24
Return on Average Assets %	1.00	0.9	0.77	0.69	0.69

## LBP Gross Loan Portfolio

(in Billion Pesos)

	2005	2004	Share to Total (%) (2005)
<b>SECTORS</b>			
Farmers and Fisherfolk	17.1	16.3	14%
Micro-enterprises and SMEs	19.2	17.2	16%
Agribusiness	17.5	18.2	14%
Agri-infrastructure (LGUs)	12.4	11.5	10%
Agri-related Projects (GOCCs)	10.1	9.5	8%
Livelihood Loans	2.4	2.4	2%
Environment-related Projects	2.1	2.3	2%
<b>TOTAL PRIORITY SECTOR LOANS</b>	<b>80.8</b>	<b>77.4</b>	<b>66.5%</b>
Other LGU Loans	9.6	8.4	8%
Other GOCC Loans	7.0	8.3	6%
Infrastructure Development	3.7	5.5	3%
Housing	5.2	5.7	4%
Schools and Hospitals	1.2	1.3	1%
Others	14.0	21.4	12%
<b>TOTAL NON PRIORITY SECTOR LOANS</b>	<b>40.7</b>	<b>50.6</b>	<b>33.5%</b>
<b>TOTAL LBP LOAN PORTFOLIO</b>	<b>121.5</b>	<b>128.0</b>	<b>100%</b>

### Loan Portfolio Transformation





# Message of the President of the Philippines

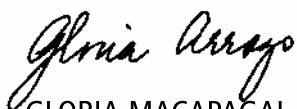
MALACAÑANG PALACE  
MANILA

Congratulations to the men and women of the Land Bank of the Philippines for another year of exemplary service to the Filipino people.

Your 2005 Accomplishment Report shows that you have well performed your mandate of promoting countryside development and providing credit assistance to our priority sectors—our small farmers and fisherfolk; micro, small and medium enterprises; and local government units. The increasing amount of loans you have given to these sectors—the highest in 2005—is proof of your noteworthy contribution to our government’s anti-poverty efforts.

Our government will further intensify the fight against poverty and we look to LANDBANK as our partner in this endeavor as it creates jobs, livelihood and vital infrastructure in the countryside. Continue to exhibit the same professionalism and dedication that have enabled you to succeed all these years both as a financial institution and as a catalyst for social reform.

With greater zeal, let us continue our campaign to bring development to the poor communities in our countryside. More power and mabuhay!



GLORIA MACAPAGAL-ARROYO

MANILA  
12 May 2006

# Chairman's and President's Report



GARY B. TEVES - *Chairman*

A gifted artist starts with a blank canvas. Over time, his seemingly random strokes evolve into a masterpiece that enriches the lives of all who come into contact with it.

Remaining true to its mandate while working to remain competitive with the best in the industry has always been a challenging task for the Land Bank of the Philippines. Yet for the last 42 years, this is a task that we have embraced with passion and commitment—much like the artist driven to create his magnum opus.

2005 saw LANDBANK further improving its customer service and staying at par with the best in the industry even as it reinforced its commitment to its mandate. Amid challenges such as political tensions, higher oil prices and a slowdown in agricultural production—not to mention a sudden change in the bank's leadership midway—LANDBANK continued to focus on its three primary business goals: pursuit of mandate, institutional viability and customer service.

With hard work, wise investment decisions and prudent management, the bank successfully turned in its most productive and profitable year in its 42-year history.

## PURSUING THE MANDATE

Our numbers, marked by a more focused and aggressive lending to our priority sectors, continue to speak of our success in carrying out our core mission as a development-oriented financial institution.

As of end-December 2005, we extended P81 billion in loans to our priority sectors—the small farmers and fisherfolk, SMEs and microenterprises, livelihood projects, agribusiness, agri-infrastructure LGU projects, agri-related and environment-related projects. This accounted for 66.5 percent of our P121 billion loan portfolio, a significant improvement from the 60

**With hard work, wise investment decisions and prudent management, the bank successfully turned in its most productive and profitable year in its 42-year history.**

percent share attained in 2004. We also surpassed our target 65 percent share of priority sectors in our loan portfolio.

Total outstanding loans to small farmers and fisherfolk increased by P800 million from P16.3 billion to P17.1 billion.

Our loans to microenterprises and SMEs (MSMEs) also rose by P2 billion from P17.2 billion to P19.2 billion for a 12 percent growth. Of the P19.2 billion, P17.3 billion were lent to SMEs while the remaining P1.9 billion went to microenterprises.

In recognition of their significant contributions to their communities and the local economy, we paid tribute to our outstanding farmer and fisherfolk cooperatives and SME clients during our August 2005 anniversary. The Landan People's Multi-Purpose Cooperative in the far-flung area of Polomolok, South Cotabato and the St. Jude Multi-Purpose Cooperative of Cotta, Lucena City topped the 2005 Gawad sa Pinakatanging Kooperatiba (Gawad PITAK) in the agri-based and non-agri based categories, respectively. The Diffun Credit and Development Cooperative of Diffun, Quirino was also added to our growing Hall of Famer membership.

Asia Embroidery, Inc. of Parañaque City, an exporter of high quality and intricately-designed fabric, was named Entrepreneur of the Year.

LANDBANK also continues to provide the largest financing support for key LGU development projects all over the country.



GILDA E. PICO - *Acting President and CEO*



Total loans to LGUs reached P22 billion in December 2005, P2.1 billion or 11 percent higher than the P19.9 billion loans recorded in December 2004. A total of 567 provinces, cities and municipalities have benefited from LANDBANK's assistance. Of the P22 billion, P12.4 billion was used to finance agri-infrastructure and other agri-related projects of LGUs.

Under our CARP operations, total land transfer claims approved for payment reached 34,694 hectares in 2005. We have also disbursed P3.7 billion to landowners as compensation for their lands placed under CARP and as redemption and interest disbursements for outstanding bonds.

Through AFMA, we continued to help the government intensify its support for the agricultural and fisheries sectors. From January to December 2005, LANDBANK released P21 billion in credit and technical assistance under the program. Our intensified support for AFMA has helped generate more than 190,000 new jobs and has benefited more than 298,000 small farmers and fisherfolk.

## INSTITUTIONAL VIABILITY

Complementing our successful pursuit of our mandate is the continued improvement in our overall profitability.

We achieved a net income of P3 billion, 12 percent higher than our restated net income in 2004 and surpassing our year-end target of P2.5 billion by 21 percent. The P3 billion net income is the highest ever attained by the bank in its history.

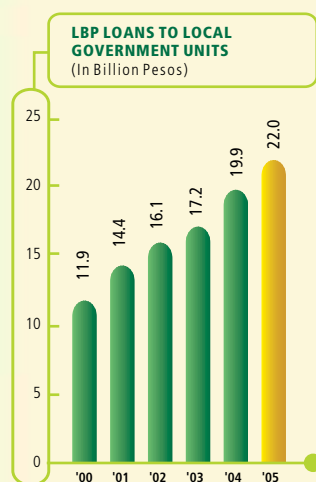
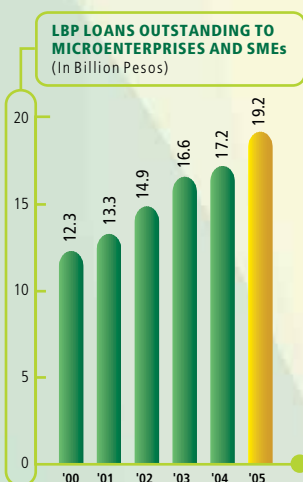
The improvement in our net income was driven by the 27 percent growth in revenues from the restated 2004 amount of P22.9 billion to P29.1 billion coupled with the continued effective management of our expenses.

We brought down our total non-performing loans from P22.7 billion in 2004 to P11.4 billion in December 2005. This resulted in a non-performing loan ratio of 6.6 percent as of December 2005, better than the industry ratio of 8.74 percent. Our Real and Other Properties Acquired or ROPAs also decreased from P17.3 billion in 2004 to P15.9 billion in 2005.

We performed very well in terms of major performance indicators. Our resources increased by 5 percent from the restated 2004 level of P306.4 billion to P322.9 billion. Our total deposits grew by 13 percent from P214.9 billion to P242.8 billion. Capital also improved significantly by 15 percent from the restated 2004 amount of P23.1 billion to P26.7 billion.

With this stronger balance sheet complemented by an all-time high in profitability, LANDBANK has reinforced its spot among the top five banks in the country—quite a feat for a bank which, despite the inherent risks in development financing, did not have the benefit of mergers or government bail-outs.

Our strong and healthy financial position has also enabled us to become a major contributor to the government's revenue generation efforts over the years. Last August 2005, we remitted to the national government P700 million in cash



dividends and P600 million in stock dividends from the bank's 2004 net income. This brings LANDBANK's total cash and stock dividends to P13.7 billion since 1994.

### CUSTOMER SERVICE

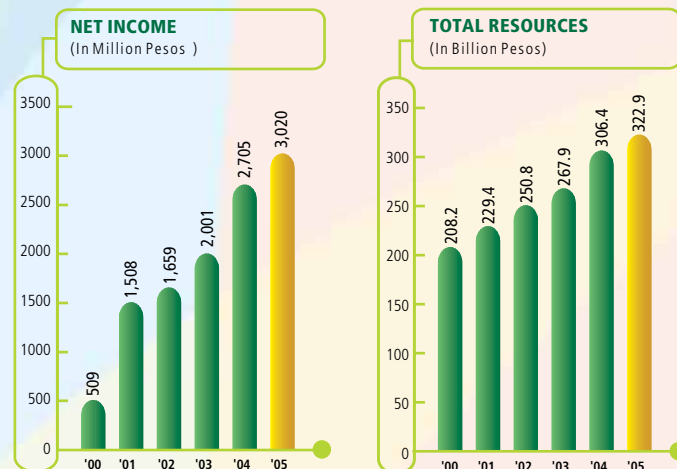
LANDBANK also pulled out all the stops in 2005, continuing to implement key programs and investing in new automation projects to enhance our customer service delivery.

At the core of this effort is the continuation of our ATM roll-out program that further strengthened our nationwide presence. With the installation of 113 new ATMs last year, our total ATM network has grown to 680 as of end-December 2005, the third largest in the country. With our Expressnet and Megalink interconnection, our depositors now have access to more than 4,300 ATMs all over the country.

We also actively supported the government's tax collection efforts by introducing more convenient and user-friendly innovations for our millions of taxpayers. In January 2005, LANDBANK became the official and exclusive collection agent of the world's first mobile-commerce tax payment system via the BIR's G-cash business registration project with Globe Telecom.

We successfully pilot-tested the Efficient Service Machines (ESMs) in selected Metro Manila branches. These ESMs accept various BIR payments, offering a fast and easy alternative for clients trying to beat the tax payment deadline.

We aggressively marketed our e-card—an employee ID also equipped with the features of an ATM card—to our institutional clients. These efforts resulted in the forging of several tie-ups with government units such as the Office of the President, the Overseas Workers Welfare Administration, the Professional Regulation Commission and the Rizal Provincial Government.



We also developed e-banking solutions to address the specific needs of clients like the Supreme Court, PAG-IBIG and the Bureau of Internal Revenue.

To better respond to the needs of our OFW clients, we launched the new Inward Remittance System for OFWs under the Easy Padala banner. We also opened an OFW Livelihood Center in our old headquarters in Buendia Avenue, Makati to serve as a one-stop shop for departing OFWs and their families.

Internally, we invested heavily in several database platforms to improve our efficiency, establish better controls and minimize operational risks. These include the Customer Information System, Legal Management Information System, Agrarian Reform Receivables System and the Centralized Data Warehouse. We also acquired a new and state-of-the-art IBM mainframe that will enable us to double the volume of transactions we handle and provide the necessary infrastructure relative to our compliance with AMLA, IFRS and Basel II.

## MILESTONE ACHIEVEMENTS

We are proud to share the following milestone achievements of 2005 with our clients, other stakeholders and employees:

- ISO 14001 certification—LANDBANK became the second financial institution in the country to be conferred with the ISO 14001:1996 for its Environmental Management System implemented at the bank's corporate headquarters, the LANDBANK Plaza. The prestigious ISO seal affirms the active and non-negotiable stance of our institution towards environmental protection.

- 94 percent rating in Enercon—Our officers and employees' cooperation to help conserve energy paid off as the Enercon team gave LANDBANK a 94 percent rating, one of the highest given to government agencies. We were also one of the eight agencies given a 5-star rating by President Gloria Macapagal-Arroyo for outstanding implementation of energy efficiency and conservation measures.

- Non-monetary incentives for employees—We successfully laid the groundwork for the implementation of a wellness program for our employees.

We completed and inaugurated our own gym and recreational center, as well as a day-care center for children of LANDBANK employees—concrete demonstrations of our willingness to go the extra mile when looking after the welfare of our own employees.

In summary, 2005 showed how your bank has kept its heart and mind focused on

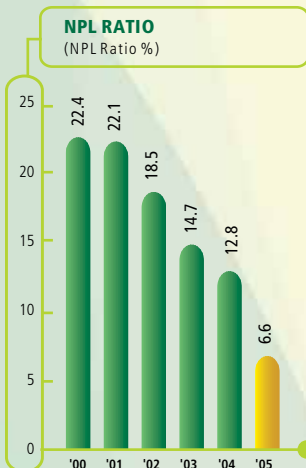
our mandate. LANDBANK, like many great artists, is not afraid to think out of the box, take risks and test our limits in order to continuously improve and achieve our vision.

As we go forward, we are determined to raise the bar even higher and aim for a greater impact on countryside development. We will pursue our mandate with unflagging dedication as we continue to focus on small farmers and fisherfolk and our other priority sectors.

Other projects that we will prioritize in the coming year in terms of financing support include agri-based and renewable energy sources, alternative energy projects, as well as water and environment projects. Corollary to this effort is our goal of attaining business excellence in key aspects of our operations.

While we are proud of what we have accomplished, we recognize that our vision is still very much a work in progress.

Driven by a passion for excellence and the commitment to better serve our clients, we will continue doing our share and working to achieve what we consider an enduring masterpiece—a prosperous Philippines with a thriving economy and sustained growth and development, particularly in the countryside.



**GARY B. TEVES**

Chairman

**GILDA E. PICO**

Acting President and CEO

## Shades of commitment and quality service



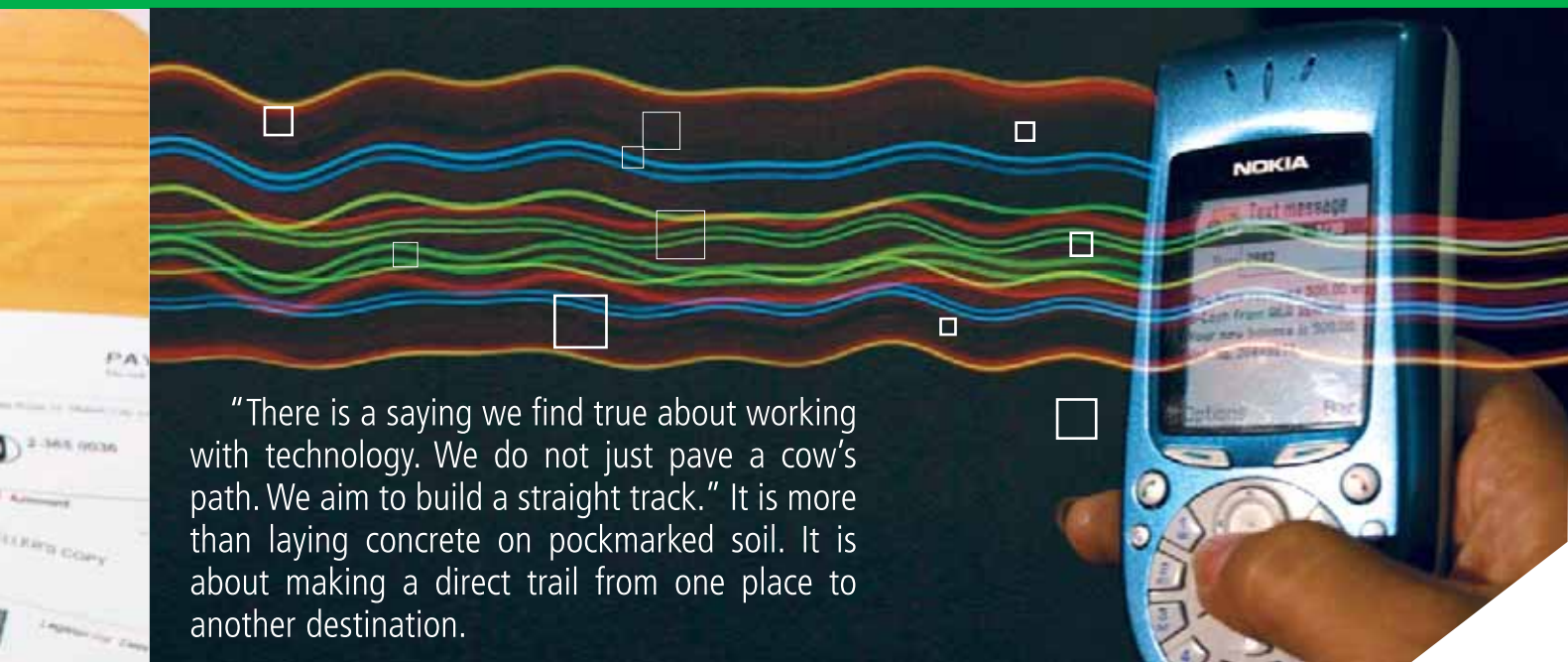
Our vision of a vibrant and colorful countryside comes to life in various forms—be it in every small business we assisted, in the countless roads and bridges we helped build, and in the thousands of rural folks whose lives have since improved for the better. This vision is being energized by LANDBANK’s constant innovative banking services ably complemented by our warm and responsive customer service.



# Ushering the **age** of **modern** **banking**







“There is a saying we find true about working with technology. We do not just pave a cow’s path. We aim to build a straight track.” It is more than laying concrete on pockmarked soil. It is about making a direct trail from one place to another destination.

Implementing technology-driven projects, according to LANDBANK’s Vice-President and head of Technology Management Group Alan Bornas, is not just aimed at creating new ways of doing things but at making processes faster and doing things better.

And these—improving service quality and achieving more efficient operations—are exactly what LANDBANK have in mind as it continued to embark and invest in major IT projects in 2005. LANDBANK gears up to open more possibilities to customers through its new systems that are at par with the best in the world. More and more clients are now accessing a variety of methods that have totally redefined how we do banking.

#### Other than the branch

For instance, almost 29 million transactions—specifically withdrawals—were made through LANDBANK ATMs in 2005 instead of over-the-counter. This figure does not yet include the inquiries and other transactions done through Expressnet or Megalink which may also be accessed by LANDBANK ATM holders.

“We have been expanding our ATM network and continuously increasing the availability of our ATMs,” LANDBANK Assistant Vice President for ATM Business Edna Atienza said. After undertaking the most massive ATM installation project in the Philippine banking industry in 2004, LANDBANK rolled-out additional 113 automated teller machines in 2005. This enabled cardholders to transact with a total of 680 LANDBANK ATMs, which are just among the 2,414 total ExpressNet ATMs all over the country. “Consistent with our mandate of serving the countryside,” Atienza noted, “LANDBANK ATMs are not concentrated in Metro Manila. Seventy percent of them are located in the provinces.”

In a customer satisfaction survey conducted by Triad Research Inc. from November to December 2005, LANDBANK ATMs got the highest rating among the five ExpressNet member-banks in eight out of ten service parameters—speed of transaction, accessibility of ATM site, helpfulness of ATM directional stickers, withdrawable amount per transaction, clear print on transaction receipt, clear ATM screen, cleanliness of ATM site and security of ATM site.

LANDBANK cardholders can enjoy even much more. Their ATMs can act as a debit card using the Express Payment System facility with more than 10,300 accredited merchants. They can also opt to enroll and transact through the LANDBANK phone banking facility or Phone Access.

#### For retail clients and partner institutions

The list of extras doesn’t end there. Employees of client agencies (particularly those under a payroll account with LANDBANK) can even use their LANDBANK cards as their company IDs. The LANDBANK e-Cards—or simply ATM cards that contain biometric information, pictures, signatures, and employee numbers—are now being used by employees at the Office of the President of the Philippines, the Small Business Guarantee and Finance Corporation, Land Transportation Office and the Overseas Workers Welfare Administration.

“Other agencies can take advantage of our e-Card to eliminate the hassles of having someone encash a check for payroll and distributing the salaries of employees manually,” LANDBANK Customer Service and Product Development Head Edgardo Ramirez said. “In the case of other agencies, they can help their employees avoid rediscounting their salaries in advance to money lenders. With the LANDBANK e-Card, one can not just have any other person withdraw funds from his ATM account because the owner will also need the card as his ID when reporting for work,” he explained the added security feature.

## Less taxing for taxpayers

LANDBANK electronic banking products and services also present customers with more convenient alternatives to paying their dues. In 2005, P347.6 million worth of taxes were collected for the Bureau of Internal Revenue through the LANDBANK Efficient Service Machines or ESMs. Located in LANDBANK Baclaran, San Juan, Caloocan, East Avenue and Intramuros branches, these computerized but user-friendly kiosks accept payments for BIR and even for credit card.

“Our branch managers initially served as ‘promo personnel’ for our ESMs,” Atienza quipped. “Because the ESM was something new, we had to first educate the customers about the benefits of using it,” she said.

LANDBANK continues to offer alternatives to paying taxes over-the-counter. “It is beneficial for our clients,” LANDBANK Assistant Vice President for e-Banking Leila Martin added. Previously, Martin headed the LANDBANK East Avenue Branch which handled voluminous transactions for the BIR. With the Electronic Tax Payment System which began in 2003, taxpayers now have the option to pay taxes online. In 2005, P21 billion worth of transactions of more than 20,000 large and non-large taxpayers were done through the ETPS.

In January 2005, LANDBANK served as the official and exclusive collection agent for the world’s first mobile payment project for annual business registration renewal. The project was later expanded to allow taxpayers to use Globe Telecom’s G-Cash facility and their mobile phones in paying various taxes to the BIR through Short Messaging Service (SMS) or text.

“Innovative banking services like the SMS payment opened doors for LANDBANK to tie-up with other government and private institutions which require similar transactions,” Martin said. “Soon, people will be able to conduct more transactions using their mobile phones.”

## E-payment for government

With electronic payment and other e-banking solutions well in place, Bornas said LANDBANK and its client-agencies can do its share in helping the country. “E-banking initiatives will help the government raise more revenues in a very efficient and timely manner that is fully accounted for. Apart from convenience, we are, in the process, also promoting transparency in government transactions,” he said.

Also in 2005, LANDBANK began providing the Supreme Court of the Philippines with its eAssessment and eCashiering system, a front-end Internet application for the Clerks of Court to assess payments by litigants and lawyers when filing legal cases.

The Professional Regulation Commission, meanwhile, signed to avail of LANDBANK’s e-payment and Point of Sale (POS) systems that will allow cashless payments of services offered by the PRC and the computerization of its payment transaction, funds monitoring and reports generation.

“Each government agency or institutional client has its distinct banking requirement,” Bornas noted. “We are posed to provide each one of them with a customized e-banking solution that suits their needs.”

## Automation, innovation

“Oftentimes, when we do product presentations, people are surprised that LANDBANK, a government bank, is now very aggressive in the e-banking front,” Martin said. “And we confidently say that we have proven to be effective and efficient in delivering these products.”

“In every IT project, we consider the stakeholders,” Bornas said. Atienza agreed: “We have to look at total customer relations.” And more than the technical facet, the change management process is the more challenging aspect in automation—a technology should prove useful to the people who will be using it. “They need to realize the benefits of veering away from the processes that they may have been used to for years,” Bornas said.

Indeed, keeping up with these fast-paced and high-tech times have become the name of the game—and increasingly becoming the norm—even for simple, ordinary folks be it in the bustling metropolis or in the remotest of towns. After all is said and done, it all boils down to having increased access, wider channels and far greater convenience for everyone.

A pensioner may have been queuing at branch lobbies for years to get his money, but a faster and safer alternative is to use an ATM or access his account through a telephone.

A small farmers’ cooperative may have to add the quantity or improve the quality of its goods because posting them in B2Bpricenow.com—an Internet-based trading portal that operates in partnership with LANDBANK—exposes them to a bigger market.



*LBP's Efficient Service Machine >*





LBP Inward Remittance System: I-easy padala homepage



Or, a corporate taxpayer may need to just rely on a few clicks of a mouse in paying his dues to the government.

More and more clients will be pleased to know that banking with LANDBANK and in the process, availing of its IT-driven products and services, is really not just about keeping up with the trend. This is LANDBANK's desired trademark in terms of quality service—meeting and satisfying their banking needs in the fastest and most efficient way possible.



< E-card for Office of the President-Malacañang employees



# Building the pathway for progress

**T**RANSFORMING SLEEPY RURAL TOWNS INTO a bustling hub filled with economic activities is never an easy job. Such a challenging task requires not just a master blueprint, but also a steady flow of resources, a solid commitment and strategic partnerships.

An official in charge of UK's International Development Department once said that no one government or organization can afford to work in isolation. With each entity's unique capabilities, it is crucial for all partners to act upon their different strengths as well as complementary resources, knowledge and skills to jointly address social, environmental and economic challenges.

This is the tack that LANDBANK has been taking in pursuit of its goal to become the country's undisputed leader in agri-agra

lending. After more than four decades of working together with key development partners in the countryside, the bank is determined as ever to help further strengthen the agri-agra sector consistent with the national government's development agenda.

Apart from directly contributing to the country's Gross Domestic Product, the agri-agra sector positively impacts on employment generation, income level of rural folks as well as on infrastructure and community development—all of which are key ingredients for a stronger and more stable economy.

A closer look at some of LANDBANK-assisted projects such as the ones in Coron and Busuanga in Palawan, Toril in Davao City and even in nearby Binondo, Manila—will enable one to see these positive changes actually taking place—and how these have transformed the lives of the people and their communities for the better.



## LGUs OF BUSUANGA AND CORON

# Access road & public market for Palawan

**A**T THE NORTHERN PART OF THE CALAMIANES GROUP of Islands, the gateway to Palawan and home to the local government units of Coron and Busuanga, local officials have teamed up with LANDBANK to carry out crucial infrastructure projects that address the basic needs of their respective constituents.

"Life has been challenging. But through the various infrastructure projects we've implemented, we've opened up better economic opportunities for our people," Busuanga mayor Eva de Jesus said. Busuanga is composed of 14 barangays with a population of over 18,000.

Recognizing that an efficient and reliable transportation system is crucial to socio-economic growth, the LGU of Busuanga mapped out a plan to interconnect their mostly coastal and upland communities via a single road network. To help fast track the construction of new roads and bridges while rehabilitating existing road networks, the LGU acquired tractors, bulldozers and other heavy equipment using a P5 million loan from LANDBANK.

In 2005, the provincial government of Palawan supported the construction of the 2.6 km Patache farm-to-market road in Busuanga that now serves as the main artery to the Calauit Island National Park. The fund is part of the provincial government's over P1 billion worth of agri-development package from LANDBANK.

Meanwhile, in the adjacent town of Coron, a progressive transformation is also in the works.

Capitalizing on the town's abundant human and natural resources, the Coron municipal government led by Mayor Mario T. Reyes, Jr. has set its sights on developing Coron not just as an eco-tourism haven (with its captivating beaches, shoals and dive spots) but a thriving trading destination, fully equipped with essential facilities.

The Coron LGU completed in 2003 a 6,000 sqm reclamation project at the in-shores of Coron Bay—where the town's public market now currently stands—to serve as the municipality's central trading hub. Constructed with the help of a P5 million loan from LANDBANK—the only commercial bank in the island—the facility generates hundreds of jobs for fish, meat and vegetable vendors and supports the town's estimated 3,000 fisherfolk.



The LGU is also completing the construction of a two-storey public market expansion project that will house several commercial establishments such as stores and specialty shops, among others. Once completed, the facility stands to benefit Coron's 38,000 residents. To augment its own funds, the LGU secured a P15 million development loan from its banking partner, LANDBANK.

"Malaki ang naitulong ng LANDBANK sa bayan ng Coron, sa kabuhayan ng mga mamamayan at sa pamahalaang lokal," (LANDBANK has been of great help to the municipality of Coron... to the local folks' livelihood and to the local government), members of the municipal council attested as they highlighted the importance of the partnership between the local government and the national government through a government bank.



## BF INDUSTRIES

# A source of livelihood & pride for the community

**H** EADING DOWN SOUTH, IN THE DISTRICT OF TORIL in Davao City, a modest household has carved a name in charcoal exportation and is actively contributing to local jobs creation and dollar generation.

From its simple roots in 1979, BF Industries—founded by family patriarch Bonifacio Fernandez, Sr.—now stands as a vital economic pillar for hundreds of coconut farmers in Davao and nearby provinces. The family-run agribusiness produces high value granulated charcoal, briquettes and recently, activated carbon out of coconut shell that are being exported to Asia and Europe.

Just like any other business, the formative years of BF Industries were far from easy. But armed with an entrepreneurial mindset, the full support of the family and a list of offshore buyers he just clipped from a leading broadsheet, Mang Boni bravely charted the export market. “Until now, I still keep my list of buyers inside my safe,” he quips.

For a start, Mang Boni flew to Osaka, Japan to personally seek the buyers included in his list. “I literally found myself knocking at the doors of strangers. Fortunately, they were courteous enough to let me in,” recalls Mang Boni on how he visited Japanese charcoal buyers one after another.

Despite its uncertainty, the trip proved fruitful for Mang Boni as it marked BF Industries’ entry into the Japanese market. The company now ships an average of 1,500 tons of granulated carbon annually.

Encouraged by the increasing market demand, it didn’t take long for the family-owned corporation to develop other variants such as charcoal briquettes which it annually supplies to Germany and Belgium for an average of 4,000 tons. In 2004, BF Industries began producing activated carbon, a logical offshoot of the business since the product is non-seasonal, very marketable and provides greater profit margins.

With close to a P100 million credit line from LANDBANK, the company continues to beef up its operations. It has recently unveiled the company’s first rotary kiln that is able to process 1,000 tons of activated carbon. With the completion of its second kiln soon, BF Industries’ production capacity is expected to triple to 3,000 tons annually.

BF Industries currently employs close to 200 workers and supports an estimated 2,000 coconut traders and farmers from



Davao, Cotabato, Lanao and Surigao from whom they source their raw materials. It also extends advances to farmers to help expand their production capacity.

BF Industries is firm with its resolve to support the coconut farmers. “We need to survive as a business, not just for ourselves but most importantly for the coconut farmers who have since depended on us for their livelihood,” Mang Boni said.

Now in his 70s, Mang Boni is ensuring that the family business continues to flourish by entrusting the business to his three children, who have been imbued into the family business since childhood.

When asked of their company’s future business plans, eldest son Bonifacio Jr. shares that BF Industries aims to further expand its production of activated carbon and eventually go into the production of higher value activated carbon variety over the medium-term. “Soon, we will be venturing into bio-fuel from coconuts, to help the company and the community in lowering fuel costs. This way, we are utilizing all the functional aspects of the coconut, from meat to copra to cocoshell. Nothing is left unturned in our business,” he said.

“God is very kind to us, providing us with all the right ingredients in our operations—the right people, the right product, the right family, and the right bank,” Mang Boni said gratefully.





## GOLDEN DRAGON MARINE PRODUCTS

# Sharing the fruits of business with small workers

**UNKNOWN TO MANY, THE DELECTABLE SEAFOODS SERVED in major hotels and restaurants across the metropolis and Asia come from a Manila-based entrepreneur who rose from the cellar to build a brand in this highly competitive field.**

Golden Dragon Marine Products stands out as a household name in the Philippine marine import-export industry. Behind it is a passionate and disciplined proprietress, Ms. Cecile Merto, who describes herself as a simple Surigaonon who married and bravely entered business at the age of 18. Cecile and her former Singapore seafood trader husband, Lee Eng Kee established Golden Dragon Marine Products in 1984 in her birthplace in Surigao City, with just a modest P50,000 start-up capital.

"We started small as an export business," Cecile recounts, noting that her ex-husband had to go directly to the nearby fish port to buy the day's catch. Though it was challenging for him as a foreigner, "Eng Kee found a way to relate to fishermen. He gave them his contact number while I stayed home to accept their calls and buy their products," Cecile continues.

"In time, we got a steady supply of seafood which kicked-off our export business." As a strategy, "Eng Kee focused on offshore buyers, while I concentrated locally, sourcing suppliers and expanding our market-share," Cecile adds.

With the enterprise steadily growing, the business partners saw the need to relocate either to Zamboanga or Manila. "We eventually decided to move our operations to Manila, since it is very accessible to various fish ports and restaurants, a market we have been targeting to capture," Cecile shares.

With perseverance, teamwork and prudence, "we were able to grow our business, carve our own niche in a highly competitive market, and capture a loyal following," she underscores.

Backed by an P8 million credit line under LANDBANK's SULONG program, Golden Dragon has augmented its working capital to further expand its business, enabling it to help more fisherfolk along the way.

While doing business in the country's capital, the enterprise continues to actively support the livelihood of countless fishermen



in the countryside. Golden Dragon currently has buying stations in Bacolod, Cebu, Davao, Surigao and Zamboanga.

Now a successful entrepreneur, Cecile looks back at her roots with a deep sense of purpose. "Most of my workers are my 'kababayans' in Mindanao. This is my way of helping out our underprivileged communities in the south, from which I came from," she points out.

To prepare their employees for the future, Golden Dragon sends undergraduate workers to vocational courses for free. Currently, the company is completing a housing program for its employees in Naic, Cavite. "This is to reward our employees who have helped us through their loyalty and hardwork," Cecile says.

Combining product quality with good business relations, Golden Dragon Marine Products has been able to maintain its long list of valued clients composed of five star hotels and posh restaurants all over Metro Manila and at the Subic Freeport to which it supplies shark's fin, sea cucumber, scallops, lobsters, shrimps, and other marine products. The company also exports these to Hongkong, Taiwan, Singapore, Japan and Canada. Last year, it was cited as a regional awardee under LANDBANK's Gawad Entrepreneur.

"At 40, I am very contented and happy. I could say that I'm already accomplished as a person and fulfilled as an entrepreneur," Cecile imparts with a contented smile. She looks forward to the day when she'll turn over the business to her two children to carry on with her legacy of hard work, concern for co-workers and a continuous commitment to excellence.



# Gearing Up LANDBANK for a Stronger Countryside

LANDBANK was able to register a remarkable performance as it continued to anchor its day-to-day operations on three interconnected and equally important business goals—pursuing the mandate as a countryside development financial institution, enhancing customer service and strengthening institutional viability.

These three main business goals effectively steered LANDBANK's directions during the year as reflected by the solid gains achieved and new milestones reached in the course of its 42-year history.

With its adopted theme, "Gearing Up LANDBANK for a Stronger Countryside," LANDBANK concluded another successful year as measured by solid financial gains that will further sustain its institutional viability and made more meaningful by a promise fulfilled—a stronger countryside.





# PURSUIT OF MANDATE

Inspired by the past years' performance that were marked by a sustained success in increasing the share of priority sectors in its loan portfolio, the Bank implemented various financing programs and projects for small farmers and fisherfolk, microenterprises and small and medium enterprises, agribusiness, and agri-infrastructure.

In support to the government's thrust to hasten the implementation of the Medium-Term Development Plan and the 10-point Agenda of President Gloria Macapagal-Arroyo, LBP continued to provide loans for economic activities with direct agricultural and environmental impact especially those that benefit the Bank's identified priority sectors.

These priority sectors are: small farmers and fisherfolk, micro-enterprises and SMEs, agribusiness, agri-infrastructure projects of LGUs, government-owned and controlled corporations, environment-related projects and livelihood projects of

salaried individuals. It is deemed that the multiplier effect of these on the economy is very high—in terms of delivery of basic services, jobs generation and high development impact to the poor.

## A. SUSTAINED EXPANSION OF LOANS TO THE PRIORITY SECTORS

The transformation of loans in favor of the priority sectors was sustained since 2000. From a 36% share in 2000, loans to the priority sectors expanded to 66.5% or P 80.8 billion of LBP's total loan portfolio of P121.5 billion in 2005. The 66.5% share exceeded the Bank's

2005 target of 65%, reflecting the Bank's strong support to key sectors that spur countryside economic growth.

### Loans for Small Farmers and Fisherfolk

#### • *Credit Assistance to Small Farmers and Fisherfolk*

In 2005, loan releases to small farmers and fisherfolk reached P16.8 billion. These loans were lent through 1,075 partner cooperatives and 422 countryside financial institutions or CFIs (rural banks, cooperative banks, and development banks) and Quedancor.

These loans benefited more than 322,000 small farmers and fisherfolk. In 2005, LBP and Quedancor also worked together to provide P 1.6 billion in credit assistance to self-help groups of farmers who are not members of cooperatives.

LBP also provides funds for credit obtained from various bilateral and multi-lateral agencies. One example is the Japan Bank for International Cooperation



(JBIC)-ASEAN-Japan Development Fund, a US\$57.7 million program. This facility funded LBP's financial assistance to small farmers and fisherfolk cooperatives aimed at strengthening their production base and increasing their income-generating capacity. (see figure 1)

Other foreign-funded credit programs for small farmers and fisherfolk include the US\$ 86.8 million JBIC-Rural Farmers and Agrarian Support Credit Program for crop production and fixed asset acquisition of CARP beneficiaries in targeted agrarian reform communities, and the US\$ 75.0 million Asian Development Bank – Small Farmers Credit Project aimed at improving productivity and income of small farmers and strengthening the rural financial system.

- *Support to the Agriculture and Fisheries Modernization Act Program*

LBP provides credit support and technical assistance to the agriculture and fisheries sector in support to the Agriculture and Fisheries Modernization Act (AFMA) program.

Enacted through Republic Act No. 8435, the AFMA Program is aimed at modernizing the agriculture and fisheries sectors and preparing them for the challenges of globalization. Modernization is envisioned to be achieved through the provision of adequate, focused and rational delivery of necessary support services.

In 2005, LBP released P21 billion in credit support and technical assistance for AFMA. (see table 1)

LBP's credit assistance under this program reached about 300,000 small farmers and fisherfolk and generated an estimated 192,000 new jobs in the agricultural sector. More than 360,000 farmer-beneficiaries were also assisted through various capability-building activities.

- *Capability and Institution-Building Programs*

In addition to the provision of credit support, LBP provides capability and



institution-building programs designed to enhance the operations and economic viability of farmers and fisherfolk cooperatives.

#### **Total Development Options - Unified LANDBANK Approach to Development (TODO-UNLAD)**

The TODO-UNLAD is a unified financial intermediation mechanism anchored on total area development approach involving projects of LGUs, private corporations, cooperatives, SMEs and non-governmental organizations. It aims to link producers to markets and processors and strengthen cooperatives with the support of local government units. As of December 31, 2005, a total of P3.5 billion was released to finance various projects involving 37,000 beneficiaries in 22 provinces.

#### **High-Impact Projects under TODO-UNLAD**

##### *Pineapple Production and Marketing Project*

Six cooperatives based in South Cotabato forged a production and marketing tie-up with Dole Phils. for the production of pineapples for export. The cooperatives provided a plantation area of 3,917 hectares and labour requirements, while Dole Phils. extends technical assistance to ensure production of high quality pineapples and assurance of a ready market for their produce.

Meanwhile, LGUs (municipalities of Polomolok, Tupi, Malugon & Maasin) complemented the project through the construction of farm-to-market roads to enhance accessibility of goods and services. LBP's total exposure of P458.2 million has gone a long way in boosting the quality of life of 19,564 small farmers and their families.

#### *Oil Palm Plantation Development Project*

The Kabingwangan Upland Farmers Tribal Inc. forged a production and marketing tie-up with Agumil Phils. for the cultivation of oil palm, a high value crop (from which palm oil is derived) with great export and domestic potential.

The project was supported by the LGU of Bunawan which facilitated the construction of farm-to-market roads while LBP provided credit assistance to the cooperative amounting to P24.5 million as of December 2005.

This project benefited 613 marginal farmer-members and around 500 farm workers and haulers.

#### **Accelerating Change in the Countryside through Equity Sharing Strategy (ACCESS)**

ACCESS is an initiative of LBP aimed at inviting key players in rural development (farmers and fisherfolk cooperatives and their federations, private entities, non-government organizations, LGUs and other interested investors) to become partners of LBP in undertaking equity investments in agri-related or off-farm economic projects.

By end-2005, LBP had successfully fostered the establishment of five enterprises with total project cost of P112.5 million. Total approved LBP equity investment reached P25.2 million, of which, P12.2 million was released to the five enterprises. These include the Davao del Sur Agro-Industrial Cooperative Inc. (383 beneficiaries), Phil. Pioneer Rubber Products Corp. (1,357 beneficiaries),

Nueva Vizcaya Agricultural Terminal (36 SMEs- and 40 coop-beneficiaries), Zamboanga del Norte Food Industries, Inc., and B2Bpricenow.com (19 coop-beneficiaries).

### Integrated Rural Financing Program (IRF)

The Integrated Rural Financing is a comprehensive financing program for small farmers and fisherfolk cooperatives. As of end-2005, the IRF has covered 574 bank-assisted cooperatives (BACs) in 12 regions and 29 provinces nationwide. Of the total, 405 were agricultural cooperatives. These BACs have a total membership of 267,776.

As of end-2005, a total of P1.2 billion was released to 199 cooperatives involving 37,482 member-beneficiaries. Outstanding loans under the program amounted to P1.7 billion.

The program also performed exceptionally well in other key result areas such as capital build up (CBU), savings and membership expansion by exceeding its targets for 2005. In 2005, 22,420 new members were recruited.

The program also provided 55 various capability and enterprise-based trainings for

330 cooperatives with an estimated 3,602 member-beneficiaries.

### Cooperative Financial Intermediation Development Program (CFIDP)

The CFIDP was adopted from the German technology of institutionalizing a bank-like operation among cooperatives. CFIDP aims to enhance savings mobilization among cooperatives by instilling the habit of voluntary savings among members that would eventually provide the coops the capacity to create and sustain credit and financial services to all their members. As of December 31, 2005, the program was able to mobilize savings amounting to P7.4 billion from member-depositors.

### LBP-Local Government Units (LGUs) Cooperative Strengthening Partnership Program

The LBP-LGU Cooperative Strengthening Partnership Program seeks to forge partnerships with LGUs in providing technical assistance to cooperatives operating in the localities of partner-LGUs.

### 2005 GAWAD PITAK WINNERS AGRI-BASED CATEGORY



- First Place – Landan People's Multi-Purpose Cooperative  
Polomolok, South Cotabato
- Second Place – Masisit-Dacal Livelihood Multi-Purpose Cooperative  
Sanchez Mira, Cagayan
- Third Place – Manat Multi-Purpose Cooperative  
Pandi, Bulacan
- Fourth Place – San Joaquin Multi-Purpose Cooperative  
Sarrat, Ilocos Norte
- Fifth Place – Lagawe Development Multi-Purpose Cooperative  
Lagawe, Ifugao

### NON-AGRI BASED CATEGORY

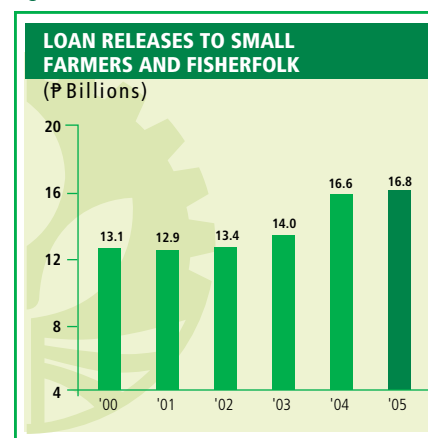
- First Place – St. Jude Multi-Purpose Cooperative  
Cotta, Lucena City
- Second Place – San Dionisio Multi-Purpose Cooperative  
San Dionisio, Parañaque City
- Third Place – Apung Monica de Minalin Multi-Purpose Cooperative  
Minalin, Pampanga
- Fourth Place – El Grande Multi-Purpose Cooperative  
Catalunan Grande, Davao City
- Fifth Place – NAPICO Multi-Purpose Cooperative  
Manggahan, Pasig City

Table 1

CREDIT AND TECHNICAL ASSISTANCE UNDER AFMA PROGRAM - 2005		
AFMA COMPONENTS	LOANS GRANTED (P MILLION)	NO. OF FARMER BENEFICIARIES
1. IRRIGATION	0.4	6
2. POST-HARVEST FACILITIES	569.4	1,725
3. OTHER INFRASTRUCTURE	518.2	-
4. PRODUCTION, PROCESSING, MANUFACTURING	10,960.7	139,499
5. FARMERS-FISHERFOLK MARKETING ASSISTANCE	8,825.4	157,239
TOTAL (CREDIT ASSISTANCE)	20,874.1	298,469
6. CAPABILITY-BUILDING OF FARMERS AND FISHERFOLK COOP'S & LGUs	164.2	a/
TOTAL (TECHNICAL ASSISTANCE)	164.2	a/
<b>GRAND TOTAL</b>	<b>21,038.3</b>	<b>298,469</b>

a/ No. of FBs assisted for capability-building -- 368,315; No. of jobs generated - 192,078

Figure 1



## PURSUIT OF MANDATE

In 2005, LBP forged a total of 92 partnerships with various LGUs nationwide and assisted 876 cooperatives. These LGUs committed a total of P120.8 million for various institution-building activities.

### Key Cooperative Strategy (KCS)

The Key Cooperative Strategy aims to identify, strengthen and accredit at least one Key Cooperative (KC) per municipality nationwide. This banks on the premise that one strong cooperative is better than many weak ones.

Loan releases under this program amounted to P1.4 billion while outstanding loans reached P1.1 billion as of end-2005. There were 148 key coops accredited by LBP, of which, 21 have been issued certificates of good standing.

### Gawad sa Pinakatanging Kooperatiba (Gawad PITAK)

Over the years, LBP has given recognition to model cooperatives that have exhibited exemplary performance as countryside developers.

The Gawad PITAK program targets the thousands of active cooperatives operating in all parts of the country and who are pooling their talents and resources to uplift the lives of their communities.

Now on its 15th year, the Gawad Pitak is recognized as the country's most prestigious award for cooperatives.

In 2005, a total of 46 cooperatives nationwide initially qualified, of which, 19 cooperatives and 3 cooperative rural banks qualified as national contenders.

Contenders competed in two main categories: the agri-based and non-agri based category and were judged according to the following criteria—impact to the community, overall operations, sustainability and business relationship with LBP.

#### • Marketing and Technical Assistance Programs

In addition to the provision of credit support, LBP provides marketing and



technical assistance as well as capability-building support to farmers and fisherfolk cooperatives. These support services are aimed at increasing productivity and improving market efficiency of cooperatives.

### LBP-B2Bpricenow.com

The LBP-B2Bpricenow.com is an e-commerce marketing program that provides timely and relevant market information as well as promotes direct market linkages among farmers and fisherfolk cooperatives and institutional buyers.

In July 29, 2005, a Memorandum of Agreement was signed between LBP and B2Bpricenow.com for the electronic trade transaction processing system which will allow commodities advertised on the B2Bpricenow.com website to be bought and sold on-line. Under the Connectivity Phase of the program, 19 B2B centers were established in participating coops in 2005. These business centers engage in trading of goods (agri and non-agri) and provision of services.

As of end-2005, agricultural commodities valued at P6.8 billion have been posted for sale through this system.

### Technology Promotion Centers (TPCs)

In partnership with state universities and colleges, LGUs and other agencies, LBP established nine Technology Promotion Centers to support technology transfer and improve productivity, product quality and value-added operations of farmers and fisherfolk cooperatives.

TPCs validate and promote effective production and post-production technologies for commercial adoption by coops, SMEs, and other Bank clients. Technology focus of TPCs include agriculture (lowland, highland, upland, urban, livestock and feed grains, root crops and fiber crops, aquatic and fishery products) industry, energy and environment.

### Loans for Microenterprises and Small & Medium Enterprises (MSMEs)

LBP loans to microenterprises and SMEs have been on a sustained expansion



#### Network Rural Bank's Pera Agad ATM.

One of LANDBANK's most outstanding CFI clients, the Network Rural Bank of Davao City in Mindanao has set the pace in rural banking innovations by consolidating with the Provident Rural Bank of Cotabato (ProBank) and Rural Bank of Panabo (RB Panabo) to establish the first ever ATM to be operated and managed by the consortium of One Network Bank, the Pera Agad ATM.



in the past six years. In 2005, credit support to microenterprises and SMEs reached P19.2 billion and constituted 16% of the Bank's loan portfolio. (see figure 2)

The P19.2 billion represented a 12% increase from the P17.2 billion loans outstanding in 2004.

Of the total loans, P13.2 billion or 69% were extended directly to SMEs. Indirect loans of P6 billion or 31% were granted through the various wholesale lending windows such as the Agricultural Loan Fund (ALF) and the Countryside Loan Fund (CLF).

Loans for microenterprises were also onlent through participating financial institutions (PFIs) and other partner entities such as the Philippine Business for Social Progress (PBSP) and the People's Credit and Finance Corporation (PCFC).

In 2005, a total of 7,194 SME projects were financed in various industries (agro-processing, trading, manufacturing, services). In addition, livelihood projects of 492,973 PCFC microfinance borrowers, who are mostly poor women entrepreneurs, were also supported.

## LBP'S MICROFINANCE PROGRAM AIMS TO SUPPORT THE GOVERNMENT'S EFFORTS TO ALLEVIATE POVERTY BY EMPOWERING THE MARGINALIZED SECTOR.

### SME Unified Lending Opportunities for National Growth (SULONG)

Part of the P19.2 billion outstanding loans for MSMEs were lent in support of the national government's credit flagship program, the SME Unified Lending Opportunities for National Growth. SULONG is a program jointly implemented by different government financial institutions (GFIs) and LBP is the biggest contributor to SULONG among the GFIs.

Under SULONG, LBP released P17.4 billion in 2005, benefiting more than 11,000 SMEs nationwide. The P17.4 billion is 38% higher than the P12.6 billion loan releases in 2004.

### LBP Microfinance Program for Microfinance Institution (MFI) Retailers

The LBP Microfinance Program for Microfinance Institution Retailers supports the government's call to address the credit requirements of the Barangay Micro Business Enterprises (BMEs) and the poor sector by opening a special wholesale financing window for various MFIs. (see table 2)

The program aims to support government efforts to alleviate poverty by empowering the marginalized sector through the provision of micro-credit.

LBP's microfinance loans are extended to retailers such as cooperatives, non-government organizations, and rural banks. In 2005, loans released under this program amounted to P126.9 million benefiting more than 20,000 members.

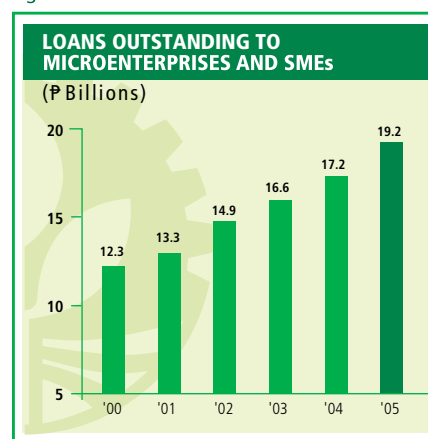
### Gawad Entrepreneur

Only on its second year, the Gawad Entrepreneur recognizes the exemplary performance and significant achievements of the Bank's SME clients particularly in harnessing economic activities in the community.

Table 2

FOREIGN-FUNDED CREDIT PROGRAMS FOR SMALL AND MEDIUM ENTERPRISES As of 31 December 2005				
Source and Program	Purpose of Loan	Amount of Loan	Amount of Drawdown	Status
World Bank-Countryside Loan Fund I	To finance agri-related production, food or agro-processing services, and manufacturing that generates employment and exports. Projects should be located outside Metro Manila.	US\$ 150 M	US\$ 150 M	Cumulative loan releases – P 13.3 B involving 1,066 PFI sub-borrowers;
World Bank-Countryside Loan Fund II	To provide medium and long-term loans to finance private investment in the countryside	US\$ 150 M	US\$ 150 M	Cumulative loan releases – P 8.6 B involving 1,208 PFI sub-borrowers
World Bank-Countryside Loan Fund III	To finance viable sub-projects: a. US\$130 M for wholesaling to PFIs b. US\$15 M for retailing to LBP's clients c. US\$5 M for on-lending to PCFC for relending thru MFIs	US\$ 150 M	US\$ 127.5 M	Cumulative loan releases – P 7.3 B involving 498 PFI sub-borrowers

Figure 2





LBP directors and management team receive the ISO14001:1996 certificate from AJA registrars



The search has two major categories: agri-based and non-agri based. Top winners in each category received P250,000 each. There were also three special awards: Entrepre-youth (to serve as model for young entrepreneurs), the SME Gabay at Patnubay (to recognize businesses with impact on and extended assistance to other entrepreneurs) and the SME Kayamanan ng Pamayanan (to honor enterprises which have helped their community overcome social and environmental problems).

The LBP Entrepreneur of the Year Award was also given to the SME which garnered the highest score among the finalists.

#### Loans for Agribusiness

The Bank's support to agricultural development and job generation in the agricultural sector extends to the provision of loans to private agricultural business enterprises.

Outstanding loans to this sector amounted to P17.5 billion and constituted 14% of the Bank's loan portfolio. (see figure 3)

#### Loans for Agri-Infrastructure Projects of Local Government Units (LGUs)

LBP finances agricultural infrastructure and other agri-related projects of LGUs aimed at enhancing the rural environment and increasing the efficiency of the agricultural sector.

Loans reached P12.4 billion in 2005, 8% higher than the P11.5 billion recorded in 2004. As of end-2005, LBP had provided loans to 567 LGUs covering 42 provinces, 53 cities & 472 municipalities nationwide. (see figure 4)

Agri-infrastructure and other agri-related projects being funded include the construction of farm-to-market roads, irrigation systems, bridges, public markets, transport and commodity terminals, waterworks and drainage systems, abattoirs and slaughterhouses. Overall, LANDBANK loans to LGUs (including non-agri related projects) reached P22 billion which is 11% higher than the P19.9 billion recorded in 2004. (see table 3)

#### Loans for Agri-related Projects of Government-Owned and Controlled Corporations (GOCCs)

As of end-2005, loans to finance potable water, food and agri-related projects of government-owned and controlled corporations such as the National Food Authority, Philippine Coconut Authority and Local Water Utilities Administration totaled P10.1 billion. This constituted 8% of the Bank's loan portfolio.

#### Loans for Environment-Related Projects

LBP also offers special financing windows to encourage enterprises to invest in cleaner production and environment-friendly business practices. As of end-2005, loans to finance environment-related projects amounted to P2.1 billion.

The Bank's foreign-funded programs and grants for environment-related projects include the US\$ 27.7 million ADB-Air Pollution Control Credit Facility, the US\$ 11.2 million WB-Ozone Depleting Substances Phase-Out Project, and the WB-National Chlorofluorocarbon (CFC) Phaseout Plan which is a US\$ 10.6 million grant financed by the Montreal Protocol Multilateral Fund through the World Bank.

#### ISO 14001:1996 Certification

On June 27, 2005 LBP was conferred with the International Organization for Standardization (ISO) 14001:1996 certification.

The certification was issued by the Anglo-Japanese-American (AJA) Registrars, Inc. after conducting a thorough review and evaluation of the Bank's implementation of its Environment Management Program.

LBP is the second of only two financial institutions in the country to be certified under the standard, a proof of the Bank's commitment to environmental protection and sustainable development.

LBP likewise received a 94% rating in the Enercon Audit conducted by the Office of the President, one of the highest ratings among government-owned and controlled corporations and government financial institutions.

This was in compliance with the government's energy conservation program, particularly Malacañang AO 126.

#### Livelihood Loans

LBP also provides government and private employees with salary loans for their livelihood projects. In 2005, outstanding loans amounted to P2.4 billion.



**TPC (kamlong).** The 'Kamlong' (short for 'kamatis' and 'talong') is one of the technologies to have been validated by LANDBANK-CLSU's Technology Promotion Center. This product is suited for off-season production and is being exported to Southeast Asian countries. Photo shows grafting of tomato scion seedling into an eggplant rootstock.

## B. SUPPORTING THE COMPREHENSIVE AGRARIAN REFORM PROGRAM

As an implementing agency of the Comprehensive Agrarian Reform Program (CARP), LBP is tasked with valuing CARP-covered lands, in compensating owners of acquired private agricultural lands, in assisting landowners or bondholders in their various concerns, in collecting land amortizations from farmer-beneficiaries and in providing financial and technical assistance to agrarian reform beneficiaries.

### CARP Land Transfer Operations

In terms of land valuation, LBP processed a total of 3,930 land transfer claimfolders received from the Department of Agrarian Reform.

Of these 3,930 processable claims, land transfer claims of 3,925 covering 34,694 hectares were approved for payment in 2005. The total value of approved land transfer claims amounted to P3.1 billion. (see figure 5)

### Landowners Compensation and Assistance

LBP, on behalf of the National Government, paid a total of P3.7 billion as compensation to owners of CARP-

covered private agricultural lands in 2005. The cash component stood at P1.2 billion, while redeemed bonds and interest payments amounted to P1.8 billion and P700 million, respectively.

LBP also assisted CARP-covered landowners and bondholders in the encashment of their CARP bonds for various financing needs. In 2005, LBP assisted more than 2,800 bondholders or landowners in selling P487 million in Agrarian Reform Bonds.

### Land Amortization Collections from CARP Farmer Beneficiaries

In 2005, LBP's land amortization collections from CARP farmer-beneficiaries totaled P240.2 million, 15% higher than the P208.7 million collections in 2004.

### Cash Advances for CARP

LBP received in 2005 P4.1 billion from the Department of Budget and Management and the Bureau of Treasury as reimbursement from the National Government of LBP's cash advances for CARP landowners' compensation. LBP advances for CARP reached P1.1 billion as of end-2005.

Table 3

FOREIGN-FUNDED CREDIT PROGRAMS FOR LOCAL GOVERNMENT UNITS As of 31 December 2005				
Source and Program	Purpose of Loan	Amount of Loan	Amount of Drawdown	Status
JBIC-LGU Support Credit Program	To augment sources of development funds for LGUs through the extension of credit assistance	US\$ 51.9 M	US\$ 51.9 M	Cumulative loan releases - P 1.9 B
WB-Water District Development Project	To support the government in its reform of the water and sanitation sector and address problems of inadequate sanitation and sewerage facilities of LGUs	US\$ 25.9 M	US\$ 14.2 M	Cumulative loan releases - P 685.2 M
JBIC-Metro Cebu Development Project III	To accelerate economic growth in Metro Cebu through the reclamation of 330 hectares for industrial and export processing use	US\$ 109.6 M	US\$ 109.2 M	Cumulative loan releases - P 5.8 B
ADB-LGUs Private Infra Project Devt. Facility	To finance the provision of consulting services to LGUs to help them attract solicited private sector participation in local infrastructure development	US\$ 2.8 M	US\$ 0.3 M	Cumulative loan releases - P 17.8 M
ADB-Mindanao Basic Urban Services Sector	To provide financing for urban infrastructure and services initiated by Mindanao LGUs	US\$ 31.3 M	US\$ 3.7 M	Cumulative loan releases - P 225.7 M

Figure 3

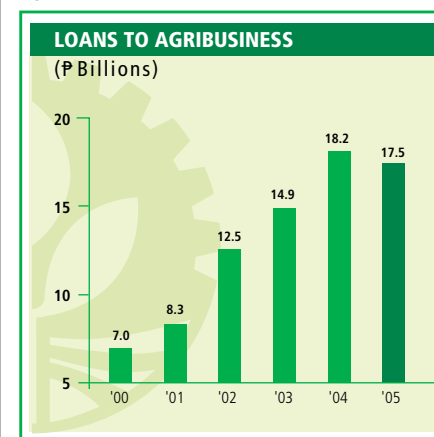


Figure 4

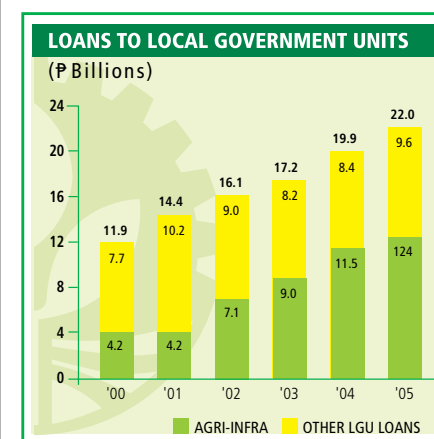
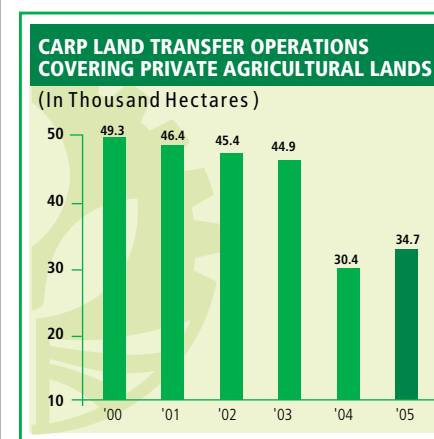


Figure 5





# CUSTOMER SERVICE

Against the backdrop of a more technologically-driven banking industry, customer satisfaction becomes paramount for any company in order to sustain its profitability and stability in the long-run. As the leading commercial bank especially mandated for countryside development financing, LANDBANK also takes this to heart and has since taken concrete steps in bringing its service delivery to a whole new level.

LANDBANK's solid commitment to provide quality customer service is becoming increasingly evident with the implementation of several information technology-based programs aimed at enhancing customer service while increasing efficiency. Through these initiatives, the Bank has been able to offer new products and value-added services at a faster pace in response to the growing sophistication and varying needs of our customers.

## A. ATM ROLL-OUT PROGRAM

To enforce a more customer-centric approach to the delivery of basic bank products and services, the Bank actively pursued the ATM rollout program in 2004 and 2005. Our ATM network reached 680 units in 2005 which is 20% higher than the 567 ATM units as of end-2004.

The Bank's ATM network is now the third widest in the industry, ranking behind 1st placer BPI and 2nd rank

Metrobank. This new milestone was achieved as the Bank took on a renewed focus in providing real-time delivery of banking services congruent with our ultimate goal of providing customer satisfaction.

During the year, a total of 113 ATM units were installed all over the country. Of the total, 27 units were installed in the National Capital Region, 17 in Northern and Central Luzon, 15 in Southern Luzon, 22 in the Visayas and 32 in Mindanao.

Given the Bank's more than 1.7 million ATM cardholders as of December 2005, total transactions done through LANDBANK ATMs increased by 38% to 29 million from 21 million transactions the previous year.

## B. ENHANCING DELIVERY CHANNELS AND DEVELOPING NEW ONES

In line with the Bank's thrust of providing banking convenience to clients,



LBP has enhanced the existing electronic banking services and developed alternative delivery channels.

### **eCard**

The LANDBANK eCard has the features of an institutional ID card and an ATM card combined into one. In 2005, the Bank issued a total of 2,626 e-cards to employees of institutional clients like the Land Transportation Office, Small Business Corporation, Overseas Workers Welfare Administration and the Office of the President.



### **Phonebanking**

PhoneAccess is the Bank's phonebanking facility for individual depositors with ATM or checking accounts.

It provides 24-hour, 7-day telephone banking service through telephone number 405-7000 in NCR, and toll-free number 1-800-10-405-7000, outside NCR. It was fully implemented nationwide in March 2005.

As of end-2005, Phone Access enrollment tripled to 277,543 depositors from only 91,265 enrollees as of end-2004. Majority of the enrollees were

provincial depositors. The phonebanking facility handled a total of 815,000 transactions in 2005 or an average of 2,200 transactions per day.

### **Electronic Tax Payment System**

The Electronic Tax Payment System (ETPS) is an internet payment solution of LBP for the online payment of taxes to the Bureau of Internal Revenue. In 2005, the ETPS handled 13,332 transactions amounting to P19.3 billion of payments from large taxpayers and 7,149 transactions amounting to P1.7 billion from non-large taxpayers.

### **BIR-Globe G-Cash Payment System**

LBP has been designated as the official and exclusive collection agent of the Bureau of Internal Revenue (BIR) for its business registration renewals via the mobile payment system using the Globe G-Cash facility.

Implemented in January 2005, the project is said to be the first of its kind in the world. G-Cash is Globe Telecom's new m-commerce (mobile commerce) service that transforms subscribers' cell phones into wallets. Selected tax payments can also be made by Globe subscribers through the short messaging system.

### **Efficient Service Machine**

The Efficient Service Machine (ESM) is a self-automated, computerized cash acceptance machine which is an alternative for over-the-counter payment transactions. Initially, five units were installed in Baclaran, East Avenue, Intramuros, San Juan and Cubao Branches.

In 2005, these ESMs accepted 26,892 transactions involving P 288.3 million in BIR tax payments and Visa credit card payments. In 2006, LBP will acquire 25 additional ESM units to be installed in selected branches nationwide.

The Bank is also developing alternative delivery channels to provide fast and efficient delivery of services to its clients

and stakeholders. The Bank's projects in the pipeline for implementation in 2006 include, among others, the retail internet banking, institutional internet banking, and the e-payment system for the government.

### **ePayment System for the Government**

The LANDBANK ePayment System is a real time and secured payment system done over the internet by transferring funds from an LBP account to the government institution's account.

Under the ePayment System, LBP interfaces with the system of the government entity in order to provide another payment outlet for the government and another delivery channel of banking service to LBP.

### **C. OFW REMITTANCE PROGRAM AND INITIATIVES**

To support the Bank's thrust in expanding the Overseas Filipino Workers' (OFWs) remittances, the Global Banking Department embarked on two major undertakings:

Last December 2005, LBP launched its new automated inward remittance system "Easy Padala" aimed at significantly reducing processing time. The System allows LBP's overseas offices and agents abroad to initiate and effectively handle remittances coursed through the Bank.

The system processes incoming SWIFT messages, intelligently routes them to beneficiaries based on details provided by the remitter, reconciles the transactions and interfaces with LBP's third party payout processing applications. LBP tapped the services of CashTech Solutions and TIM Corporation to develop and customize said system for the Bank.

The LBP Livelihood Assistance Center for OFWs was inaugurated in September 2005. The center was envisioned as a one-stop-shop for products and services for OFWs and their families. Located at the LANDBANK Building along Sen. Gil Puyat Avenue in Makati City, the center initially offered Pre-Departure



**G-Cash Certification.**

LANDBANK became the BIR's official and exclusive collection agent for the world's first-ever business registration via the mobile payment service with Globe telecom.

Orientation Seminars (PDOs) to OFWs in association with the LANDBANK Countryside Development Foundation, Inc. (LCDFI) and the Association of Service Contractors of the Philippines (ASCOP). In 2005, 37 PDOs were conducted for departing OFWs.

**D. CASH MANAGEMENT SERVICES FOR GOVERNMENT**

Being the premier government depository bank, LBP provides a wide array of banking services to the Philippine government and its various instrumentalities.

**Modified Disbursement Scheme**

LBP undertakes the disbursement system of the national government centralized at the Bureau of Treasury through the Modified Disbursement Scheme (MDS). In 2005, LBP branches nationwide processed a total of 3.8 million checks for payment of P468.1 billion worth of government disbursements.

**Government Collection Tie-Ups**

In 2005, LBP processed 5.2 million transactions amounting to P60 billion of collections for various government agencies.

LBP's existing collection tie-ups include, among others, SSS and HDMF for their members' contribution and loan amortizations, NHMFC for housing loan amortizations, PhilHealth for

members' contribution, BIR for various tax collections, Bureau of Customs for various tariffs and duties and the PNP for various fees and licenses.

**Continuous Form Checks**

LBP handles the encashment of Continuous Form Checks (CFCs) issued by selected government agencies and instrumentalities for payment of personnel salaries and other benefits. In 2005, LBP processed 7.6 million CFCs involving P33.4 billion.

**E. REVENUE GENERATION FOR GOVERNMENT**

LBP renders a very significant contribution to the Philippine government in the collection of taxes and borrowings.

**Tax Collection**

The Bank processed 3.14 million over-the-counter transactions equivalent to P34.3 billion of tax collections from non-large taxpayers.

Collections through the Electronic Tax Payment System, the Efficient Service Machines and the Globe G-Cash facility accounted for a total of 3.2 million transactions involving P55.6 billion tax collections for the Bureau of Internal Revenue in 2005.

For the Bureau of Customs, LBP collected a total of P17.5 billion in tariffs and duties and processed 146,111 transactions in 2005.

**Retail Treasury Bonds**

LBP also helps the government raise funds from the public. In September 2005, LBP was one of the banks mandated by the Department of Finance to manage the issuance and distribution of the highly successful 7th tranche of five year-retail treasury bonds (RTBs).

LBP sold P5.24 billion worth of bonds to 1,048 investors, of which, P2.55 billion or 48% were sold to retail investors, exceeding the Bureau of Treasury's retail sales requirement of 45%.

RTBs are considered as the best and safest investment tool for small or retail investors.



**First co-op B2B center.**

The Gata Daku MPC of Misamis Occidental became the first co-op to establish its own Business-to-Business (B2B) Center serving its IT-savvy members and community. The B2B center's features include among others a fully air-conditioned center, computers w/ internet connection, printer and fax machine.



## INSTITUTIONAL VIABILITY

**T**he year 2005 saw how LANDBANK continued to show its resiliency and fundamental strength by setting a new record in terms of overall profitability while maintaining its spot among the top five commercial banks in the country.

Amid a highly competitive and more technologically-driven Philippine banking industry, LANDBANK thrived and kept itself at par with other banks in terms of major performance indicators. Even without the aid of mergers and acquisitions, the Bank managed to grow its resources and instead relied on building up its strength internally.

### A. FINANCIAL HIGHLIGHTS

LBP was the third largest commercial bank in terms of deposits (P242.8 billion) and the fourth largest in terms of resources (P322.9 billion) as of end-2005.

Industry ranking was at fourth place in terms of net loan portfolio (P143.2 billion) and capital (P26.7 billion). LBP's growth and stability in the past few years has been

driven by long-term strategic positioning and regular operations, rather than mergers with or acquisition of other banks.

#### Net Income

Net income in 2005 was registered at P3.02 billion, the highest ever in LBP's 42 years of operation. This was 12% higher than the restated 2004 net income of P2.70 billion. LBP is now on its eight year of continued increase in profitability—a solid proof of its strength and resilience especially in the challenging environment of 2005. (see figure 6)

#### Revenues and Expenses

Gross revenues in 2005 grew by 27% to P29.1 billion from the restated P22.9 billion recorded the previous year. The

growth was primarily derived from higher interest income from loans as well as gains from foreign exchange revaluation.

Interest income on loans increased by 13% to P11.5 billion from P10.2 billion in 2004 as the net loan portfolio grew by 3.0% to P143.2 billion from P139.0 billion in 2004.

The sale of P13.1 billion non-performing assets (NPAs) took advantage of the benefits of the Special Purpose Vehicle (SPV) law and was finalized in March 2005. This freed up funds for additional lending and investments.

The interest income on investments is relatively flat at P7.5 billion despite the 4% growth to P81.1 billion of the average volume of investments for the year. This is mainly due to the decline in the average yield from 8.3% in 2004 to 7.8% in 2005.

Total expenses increased by 30% to P25.9 billion. This was mainly caused by the 20% rise in interest expense on deposits from P5.3 billion in 2004 to P6.3 billion and foreign exchange losses from revaluation.



## INSTITUTIONAL VIABILITY

The cost of borrowings decreased by 24% to P 1.3 billion from P1.7 billion in 2004 as the Bank's borrowings contracted by 20% to P37.9 billion from the restated P47.4 billion in 2004. This was due to the Bank's payment of maturing obligations and its thrust to rationalize borrowings and source low-cost and long-term funds from multilateral and bilateral institutions.

However, overall financial expenses rose by almost 9% to P7.8 billion in 2005 from the restated P7.0 billion in 2004 primarily due to the P28.0 billion rise in deposit liabilities.

Manpower cost, a major component of the general and administrative expenses, expanded by 4% to P5.1 billion. This manageable rise was achieved despite the availment of the Separation Incentive Program (SIP) in 2005 by 295 LBP personnel.

In continued support to the government's call for austerity as provided for under Administrative Order 103, LBP effectively managed its controllable expenditures.

The overall impact was manifested in terms of savings of about P 320 million for the year 2005. The largest savings came from the reduction in management and professional fees and in traveling expenses.

LBP was able to yield a Return on Average Equity of 12.1% and a Return on Average Assets of 1.0% against 12.7% and 0.9%, respectively in 2004.

## B. FINANCIAL RESOURCE MOBILIZATION

### Total Assets

LBP's total assets expanded to P322.9 billion in 2005, 5% higher than the previous year's restated level of P306.4 billion. The increase was primarily driven by higher deposit base (up by 13% to P242.8 billion). For more than 10 years, LBP has remained among the top five largest banks in the Philippines in terms of assets.



### Sources of Funds

Deposits, the Bank's principal source of funds, comprised 78% of total resources of the Bank. The Bank generated an additional P28 billion in deposits over 2004's deposit level of P214.9 billion. The P242.8 billion deposit base represents 9.3% of the total deposits of the universal and commercial banking industry.

Government deposits accounted for 67% share given the role of LBP as the premier government depository bank. Deposits from the private sector stood at P79.5 billion. Low cost deposits of P122.4 billion comprised 50% of the total deposits portfolio in 2005. (see figure 7)

Bills Payable decreased by 20% to P37.9 billion at end December 2005. About P35.2 billion or 93% were sourced from multilateral and bilateral institutions namely, the World Bank, the Asian Development Bank (ADB), the Japan Bank for International Cooperation (JBIC), International Fund for Agricultural Development (IFAD) and Kreditanstalt für Wiederaufbau (KfW) of Germany.

Capital funds were higher by 15% to P26.7 billion as of December 2005 from the restated P23.1 billion registered in December 2004. The increase was largely due to the unprecedented hike in net income and the very positive 'Net Unrealized Gains on Securities.'

### Application of Funds

Net loan portfolio increased by 3% to P143.2 billion in December 2005 from the restated P139.0 billion in December 2004. Loans to the priority sectors grew to P80.8 billion representing 66% of the

Bank's gross loan portfolio.

Net investments reached a hefty P108.2 billion or a 9% increase from the restated P99.5 billion in 2004. Investments in Bonds and Other Debt Instruments (IBODI), a major component of the investment portfolio, decreased by 44% to P44.9 billion by end-December 2005. (see figure 8)

The P35.8 billion decrease in IBODI, now called Held to Maturity (HTM) under the International / Philippine Financial Reporting Standards (I/PFRS) was primarily due to the reclassification of some HTM accounts into Available for Sale Securities (AFS). The reclassification was done to avoid possible violation of the "Tainting Rule" and to position its valuation favorably under I/PFRS.



**Golden Acre Farms Inc. (GAFI)** was cited during the Countryside Loan Fund Recognition program for its contribution in protecting the environment and promoting LANDBANK's countryside development thrust. The GAFI farm in Benguet adopts the hydroponics grow method which utilizes natural rainwater for irrigation and practices zero waste farming processes.



Said reclassification likewise resulted in AFS increasing by 309% to P62.4 billion from P15.2 billion in 2004.

### Trust Banking Services

The Trust Banking Group (TBG) continued its remarkable performance exceeding its targets in major key result areas. TBG's performance was showcased by a 35% growth in trust assets to P24.8 billion which exceeded the target of P20 billion by 24%. Gross income likewise posted a 13% growth to P81.6 million.

The P24.8 billion trust asset level of TBG enabled LBP to maintain its 9th place ranking in the industry. The growth in trust assets reflects the business opportunities in this highly competitive but fast growing market. The trust operations positively complement LBP's

banking services. It also offers alternative investment opportunities to LBP clients.

### C. IMPROVING ASSET QUALITY

#### Enhancing Loan Portfolio Quality

LBP's overall loan portfolio quality improved significantly in 2005 as the non-performing loans (NPL) ratio decreased by almost 50% to 6.6% from the 12.8% level in December 2004. In absolute terms, non-performing loans declined by P11.2 billion or 50% to P11.4 billion in December 2005. The NPL ratio of 6.6% is much better than the industry NPL ratio of 8.7% as of end December 2005.

The decline in NPLs was the result of the sale of P13.1 billion worth of NPLs completed in November 2004 but booked only in March 2005.

Table 4

CAPITAL ADEQUACY RATIO (CAR) CALCULATIONS (In Million Pesos)		
	2005	2004
<b>Tier 1 Capital</b>		
Paid-up common stock	11,471.0	10,871.0
Surplus	6,408.0	5,461.3
Surplus reserves	4,048.3	4,203.1
Undivided profits	3,019.8	2,705.0
<b>Total</b>	<b>24,947.1</b>	<b>23,240.4</b>
<b>Deductions from Tier 1</b>		
Net unrealized losses on underwritten listed securities	50.0	50.0
Unsecured DOSRI	10.6	272.5
Deferred income tax	(2,277.7)	(2,206.2)
<b>Total</b>	<b>60.6</b>	<b>322.5</b>
<b>Net Tier 1 Capital</b>	<b>24,886.6</b>	<b>22,917.8</b>
Upper Tier 2	(1,193.7)	(1,443.7)
Lower Tier 2	-	-
<b>Gross Qualifying Capital</b>	<b>24,886.6</b>	<b>22,917.8</b>
<b>Deductions from Gross Qualifying Capital</b>	<b>490.7</b>	<b>490.7</b>
<b>Total Qualifying Capital</b>	<b>24,395.9</b>	<b>22,427.2</b>
Credit Risk-Weighted Assets	147,220.2	151,701.8
Market Risk-Weighted Assets	22,381.7	6,206.0
<b>Total Risk-Weighted Assets</b>	<b>169,601.9</b>	<b>157,907.8</b>
<b>Risk-Based Capital Adequacy Ratio (CAR)</b>	<b>14.38%</b>	<b>14.20%</b>

Figure 6

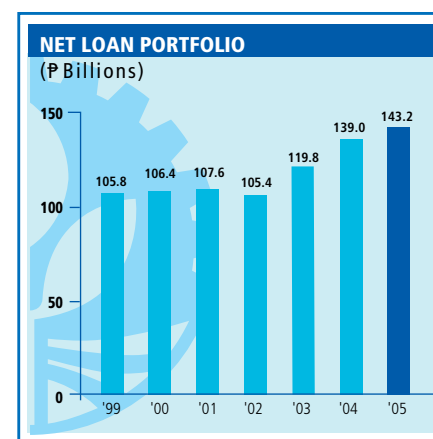


Figure 7

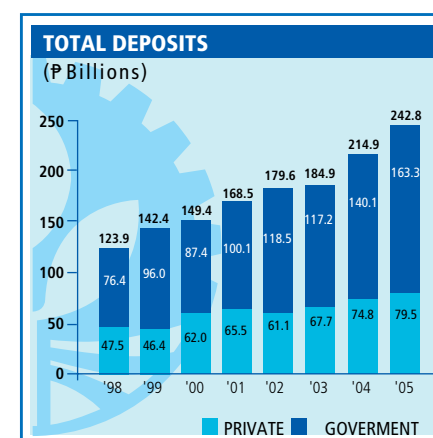
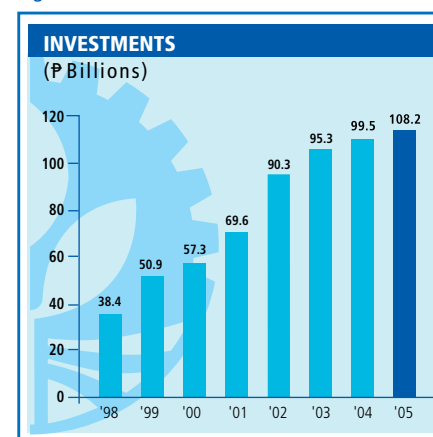


Figure 8





¥6.592 billion loan signing between LBP and Manila Water Company, Inc. last October 2005 for the Manila Third Sewerage Project

With the reduction in NPLs while maintaining the level of loan loss reserves, LBP's valuation reserves to non-performing loans reached 140.3% in December 2005. This coverage ratio is almost double the commercial banking industry average of 72.7%.

Likewise, non-performing assets (NPAs) contracted by 30% to P27.4 billion as of year-end 2005 as gross ROPOA also declined by P1.1 billion to P15.9 billion. The decline in NPAs significantly improved the NPA ratio to 8.3% from the restated 12.7% in December 2004.

**D. STRENGTHENING CAPITAL STRUCTURE AND CAPITAL ADEQUACY**

The Philippines, through the BSP, adopted the capital adequacy requirements based on the Basel Capital Accord of July 2001, and shall implement the Basel 2 framework beginning July 1, 2007.

As of 31 December 2005, LBP's risk-based capital adequacy ratio (CAR) stood at 14.38%. This is much higher than the Bangko Sentral ng Pilipinas' and Basel 2 minimum CAR requirement of 10%.

Table 4 shows a comparative breakdown of LBP's capital base by category as of 31 December 2005 and 2004.

The risk-based CAR slightly increased in 2005. The almost P2.0 billion increase in total qualifying capital was negated by the more significant appreciation

of market risk-weighted assets. The significant increase in market risk was primarily caused by the following:

- The almost P7 billion increase to P17.1 billion from P10.3 billion in Trading Account Securities (TAS) – Loans, which became a very good investment vehicle in 2005; and
- The almost P37 billion increase to P51.0 billion from only P14.1 billion in Available for Sale Securities (AFS) – government.

LBP's restated CAR of 14.20% for 2004 and 14.38% for 2005 were lower than the industry average of 17.6% and 16.6% (September 2005), respectively for the following reasons:

- LBP is required by law to remit cash dividends to the National Government annually and these amounted to 26% of its net income for the five-year period 2001-2005;
- LBP absorbs an average of P800 million annually in operating expenses for the Comprehensive Agrarian Reform Program; and
- LBP's options in raising capital as defined by its charter are very limited.

Meanwhile, LBP continues to strengthen its capital base by increasing profitability through fee-based incomes, prudent spending and capital investments in addition to the usual drive for higher loans and investment incomes.

**E. REINFORCING RISK MITIGATION MEASURES AND IMPROVING RISK EXPOSURES AND ASSESSMENTS**

Cognizant of the constantly changing realities of risk management as driven by an emerging new and stronger regulatory framework, the Bank continuously reinforced its risk management processes and standards. These are also necessary in order to meet Basel II accord's risk capital requirements and other banking standards as well as in aligning with the International Financial Reporting Standards (IFRS).

LBP considers risk management as an integral part of its day-to-day operations. To this end, LBP pursued several initiatives that will further enhance its risk management infrastructure and systems into becoming better-equipped in recognizing, measuring and reporting various risks.

This is not only aimed at being consistent with international standards and best practices, but also at being strategically aligned with its three main business goals particularly in the area of countryside development financing which is generally regarded as having a higher risk profile.



**EMS Manual.** As part of the requirements of ISO 14001:1996 certification, LANDBANK produced its own Environment Management System (EMS) Manual that comes in four volumes: the EMS Manual proper, Work Instructions and Guidelines, Procedures, and Records, Forms and Flowcharts.

We continued in 2005 the program of developing an effective risk management culture among LBP personnel to entrench deeper understanding and clear communication of risks concepts and principles, and to promote risks management-related activities as critical components in the development of the Bank's risk culture.

### Risk Management Structure and Process

LBP is fully committed to support the management of risks at all levels and in whatever forms they arise. Understanding and managing risks and its potential pitfalls are the responsibility of the LBP Board of Directors and senior management. LBP's risk management structure is a top-down process with the Board of Directors as the highest oversight body for managing the risk-related functions and activities of the Bank.

The Board reinforces its risk management functions through various committees such as the Risk Management Committee, Audit Committee, Corporate Governance Committee and the Investment and Loan Executive Committee.

In particular, the Board-level Risk Management Committee serves as the oversight committee responsible for managing LBP's credit, market, liquidity and operational risks. Under its functional supervision is the Risk Management Group (RMG), an independent unit of the Bank's risk management structure responsible for handling all major risks areas. Three departments under the RMG performance specific risks functions covering credit risks, market & liquidity risks, and operations risks (system, legal, technology and other risks).

### Credit Risk Management

The implementation of Basel II by the Bangko Sentral ng Pilipinas provided more impetus for the Bank to set the early foundations for a Basel II-compliant credit risk management system.

LBP regards this new regulatory framework as an incentive to improve its understanding and management of risks and ultimately to help bolster its overall financial stability. As such, LBP has continuously initiated a series of measures aimed at institutionalizing its credit risks processes and enhancing monitoring and information systems.

As in the past years, LBP sets credit limits for individual and group borrowers and industry segments, monitors their credit exposures and conduct credit quality reviews or assessments. Among the regular areas being monitored are the Single Borrower's Limit (SBL), large exposures, exposures with adverse findings or negative reports, and LGU infrastructure projects. The Bank's SBL is currently pegged at P5.6 billion for direct lending and P7.8 billion for wholesale lending.

For large exposures, LBP adopted the definition per BSP Circular No. 414, series of



The construction of the Mandaluyong City Hall was one of the major LGU projects financed by LBP.

2004 which states that large exposures refer to exposures to a counterparty or a group of related counterparties equal or greater than 5% of the Bank's qualifying capital. As of December 31, 2005, the Bank's qualifying capital covering credit risk was at P20.48 billion and LBP has set the benchmark for large exposures at P1.02 billion.

LBP also provides information on the concentration of credit as to industry. Following BSP regulation, credit concentration exists when total exposure to a particular industry exceeds 30% of the total loan portfolio. LBP has set an internal standard pegging the industry limit at 20% of the total loan portfolio.

Table 5

Exposure by Industry	Amount (In PesoMillions)	% vs. Total Portfolio
Financial Intermediation	29,296	21.4%
Agriculture, Hunting & Forestry	28,286	20.7%
Real Estate, Renting & Business Activities	20,010	14.6%
Public Administration and Defense	11,183	8.2%
Manufacturing	10,446	7.6%
Community, Social and Personal Service Activities	9,653	7.0%
Electricity, Gas and Water	9,146	6.7%
Wholesale and Retail Trade, Repair of Motor Vehicles, Motorcycles & Personal and Household Goods	7,051	5.2%
Transport, Storage & Communication	4,703	3.4%
Construction	2,343	1.7%
Others	4,818	3.5%
TOTAL	136,935	100%





Table 5 shows that LBP's loan portfolio as of December 2005 is well distributed among various industries and economic sectors.

#### *Internal Credit Rating System*

To assist in determining credit-worthiness of loan clients, LBP developed various credit rating systems for each of the following market segments: corporations, small and medium enterprises, financial institutions, cooperatives and local government units. During the year, calibrations of existing credit rating systems were made to make them Basel II compliant.

The Credit Policy and Risk Management Department spearheaded the conduct of 11 road shows nationwide to ensure that account officers, loan approving groups and credit review officers were provided with the proper and uniform interpretation of the Internal Credit Rating System's implementing guidelines.

To further enhance monitoring systems and ensure real-time assessment, process improvements were initiated in preparation for the acquisition of the following systems: Credit Risk Engine System, which aims to automate and standardize the credit rating systems; and Document Analyzer, a system that would facilitate the analysis of data and information.

#### *Computerized Customer Information and Central Liability System*

In support of future initiatives aligned with Basel II compliance specifically through the provision of timely and quality credit support services, the Bank's computerized Customer Information and Central Liability System (CI/CLS) was continuously enhanced in terms of its capability to provide more accurate demographic information and loan data of LBP clients.

#### **Liquidity Risk Management**

Liquidity risk is the risk that LBP will be unable to meet its liabilities when they fall due. Liquidity management is thus one of the fundamental preconditions to achieving all other banking activities—strategically mapped by the Asset and Liability Committee (ALCO), actively managed by the Asset and Liabilities Management Department and overseen by the Treasury Risk Management Department.

The Liquidity Gap Reports are prepared on a monthly basis and provide senior management with a more timely appreciation of the Bank's liquidity position. The preparation of monthly Earnings at Risk Reports also enables the Board and senior management to assess possible scenarios based on the movements of interest rates.

#### **Interest Rate Risk Management**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. Clearly defined set of limits are essential and strong control procedures are built into treasury dealing activities.

Maximum exposure on trading positions is subject to limits, upon recommendation of the Business Units and approved by ALCO.



**Give Love on Crisis Day.** Give Love on Crisis Day was a fund raising musicale event organized by the LBP Chorale for victims of typhoons that hit the country in 2005. The event was a success as it was strongly supported by LANDBANKERS through the active participation of rank and file as well as officers led by Finance Sec. and LBP Chairman Gary Teves and Former Adviser on Jobs Generation Cito Lorenzo.

Trading positions are marked-to-market and monitored daily. Value-at-Risk (VaR) is computed for marked-to-market portfolios to measure likely impact on earnings due to interest rate movements.

VaR calculations are LBP's measures of risks in its trading position. Daily VaR calculations are compared against VaR limits, the monetary amount of risk deemed tolerable by management. VaR limits also consider budgeted profits for the year in order to relate risks to expected returns and overall earnings of the Business Units.

LBP also employs loss alerts as a risk management tool. Loss Alert is an amount of cumulative marked-to-market losses within a specified time period that defines management tolerance for market-related losses.

**Managing Business Operations Risks and Business Continuity**

In the area of IT risk management, IT Disaster Recovery drills are continuously undertaken in order to test and validate the level of confidence set by the Bank under its IT Disaster Recovery Plan.

**FOR MORE THAN 10 YEARS, LBP HAS REMAINED AMONG THE TOP FIVE BANKS IN THE PHILIPPINES IN TERMS OF ASSETS.**

During the year, 100 selected branches were successfully tested and showed 100% connectivity to the back-up site.

Under the Bank's Business Continuity Plan, preparatory activities were also undertaken involving the planned transfer of the IT disaster recovery/back-up office to a new site in 2006.

The IT Committee, the highest body governing IT related activities, instituted a rigorous screening process for business cases to preclude the risks of failure of IT projects. A part of this process is the institutionalization of the Project Management Standards, including the assignment of high level Project Sponsors and mid-level Project Managers in the implementation of IT projects.

A new Branch Operations Training Manual was developed to enhance the knowledge of authorized risk-takers (ART) on internal control and to avoid risk incidents.

**Institutionalizing a Risk Management Culture**

To ensure effective risk management, the Business Risk Management Department spearheaded the conduct of risk awareness to develop the risk management culture of risk management units, business and operations groups, as well as of the Board and senior management.

By end-2005, 806 authorized risk-takers were able to participate in the in-house cascading sessions which highlighted the impact of major risks in the banking industry. Session exercises included the preparation of "self-risk assessments" which resulted to the

identification of the risk profile of various units of LBP.

**F. INSTILLING CORPORATE GOVERNANCE**

In July 2005, the revised Risk Management Committee Charter was approved by the LBP Board of Directors. It defines the role, authority, duties and responsibilities of the committee. The Risk Management Committee was created pursuant to BSP Circular No. 456 which also defines its core responsibilities—(1) identification and evaluation of exposures, (2) implementation, review and revision of the risk management plan, and (3) development of risk management strategies.

In the same year, the new Audit Committee Charter was, likewise, approved by the Board. It contains the Audit Committee's primary responsibilities in assisting the Board carry out its tasks in operational and financial reporting, internal control and regulatory compliance, corporate governance, and regulatory examination.

In 2005, the Internal Audit Group exceeded its target of 474 auditable units by 5% as it actively pursued its audit program.

Further, in support of the Internal Audit Group's primary responsibility of ensuring prudence in the conduct of the Bank's business operations and compliance to policies and procedures, a new management audit system was acquired—PriceWaterhouse Coopers' TeamMate.

In 2005, the Corporate Governance Committee Charter was approved by the Board to further reinforce the Bank's strong adherence to raising the standards of accountability and transparency. As a proof of this commitment, LBP ranked fourth in the Corporate Governance Scorecard for government-owned & controlled corporations which rated 31 state-owned firms and financial institutions. The study was undertaken by the Institute of Corporate Directors.



*Bio-gas project of Cebu CFI. One of the notable projects of consistent Gawad PITAK winner and Hall of Famer Cebu CFI is its Bio-Gas which processes and converts gas from animal manure to provide an alternative, cheaper and odorless source of fuel energy ideal for home use.*





*Signing of the Second Collective Negotiation Agreement between management and the employees' association*

**G. ENHANCING HUMAN CAPITAL**

In 2005, the Bank focused on programs and initiatives to equip the Bank's human resources with sufficient competencies and the required skills to help them become more effective contributors to the Bank's mission of developing a more prosperous countryside.

The Bank, led by the Human Resource Management Group (HRMG), successfully concluded the Second Collective Negotiation Agreement (CNA) within four months. Covering the years 2006 to 2008, the CNA aims to enhance working conditions of employees as well as to preserve industrial peace within the organization.

HRMG also implemented various incentives and benefits as a means of motivating personnel towards higher productivity and having a more innovative approach to work. The year saw the career advancement of 611 Bank officers and employees to positions of higher rank, the adjustment of the rates of the Representation and Transportation Allowance, the continued implementation of the Search for Bright Ideas Awards and the grant of merit and productivity incentives.

To ensure that the Bank maintains highly qualified and competent personnel, HRMG implemented the Revised Qualification Standards for officer-level positions. HRMG also conducted 347 in-house training/development programs and implemented 223 external local and foreign training programs. Equally important was the preparation of the roadmap and program mechanics for the Succession Planning Program.

Programs supporting work life balance were also undertaken through the formal launching of the LBP Gym, Day Care Center and the LBP Recreation Center. The campaign for health in the workplace was intensified through the issuance of medical bulletins and the conduct of various briefings on health-related issues.

In support of the Bank's thrust of reinforcing its workforce handling core banking functions, HRMG facilitated the hiring of 572 new personnel while maintaining the headcount within the year-end target of 7,270.



**Scholarship for Rona Mahilum.**  
*Rona Mahilum's admirable act of bravery and heroism when fire burned down her family's house earned her national acclaim. She was the recipient of a P500,000 scholarship from LANDBANK and the LBP Countryside Development Foundation Inc. awarded last April 2005.*



# Subsidiaries and Attached Agencies





#### LBP Countryside Development Foundation, Inc. (LCDFI)

The LBP Countryside Development Foundation, Inc. extends support by providing cooperatives and countryside financial institutions with training, capability-building services and access to information. In 2005, LCDFI conducted 22 trainings to 148 participating coops through its Cooperative Business Integration and Development (COOP-BIND) sub-program intended for preparing key cooperatives in becoming business partners of LBP in countryside development.

The Foundation also conducted several seminars on bank procedures and services to 181 CFIs through its Modular Course System for the bank management and staff. Some 3,000 manuals were also distributed through LCDFI's various development partners.

LCDFI's OFW Reintegration Program addresses concerns of returning Overseas Filipino Workers such as adjustments due to long absence and the need for alternative sources of income.

In 2005, LCDFI established a training center that provides a holistic array of services consisting of insurance services, scholarship programs, business skills and aptitude upgrading, assistance in setting up businesses and assistance on financial services such as deposits, loans and investments.

Under its scholarship program, LCDFI continues to assist 40 scholars from families of agrarian reform beneficiaries under the GAWAD Pag-aaral Tungkol sa Maunlad na Bayan (GAWAD-PATNUBAY) Scholarship Program and 20 scholars under the Scholarship Incentive Program for Agricultural Growth (SIPAG).

#### LBP Insurance Brokerage, Inc. (LIBI)



LBP Insurance Brokerage, Inc. (LIBI) performs general insurance, brokerage management, consultancy services in all insurance-related activities and foreign exchange trading for

LBP clients.

In 2005, LIBI operations were geared towards intensifying marketing of various life insurance products, improving collection, and ensuring customer service through faster issuance of policies and claims payment. LIBI also strengthened its presence through more aggressive information dissemination and marketing of its products and services.

LIBI posted a net income of P73.48 million, which is 10% more than the 2004 income of P66.6 million. Insurance operations contributed 55% to the net income whereas the foreign exchange business accounted for 45%. LIBI also significantly increased its investment portfolio to P450.2 million, an 18% increase from P382.3 million in 2004.

In 2005, LIBI realized the full implementation of its upgraded computer system and embarked on digital records-keeping for

faster processing of transactions.

As an initiative to support the Bank's mandate, LIBI provided the LBP Countryside Development Foundation, Inc., a P2 million financial grant for the Cooperative Business Integration and Development Program.

#### LBP Leasing Corporation (LLC)



LBP Leasing Corporation was created to complement LBP's services through its various developmental leasing services such as direct lease, sale and lease back, vendor lease agreements and operating lease.

These arrangements make it easier for clients particularly the small and medium enterprises to expand, upgrade or modernize their operations. Further, these also enable farmer beneficiaries to acquire farm equipment and post harvest facilities through leasing services.

In 2005, LLC extended leasing services amounting to P407.8 million or 49% share to total bookings.

LLC sustained its growth in profitability with a 14% increase in net income to P58.9 million over the previous year's income of P51.7 million. This translates to a return on equity (ROE) of 9.8% and a return on assets (ROA) of 4.7%.

Total non-performing loans decreased by 12% to P53.5 million in 2005 from P60.2 million in 2004. ROPOA, on the other hand, was reduced to P37.5 million from P44.6 million in 2004 due to the sale of three ROPOA properties.

In addition, LLC implemented a full-service operating lease facility for all the vehicle requirements of LBP during the second half of 2005.

#### LB Realty and Development Corporation



LB Realty and Development Corporation (LBRDC) is primarily devoted to service LBP's infrastructure and other facility requirements particularly on branch construction, relocation and renovation, automated teller machine installation, overall property management of the LBP Plaza, brokering services and real estate management and development of the Bank's ROPOAs.

In 2005, LBRDC completed 41 branch construction/renovation projects and 130 ATM fit-outs. It also posted a record P 2.78 million in commission income from facilitating the sale of 169 ROPOA accounts valued at P 568 million.

LBRDC's revenues from its core business increased by 47% to P118.97 million from P80.20 million in 2004. LBRDC realized a net income of P29.93 million, higher by 7% than the 2004 income of P28.08 million. Total resources expanded to P343.37 million from P297.53 in 2004.



#### Masaganang Sakahan, Inc.

Since access to agricultural credit by itself is not enough to address small farmers and fisherfolk needs, Masaganang Sakahan, Inc. (MSI) provides the much-needed marketing assistance to LBP-assisted cooperatives through its various marketing and trading services. MSI also helps in expanding marketing outlets to cooperatives through networking with urban-based consumer cooperatives, corporate clients and other market outlets.

MSI buys rice and sells this to urban clients. In 2005, MSI purchased from cooperatives and SMEs a total of 101,863 bags of milled rice valued at P105.53 million. This translates to a 20% increase from the procured value of P87.8 million in 2004. MSI's Sta. Rosa Grains Center operation alone benefited 13 cooperatives and 31 individual farmers. Overall, farmer beneficiaries assisted by MSI increased from 1,341 to 1,605.

In 2005, MSI revenues reached P 116.61 million from the sale of 103,263 bags of milled rice. Compared with 2004, business volume and revenues declined by 11% and 5%, respectively.

#### LBP Remittance Company (USA)

The LBP Remittance Company based in Panorama City, California continued to aggressively market remittance services to Filipinos and Fil-Americans working in California.

The Company showcased faster remittances services and how remittances sent to the Philippines through LBP benefit the Philippine economy.

While the Company has a license to operate 5 remittance offices in California, only one is operating at present. With plans to open more remittance offices, the LBP Remittance Company will expand its share of the OFW remittance market in California.

#### LBP Financial Services S.p.A. (Italy)

The LBP Financial Services S.p.A extends remittance services to Filipinos in Rome and Milan, Italy. The Company also continues to promote the opening of beneficiaries' accounts with LBP in order to facilitate faster delivery of remittances.

As a marketing vehicle for its remittance services, the LBP Financial Services S.p.A participates in various cultural activities and strengthening relations with the Filipino communities in Rome and Milan in Italy and Dusseldorf, Germany. To expand its market and clientele and further increase remittance volume, the Company is looking into the possibility of opening an office in another European country within 2006.



#### National Livelihood Support Fund

The National Livelihood Support Fund (NLSF) complements LBP's mandate through its responsive enterprise development programs for agrarian reform beneficiaries and their dependents, rural communities, SMEs and microenterprises. NLSF provides livelihood credit, microfinance, capability-building, and other community development services.

NLSF's total number of beneficiaries steadily increased from 41,205 in 2004 to 51,883 in 2005. Consequently, cumulative total loan releases rose 43% to P671.03 million from P468.31 million.

Under its Livelihood Credit Assistance Program, NLSF released P645 million in loans through 111 conduits and benefited 39,908 ARBs and their dependents, and 11,370 individuals from marginalized sectors.

Credit support of P25.28 million was released to finance various income-generating projects of 166 OFW entrepreneurs and their dependents under the NLSF's Livelihood Development Program for Overseas Filipino Workers, a tie-up with the Overseas Workers Welfare Administration.

In 2005, NLSF undertook activities aimed at enhancing the institutional capabilities of its partner conduits such as workshops on rural and business development services and microfinance trainings nationwide.



#### People's Credit and Finance Corporation (PCFC)

The People's Credit and Finance Corporation (PCFC), a microfinance company tasked to provide affordable lending facilities to the marginalized sectors of Philippine society, on its 10th year of operations, has maintained active partnerships with 200 microfinance institutions (MFIs) composed of rural banks, cooperative banks and non-government organizations.

Total credit facilities made available to these MFIs as of year-end 2005 amounted to P 6.51 billion while cumulative loan releases totalled P 8.10 billion. Meanwhile, total releases for 2005 reached P 1.27 billion. The total outstanding portfolio as of 31 December 2005 stood at P 3.17 billion with actual cumulative outreach of 1.65 million active borrowers.

PCFC's network of MFIs operates in all of the 80 provinces throughout the country, and in all 117 cities and 1,319 (out of 1,493) municipalities.

To strengthen the capability of partner MFIs in delivering microfinance services to end-clients, PCFC, together with its partners, provide capacity building support in the form of institutional loans, trainings, audit and credit review. PCFC also conducts exposure programs on best practices among MFIs.

To commemorate its 10th year, PCFC honored its partner-achievers and accorded the "Ulirang Kabalikatan" award to ten outstanding MFIs and five citation recipients for their achievements in the field of microfinance program implementation.



# Board of Directors

1. Hon. Gary B. Teves -*Chairman Secretary - Department of Finance*  
 Gary B. Teves is the former president and CEO of LANDBANK and Vice-Chairman of the Bank's Board of Directors prior to his appointment as Secretary of the Department of Finance. During his term (Sept. 2000-July 2005), the bank's financial performance improved dramatically, recording historic high net incomes. He has also successfully steered the bank back to its original mandate of spurring development and alleviating poverty in the countryside. Before his appointment at LANDBANK, he was the Representative of Negros Oriental for three consecutive terms and authored significant legislations on trade, investment, fiscal and financial reforms, and countryside development. He also served as the private sector representative of the Economic Coordinating Council, the Executive Branch's highest policy-making body on economic issues.

2. Ms. Gilda E. Pico -*Vice Chairman*  
 Gilda E. Pico was appointed as LANDBANK acting president and CEO and vice chairperson of the Bank's Board of Directors in August 2005. She is regarded as one of the pillars of LANDBANK, having contributed in making it the country's premier financial institution today. Her 25 years of service with LANDBANK were replete with major accomplishments in the fields of audit, controllership, operations, treasury and banking. She was also key to formulating and implementing significant policies related to the Bank's role in the Comprehensive Agrarian Reform Program. Among her noted accomplishments is devising market strategies, planning and policy-making for the profitable operation of the Bank's branches and field units nationwide. She also authored fundamental policies vital to the effective implementation of the Bank's credit and support programs to its priority sectors namely the small farmers and fisherfolk cooperatives, MSMEs, rural banks and LGUs.

3. Hon. Patricia A. Sto. Tomas\*  
*Secretary - Department of Labor & Employment*  
 Patricia A. Sto. Tomas is the Secretary of the Department of Labor and Employment and an ex-officio member of the LANDBANK Board of Directors. She has served as consultant in various government agencies including the Department of Health, National Defense, Social Welfare and Development, and Agriculture. As former Chairman of the Civil Service Commission, she is known for her efforts in uplifting the working conditions of Filipino workers. In addition, she used to be a lecturer/professor at the University of the Philippines Diliman and Los Baños; and at the Ateneo School of Governance. Presently, she is the Commissioner of Global Commission on International Migration.

4. Hon. Nasser C. Pangandaman - *Director Secretary - Department of Agrarian Reform*  
 Nasser C. Pangandaman assumed his post as Secretary of the Department of Agrarian Reform (DAR) in July 2005. Prior to this, he served as DAR Undersecretary and was appointed Regional Chief of Staff of the Office of the Regional Governor for the Autonomous Region of Muslim Mindanao (ARMM). Secretary Pangandaman headed the task force created by former President Fidel V. Ramos to fast track the flagship projects for ARMM. He represented the government in various international functions such as the delegation in the ILO Conference on Indigenous People held in Thailand and the organization of BIMP-EAGA held in Indonesia in 1994. He was a member of the GRP Panel in the 7th Exploratory Talks between the GRP and MILF in Malaysia in 2005 .



\*succeeded by Arturo D. Brion



5. **Hon. Domingo F. Panganiban -Director Secretary - Department of Agriculture**  
 Domingo F. Panganiban was formerly the Undersecretary of the Department of Agriculture (DA) before being appointed as full-fledged DA Secretary in July 2005. He served as Chief of Staff of the Office of Sen. Loren Legarda Leviste from August 2001 to June 2004. Having finished BS Agriculture at the UP Los Banos, Secretary Panganiban held various key positions in the government such as the Presidential Assistant for Agriculture in 1996, Deputy Minister of the Ministry of Food and Agriculture in 1986, and director of the Bureau of Plant Industry from 1975 to 1986, to name a few. In the private sector, he served as consultant in the fields of food and agriculture promotion. .

6. **Mr. Albert C. Balingit -Director**  
 Albert C. Balingit became a member of the LBP Board in December 2001, representing the private sector. He chairs LANDBANK's Non Performing Assets Portfolio Auction Sale Bids and Awards Committee which marked a possible breakthrough in achieving a more rapid market-based resolution of the bad debt problem of commercial banks by selling a significant portion of the bank's non-performing loans portfolio. Before LANDBANK, he has also held various positions such as President of the Pangasinan Realty Corporation and Director of the Dagupan City Water District.

7. **Mr. Ananias F. Loza -Director**  
 Ananias F. Loza represents the agrarian reform beneficiaries in the LANDBANK Board of Directors. Formerly, he was a member of the Governing Council of Philippine Council for Agriculture, Forestry and Natural Resources Research and Development (PCARRD), founding president of Asian Farmer Association (AFA) and chairperson of Sandigan ng Magsasaka Provincial Federation based in Sorsogon. Currently, he is one of the directors of Masaganang Sakahan Incorporated (MSI), national president of Pambansang Kilusan ng Samahan Magsasaka (PAKISAMA) and member of its Mutual Benefit Association Board of Trustees. He is also a Board of Trustees member of the Lingap para sa Kalusugan ng Sambayanan (LIKAS, Inc.), a Sorsogon-based NGO.

8. **Mr. George J. Regalado -Director**  
 George J. Regalado was appointed private sector representative to the LBP Board of Directors in August 2004. Prior to LANDBANK, he served as director at the Office of the Majority Floor Leader at the House of Representatives and at the Mindanao Peace and Development Fund. In 1993, he became the adopted son of the Association of Muslim in Region XI and was conferred the honorary title of "Datu." Currently, he is a consultant of the First Congressional District Office in Davao City and head of the Management Team for South Luzon Culinary Cuisine, Inc.

9. **Mr. Romeo B. Taruc -Director**  
 Romeo B. Taruc is the agrarian reform beneficiaries representative in the LBP Board of Directors. As a doctor of medicine, he served as public health consultant at the Angeles Mayor's Office and Office of the Governor. He also served as Councilor for four terms at the Angeles City Council. At present, he is the President of the Pampanga Specialist Center.

# Management Team



Gilda E. Pico  
*Acting President and CEO*  
*SEVP / Head, Agrarian and Domestic Banking Sector (Up to July 2005)*



Alfonso B. Cruz Jr.  
*SEVP / Head, Institutional Banking and Subsidiaries Sector*



Jose Carmelo C. Nograles  
*EVP / Head, Operations and Corporate Services Sector*



## Brand new strokes for valued folks

In the thick of an increasingly competitive and IT-driven industry, LANDBANK has raised the bar of its customer delivery platform with a wide array of products and services that spell efficiency and utmost convenience for its clients.



# THE LANDBANK E-CARD

“The convenience of two cards into one”



Agrarian & Domestic Banking Sector  
(Left to right) Cresencio R. Selispara, Ma. Victoria A. Reyes, Ricardo S. Arlanza, Nenita H. Veran, Stella Maris C. Yusay, Liduvino S. Geron, Carmelita M. Hain, Donato C. Endencia, Simeona S. Guevarra, Wilfredo C. Maldia

Enjoy the features of an ATM card integrated in your company ID. The LANDBANK e-card is one of the latest innovative products of LANDBANK aimed at providing an alternative and convenient mode of cash delivery. Designed like a company ID with the employee's photo, it contains employee information and biometric data and has the functionalities of an ATM card. E-cardholders can access their deposit accounts through various channels such as our phonebanking facility or through any of LBP's more than 700 LANDBANK ATMs nationwide. And with the Bank's interconnection with Expressnet, Megalink, and Bancnet, they may also access their accounts through over 6,500 ATMs nationwide. Cardholders can also make use of the E-card's Electronic Payment System (EPS) feature for cashless shopping in more than 10,000 accredited merchants nationwide.

Here at LANDBANK, we just don't dream of the future. We constantly innovate and strive to be the future in banking.

Step into the realm of hassle-free banking with the LANDBANK e-card.





**LANDBANK**  
**PHONE**  
**ACCESS**

*A simple way of banking at your convenience.*

LANDBANK's Phone Access offers a more simple and convenient way of transacting business with your bank 24 hours a day, 7 days a week, without having to leave the comforts of your home or office. By just dialing 405-7000 for NCR and toll-free number 1-800-10-405-7000 for outside NCR, you can readily do balance inquiry, transfer funds, request a checkbook or month-to-date statement by fax, pay

your PLDT and VISA credit bills or simply inquire about the bank's products and services. And for your other concerns, there's always our friendly phone bankers who are more than glad to assist you.

Experience the convenience of phone banking.  
Experience LANDBANK's Phone Access.

**NCR Branches Group Area Heads**

*(Left to right)* Jennifer A. Tantan, Wilhelmino G. Agregado, Demetrio R. Opinion, Daisy M. Macalino, Romeo C. Castro





# EFFICIENT SERVICE MACHINE

“Stress-free banking in just 3 minutes”

Tired of being stuck in long branch lobby queues just to pay your bill or beat the tax payment deadline?

With LANDBANK's new and user-friendly payment facility aptly called the Efficient Service Machine (ESM), these are becoming things of the past.

The ESM is a self-automated, computerized machine that aims to give clients a better alternative than over-the-counter (OTC) payment/remittance transactions. Initially, it accepts payments for the LANDBANK Visa card and selected tax payments to the BIR.

Similar to an ATM with a customized screen display, the ESM accepts cash and checks for bills

payment, issues an acknowledgement receipt for each transaction completed and generates customized reports on daily collections for agencies and merchants.

With transactions completed in less than three minutes, it decreases OTC queuing especially on peak days or deadline dates. On the part of the agencies and merchants, it helps streamline their procedures while providing easy access to collection services handled by LANDBANK.

True to its name, LANDBANK's ESM is your new, dependable and efficient partner for fast and stress-free banking.

## South Luzon and Bicol Branches Group Regional Heads

*(Left to right)*

David P. Camaya

Edna S. Famorca

Romeo D. R. Mercado

Erasmio T. Cruz

Mauricio C. Feliciano

Erlinda Z. Velasquez

Carmencita A. Bayot

Ananias O. Lugo, Jr.



# ATM DEPLOYMENT PROGRAM

“Banking convenience anytime, anywhere”



We are making sure there's a LANDBANK ATM ready to serve you from up north in Basco, Batanes to down south in Bongao, Tawi-tawi as we have branches and ATMs in all the 79 provinces of the country.

In line with our aggressive deployment program, we have increased our ATMs from 266 in 2002 to 703 as of May 2006, the third largest ATM network in the country. By end-2006, we project our total ATMs to reach 730.

The existing tie-ups with Expressnet, Megalink and Bancnet allow cardholders of LANDBANK to have access to more than 6,500 user-friendly ATMs 24 hours a day, 7 days a week.

With LANDBANK's strong ATM presence in the countryside where 70 percent of its ATMs are located, banking with one of the country's biggest and strongest banks has become truly easier and more convenient.

## Visayas and Mindanao Branches Group

*(Seated, left to right)*

Joselito P. Gutierrez

Iniego R. Varon

Delia M. Ladao

*(Standing, left to right)*

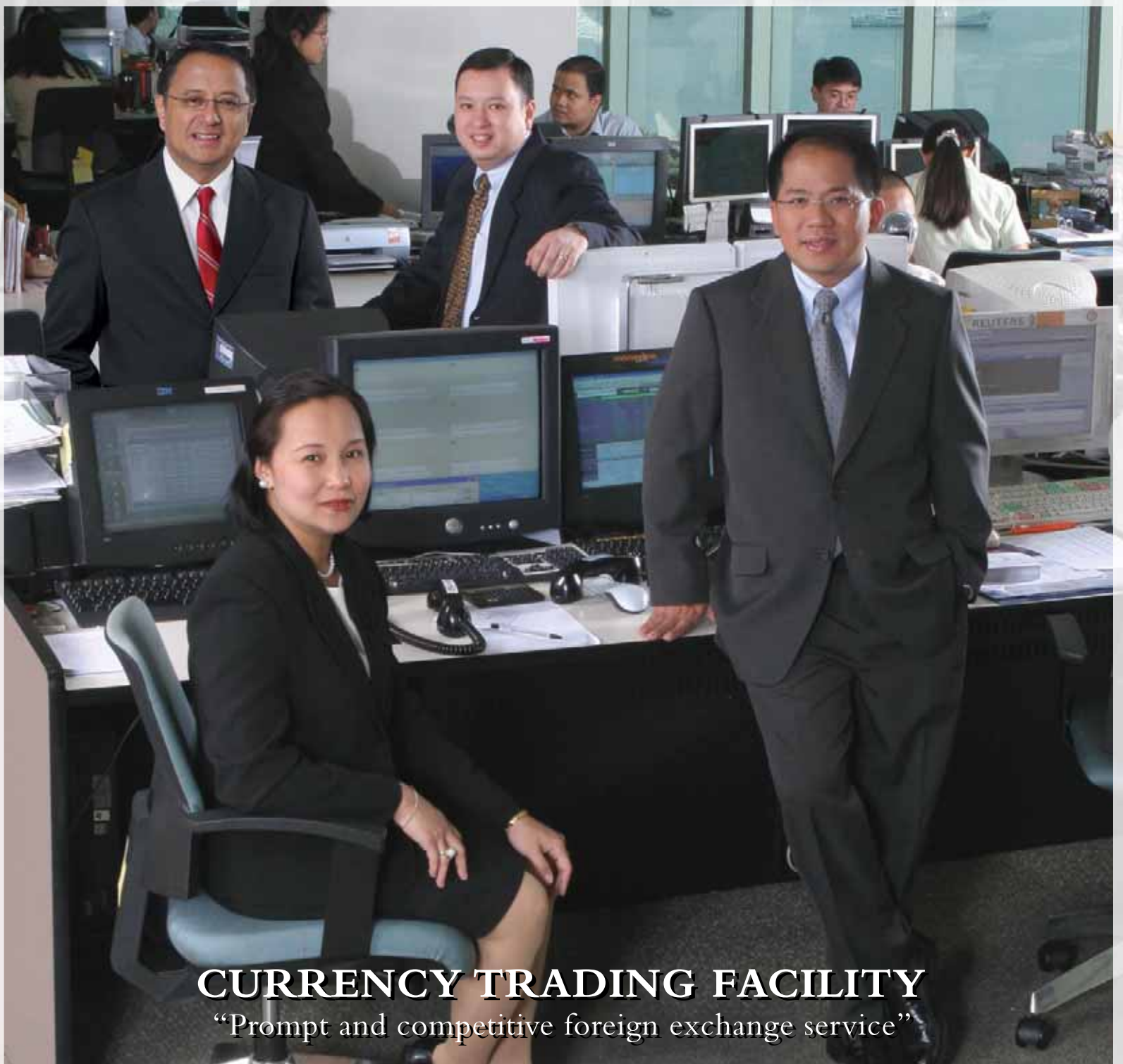
Edward John T. Reyes

Manuel Jose Mari S. Infante

Ruel Z. Romarate

Wesly C. Magnaye

Sambutan B. Abdul



## **CURRENCY TRADING FACILITY**

**“Prompt and competitive foreign exchange service”**

In need of foreign currency offered at best possible rates and at the quickest possible time? LANDBANK's Currency Trading Facility can provide the solution. Working in close coordination with its network of branches nationwide, our experienced traders can readily provide information on one's foreign currency requirements as instructions between any of LANDBANK's more than 350 branches and the head office is just a phone call

away. When negotiations are agreed upon, funds are made available through either checks or telegraphic (wire) transfer through the newly installed SWIFT system. Special rates are also given for those who require more than 100,000 US dollar/foreign currencies.

With plans in the near future to implement an 'on-line' mode of transaction, LANDBANK's foreign exchange service is bound to break new grounds.

### **Institutional Banking Sector Officers**

*(Left to right)* Cecilia C. Borromeo, Jose Abelardo F. Agregado, Alex J. Macapagal, Omar T. Salvo



# CAR LEASING BUSINESS

"This is the lease we can do for you"



The LBP Leasing Corporation, a LANDBANK subsidiary, provides a wide range of leasing services to answer the needs of SMEs, countryside financial institutions, cooperatives, private corporations and government institutions. Its leasing facilities make it easier for these entities to expand, upgrade or modernize their operations.

LLC also offers short term credit lines based on trade receivables on purchases to help enterprises address working capital requirements and mortgage loans for long term financing requirements. Other services include fleet financing which enables companies to acquire automotive vehicles needed in their marketing, distribution or other requirements. Companies may also avail of this facility to implement a car plan program for their officers and staff with minimal cash outlay.

With LBP Leasing, you are sure to find a leasing scheme that will work best for you and your company.

## Subsidiaries Head

(Left to right) Edward L. Ferreira, Aristeo A. Lat, Manuel H. Lopez, Jesus F. Diaz, Jr. Gabriel M. Jayme





# 'SAVE AT MANALO, Cash Monthly Papremyo!'

## RAFFLE PROMO

LANDBANK's deposit generation campaign dubbed "Save at Manalo, Cash Monthly Papremyo" was launched last May 2005 and gave LANDBANK ATM depositors the chance to win as much as P50,000 in the monthly draws and a total pot prize of P2.5M for the grand draw. One can join by either opening an ATM savings account with LANDBANK or just converting any existing account

to an ATM account. The campaign was extended to August 2006, and was open to individual depositors of LANDBANK nationwide. Winners were determined by drawing from among depositors' assigned computer-generated raffle numbers.

Indeed, saving money has many added benefits with LANDBANK's "Save at Manalo, Cash Monthly Papremyo."

### Executive Sector and Units under the Board

(Left to right) Manuel C. Piczon, Teresita E. Cheng, Reynauld R. Villafuerte, Jocelyn D. Cabreza, Alan V. Bornas, Julio D. Climaco, Jr., Roberto S. Vergara, Edna I. Hingco



# PRODUCTION MAIL SYSTEM

“A revolutionary way of managing mails”



With an annual average of over eight million bank statements, official mails and other important documents sent out to its clients, achieving greater efficiency in managing mails is a paramount concern for LANDBANK. With the newly-acquired Production Mail System, handling documents and facilitating quicker distribution to their intended recipients are now possible with lesser time and effort. The machine takes charge of the entire process of sorting, collating and enveloping all of these documents and processes up to as much as 6,000 documents per hour (140 times faster than what can be accomplished manually). This enables the Bank to send bank statements, product flyers and other important documents faster to our clients.

That's premium customer service that starts right from our backyard. This only goes to show that when it comes to customer service, we are ready to pull all stops to constantly make it better.

**Operations and Corporate Services Sector**  
(Left to right) Marilyn M. Tiongson, Yolanda D. Velasco,  
Andres C. Sarmiento, Conrado B. Roxas, Estela E. Correa



# List of Officers

As of 30 September 2006

## ACTING PRESIDENT AND CEO

Gilda E. Pico

## INTERNAL AUDIT GROUP

FVP Jocelyn D. Cabreza

AVP Bernardo P. Castro

AVP Constance V. Manuel

## LEGAL SERVICES GROUP

FVP Manuel C. Piczon

VP Ricardo S. Arlanza

VP Reynauld R. Villafuerte

AVP Rosemarie M. Osoteo

## RISK MANAGEMENT GROUP

VP Teresita E. Cheng

## STRATEGIC PLANNING GROUP

FVP Julio D. Climaco, Jr.

## TECHNOLOGY MANAGEMENT GROUP

VP Alan V. Bornas

AVP Antonio V. Hugo, Jr.

AVP Cecilia C. Sazon

AVP Ma. Teresa B. Villalonga

AVP Randolph L. Montesa

## TRUST BANKING GROUP

VP Eduardo Chaves

AVP Felix L. Manlangit

## COMPLIANCE MANAGEMENT OFFICE

VP Edna P. Hingco

## CORPORATE AFFAIRS DEPARTMENT

AVP Agustin Frederick A. Apilado

## PHYSICAL SECURITY OFFICE

AVP Ricardo G. Pasamba

## OFFICE OF THE PRESIDENT

AVP Ma. Cecilia C. Abante

## Agrarian and Domestic Banking Sector

### NORTHERN AND CENTRAL LUZON BRANCHES GROUP

SVP Simeona S. Guevarra\*

VP David P. Camaya

VP Erasmo T. Cruz

VP Romeo D.R. Mercado

AVP Lolita C. Cruz

AVP Alberto C. Diaz

AVP Domingo S. Losa

AVP Filipina B. Monje

AVP Mernilo C. Ocampo

AVP Francisco A. Pasado

### NCR BRANCHES GROUP

SVP Nenita H. Veran\*

VP Wilhelmino G. Agregado

VP Carmencita A. Bayot

VP Daisy M. Macalino

VP Demetrio R. Opinion

VP Jennifer A. Tantan

AVP Evangeline A. Balboa

AVP Annalene M. Bautista

AVP Elizabeth M. Cruz

AVP Renato G. Eje

AVP Paz M. Facun

AVP Ma. Lorena S. Flores

AVP Rene Ricardo T. Imperial

AVP Ramon R. Monteloyola

AVP Racquel R. Rimonte

AVP Minda D. Rubio

AVP Romulo P. Soriano

AVP Leticia P. Villa

### SOUTHERN LUZON AND BICOL BRANCHES GROUP

FVP Cresencio R. Selispara

FVP Edna S. Famorca

VP Romeo C. Castro

VP Ananias O. Lugo, Jr.

AVP Renato M. Chico

AVP Mauricio C. Feliciano

AVP Alex A. Lorayes

AVP Chita J. Medina

### VISAYAS BRANCHES GROUP

FVP Stella Maris C. Yusay

VP Ruel Z. Romarate

VP Iniego R. Varon

AVP Manuel Jose Mari S. Infante

### MINDANAO BRANCHES GROUP

SVP Wilfredo C. Maldia\*

FVP Delia M. Ladao

VP Sambutan B. Abdul

VP Joselito P. Gutierrez

VP Wesly C. Magnaye

AVP Camilo C. Leyba

AVP Jossie D. Nicart

### CONSUMER AND E-BANKING GROUP

FVP Marilyn M. Tiongson

AVP Edna A. Atienza

AVP Leila C. Martin

### LANDOWNERS COMPENSATION AND ASSISTANCE GROUP

FVP Ma. Victoria A. Reyes

AVP Leticia Lourdes A. Camara

### DEVELOPMENT ASSISTANCE DEPARTMENT

VP Donato C. Endencia

### FIELD UNIT SUPPORT DEPARTMENT

VP Carmelita M. Hain

### PROGRAM MANAGEMENT DEPARTMENT

VP Liduvino S. Geron

### SYSTEMS IMPLEMENTATION DEPARTMENT

AVP Ana S. Concha

\*ADBS OIC ( on rotation)

## Institutional Banking and Subsidiaries Sector

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SEVP Alfonso B. Cruz, Jr.

AVP Vivian C. Bedrijo  
AVP Rosario S. Domingo  
AVP Melissa S. Mamaug  
AVP Laura B. Tanganco

### ACCOUNT MANAGEMENT GROUP

SVP Cecilia C. Borromeo  
VP Jose Abelardo F. Agregado  
AVP Ma. Celeste A. Burgos

### ASSET RECOVERY GROUP

FVP Omar T. Salvo  
AVP Peter Eymard S. Tamayo

### PROGRAM LENDING GROUP

VP Edward John T. Reyes  
AVP Noemi P. Dela Paz

### TREASURY AND INVESTMENT BANKING GROUP

VP Roberto S. Vergara  
VP Alex Hector J. Macapagal  
AVP Lorna M. Calingo  
AVP Carel D. Halog

### GLOBAL BANKING DEPARTMENT

AVP Manuel I. Inserto

### LBP INSURANCE BROKERAGE, INC.

President Jesus F. Diaz  
General Manager Aristeo A. Lat, Jr.

### LBP LEASING CORPORATION

President and General Manager Manuel H. Lopez

### LB REALTY AND DEVELOPMENT CORPORATION

President and General Manager Edward L. Ferreira

### LBP COUNTRYSIDE DEVELOPMENT FOUNDATION, INC.

President Iluminada L.E. Cabigas

### MASAGANANG SAKAHAN, INC.

General Manager Gabriel M. Jayme

## Operations and Corporate Services Sector

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EVP Jose Carmelo C. Nograles

### CONTROLLERSHIP GROUP

SVP Andres C. Sarmiento  
AVP Rosario B. Belmonte  
AVP Ma. Eloisa C. Dayrit  
AVP Emerita E. Olayvar

### BANKING OPERATIONS GROUP

VP Estela E. Correa  
AVP Maria Edelwina D. Carreon  
AVP Winston Rochel L. Galang

### BANKING SERVICES GROUP

FVP Yolanda D. Velasco  
AVP Carolina Q. Briñas  
AVP Ma. Inocencia C. Reyes

### FACILITIES MANAGEMENT AND GENERAL SERVICES GROUP

VP Conrado B. Roxas  
AVP Norlinda S. Plazo

### HUMAN RESOURCE MANAGEMENT GROUP

AVP Ramon K. Cervantes  
AVP Lorna P. Garcia  
AVP Voltaire Pablo P. Pablo III



# Auditor's Report



REPUBLIC OF THE PHILIPPINES  
COMMISSION ON AUDIT  
Corporate Government Sector  
Cluster I – Financial A

The Board of Directors  
Land Bank of the Philippines  
Manila

We have audited the accompanying consolidated statement of condition of the Land Bank of the Philippines and its subsidiaries (referred to as “the Group”) as of December 31, 2005 and the related consolidated statements of income, changes in capital funds and cash flows for the year then ended. These financial statements are the responsibility of Management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with generally accepted state auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Group** as of December 31, 2005 and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted state accounting principles in the Philippines.

Without qualifying our opinion, we draw attention to Note Nos. 12 and 17 to the financial statements on the deferment of loss on sale of non-performing assets amounting to P9.27 billion under Republic Act No. 9182, otherwise known as the Special Purpose Vehicle Act of 2002. Said loss on sale will be written down/amortized over ten years pursuant to BSP Memoranda dated February 16, 2004 and December 2, 2005, as amended. Had the loss been charged against the current period's operation as required under Philippine Financial Reporting Standards (PFRS)/Philippine Accounting Standards (PAS) 39, the impact would be a reduction in net income by P2.05 billion after considering the valuation reserve on assets sold.

COMMISSION ON AUDIT

  
TITO S. NABUA  
Cluster Director

July 7, 2006



# Statement of Condition

December 31, 2005

(With comparative figures for 2004, as restated)  
(In thousands)

	Group		Parent	
	2005	2004	2005	2004
<b>ASSETS</b>				
Cash and other cash items (Note 4)	<b>P 8,381,168</b>	P 8,661,239	<b>P 8,312,466</b>	P 8,594,881
Due from Bangko Sentral ng Pilipinas (Note 36)	<b>12,634,180</b>	12,123,272	<b>12,634,180</b>	12,123,272
Due from other banks (Note 5)	<b>1,734,169</b>	1,339,718	<b>1,689,686</b>	1,292,334
Interbank loans receivable (Notes 6 & 36)	<b>20,706,650</b>	-	<b>20,706,650</b>	-
Securities purchased under agreements to resell (Notes 7 & 36)	<b>17,079,644</b>	-	<b>17,079,644</b>	-
Financial assets at fair value through profit or loss (Notes 8 & 36)	<b>400,805</b>	-	<b>400,805</b>	-
Available for sale investments-net (Notes 9 & 36)	<b>62,356,143</b>	-	<b>62,351,964</b>	-
Held to maturity investments (Notes 10 & 36)	<b>45,563,352</b>	-	<b>44,889,894</b>	-
Investment portfolio-net (Notes 11 & 36)	-	100,179,836	-	99,553,868
Loans and receivables-net (Notes 12, 18 & 36)	<b>112,020,401</b>	-	<b>111,353,216</b>	-
Loan portfolio-net (Notes 13, 18 & 36)	-	138,932,149	-	139,000,427
Investment in subsidiaries (Note 14)	-	-	<b>577,709</b>	577,709
Investment property-net (Note 15)	<b>16,671,074</b>	17,803,398	<b>16,554,571</b>	17,675,947
Property and equipment-net (Note 16)	<b>5,546,762</b>	5,607,967	<b>5,376,468</b>	5,471,967
Other resources - net (Note 17)	<b>21,004,128</b>	22,957,620	<b>20,995,031</b>	22,156,907
Deferred income tax (Note 22)	<b>27,561</b>	28,608	-	-
	<b>324,126,037</b>	307,633,807	<b>322,922,284</b>	306,447,312
<b>LIABILITIES AND CAPITAL FUNDS</b>				
<b>Liabilities</b>				
Deposit liabilities (Notes 19 & 36)	<b>242,654,625</b>	214,830,004	<b>242,752,593</b>	214,905,279
Bills payable (Notes 20 & 36)	<b>37,891,002</b>	47,402,751	<b>37,891,002</b>	47,402,751
Deposits from other banks (Note 36)	<b>76,449</b>	130,667	<b>76,449</b>	130,667
Treasurer's, manager's and cashier's checks (Note 36)	<b>827,092</b>	842,430	<b>827,092</b>	842,430
Payment order payable (Note 36)	<b>285,895</b>	561,737	<b>282,214</b>	559,056
Marginal deposits (Note 36)	<b>189,951</b>	374,833	<b>189,951</b>	374,833
Cash letters of credit (Note 36)	<b>568,970</b>	1,391,595	<b>568,970</b>	1,391,595
Other liabilities (Notes 21 & 36)	<b>13,906,645</b>	18,099,014	<b>13,672,590</b>	17,761,479
	<b>296,400,629</b>	283,633,031	<b>296,260,861</b>	283,368,090
<b>Capital Funds (Note 30)</b>				
Common stock	<b>11,471,000</b>	10,871,000	<b>11,471,000</b>	10,871,000
Paid-in surplus	<b>106,261</b>	106,261	<b>101,098</b>	101,098
Revaluation increment	<b>57,528</b>	61,200	-	-
Surplus free	<b>7,074,164</b>	6,004,193	<b>6,306,928</b>	5,360,227
Surplus-reserve	<b>4,123,595</b>	4,278,125	<b>4,048,245</b>	4,203,080
Undivided profits	<b>3,178,627</b>	2,841,165	<b>3,019,849</b>	2,704,971
Currency translation difference	<b>(70)</b>	(14)	-	-
Net unrealized gains (losses) on available for sale investments	<b>1,714,303</b>	(161,154)	<b>1,714,303</b>	(161,154)
	<b>27,725,408</b>	24,000,776	<b>26,661,423</b>	23,079,222
	<b>P 324,126,037</b>	P307,633,807	<b>P 322,922,284</b>	P 306,447,312

See accompanying Notes to Financial Statements.

# Statement of Income

December 31, 2005

(With comparative figures for 2004, as restated)  
(In thousands)

	Group		Parent	
	2005	2004	2005	2004
<b>INTEREST INCOME</b>				
Loans (Notes 12 & 13)	P 11,575,306	P 10,271,607	P 11,527,146	P 10,228,987
Investments (Notes 10 & 11)	7,542,260	7,608,637	7,503,128	7,567,526
Due from Bangko Sentral ng Pilipinas	295,512	247,688	295,512	247,688
Deposit with banks and others	206,580	130,762	101,400	74,848
	<b>19,619,658</b>	<b>18,258,694</b>	<b>19,427,186</b>	<b>18,119,049</b>
<b>INTEREST EXPENSE</b>				
Deposit liabilities (Note 19)	6,321,719	5,279,694	6,337,430	5,291,252
Borrowed funds (Note 20)	1,309,272	1,732,852	1,309,272	1,717,092
Others	1,655	15,637	1,655	17,393
	<b>7,632,646</b>	<b>7,028,183</b>	<b>7,648,357</b>	<b>7,025,737</b>
<b>NET INTEREST INCOME</b>	<b>11,987,012</b>	<b>11,230,511</b>	<b>11,778,829</b>	<b>11,093,312</b>
<b>PROVISION FOR (REVERSAL OF) PROBABLE LOSSES (Note 18)</b>	<b>1,006,784</b>	<b>1,522,427</b>	<b>1,006,784</b>	<b>1,522,427</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOSSES</b>	<b>10,980,228</b>	<b>9,708,084</b>	<b>10,772,045</b>	<b>9,570,885</b>
<b>OTHER OPERATING INCOME</b>				
Dividends	39,880	76,414	39,879	76,413
Fees and commission	90,502	985,766	76,409	928,836
Trading gains (losses)	36,816	57,900	17,290	37,669
Gain from dealings in foreign currency	833,591	462,325	814,416	443,040
Gain from investment securities	693,221	613,722	693,221	613,458
Foreign exchange gains from revaluation (Note 17)	6,149,875	900,216	6,149,875	900,216
Miscellaneous-net	1,821,477	1,735,162	1,832,406	1,749,805
	<b>9,665,362</b>	<b>4,831,505</b>	<b>9,623,496</b>	<b>4,749,437</b>
<b>OTHER OPERATING EXPENSES</b>				
Compensation and fringe benefits (Note 23)	5,144,230	4,928,501	5,133,516	4,936,747
Foreign exchange loss from revaluation (Note 21)	6,063,281	771,771	6,063,281	771,771
Taxes and licenses	943,127	831,002	928,132	818,071
Depreciation and amortization (Notes 15 & 16)	1,298,951	784,928	1,280,671	772,791
Occupancy and equipment-related expenses (Note 24)	405,429	367,924	402,123	361,104
Miscellaneous expenses	3,459,936	3,796,831	3,467,969	3,773,678
	<b>17,314,954</b>	<b>11,480,957</b>	<b>17,275,692</b>	<b>11,434,162</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>3,330,636</b>	<b>3,058,632</b>	<b>3,119,849</b>	<b>2,886,160</b>
<b>PROVISION FOR INCOME TAX (Note 22)</b>	<b>152,009</b>	<b>217,467</b>	<b>100,000</b>	<b>181,189</b>
<b>NET INCOME</b>	<b>P 3,178,627</b>	<b>P 2,841,165</b>	<b>P 3,019,849</b>	<b>P 2,704,971</b>

See accompanying Notes to Financial Statements.

# Statement of Cash Flows

December 31, 2005

(With comparative figures for 2004, as restated)  
(In thousands)

	Group		Parent	
	2005	2004 (as restated)	2005	2004 (as restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Interest income	P 19,619,658	P 18,258,694	P 19,427,186	P 18,119,049
Interest expense	(7,632,646)	(7,028,183)	(7,648,357)	(7,025,737)
Fees and commission	90,502	985,766	76,409	928,836
Gain from dealings in foreign currency	833,591	462,325	814,416	443,040
Foreign exchange gains from revaluation	6,149,875	900,216	6,149,875	900,216
Foreign exchange loss from revaluation	(6,063,281)	(771,771)	(6,063,281)	(771,771)
Miscellaneous income	1,821,477	1,735,162	1,832,406	1,749,805
General and administrative expenses	(9,952,722)	(9,924,258)	(9,931,740)	(9,889,600)
Operating income/(loss) before working capital changes	4,866,454	4,617,951	4,656,914	4,453,838
Decrease (increase) in amounts of:				
Interbank loans receivable	(20,706,650)	-	(20,706,650)	-
Securities purchased under agreements to resell	(17,079,644)	-	(17,079,644)	-
Financial assets at fair value through profit or loss	(400,805)	-	(400,805)	-
Loans and receivable	(112,263,799)	-	(111,596,614)	-
Loan portfolio	138,932,149	(20,469,545)	139,000,427	(20,468,290)
Other resources	1,096,175	(8,897,390)	303,788	(8,913,026)
Increase (decrease) in amounts of:				
Deposit liabilities	27,824,621	29,945,188	27,847,314	29,983,643
Marginal deposits	(184,882)	(314,327)	(184,882)	(314,327)
Treasurer's, Manager's & Cashier's Checks	(15,338)	152,492	(15,338)	152,492
Other liabilities	(5,330,218)	(1,609,928)	(5,206,411)	(1,242,805)
Net cash provided by operations	16,738,063	3,424,441	16,618,099	3,651,525
Income taxes paid	(157,093)	(141,254)	(126,411)	(115,769)
Net cash provided by operating activities	16,580,970	3,283,187	16,491,688	3,535,756
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Additions to property and equipment	(557,436)	(1,120,547)	(507,636)	(1,187,508)
Disposals of/(additions) to investment property	596,992	(2,511,604)	588,542	(2,433,748)
Dividends received	39,880	76,414	39,879	76,413
Trading gains	36,816	57,900	17,290	37,669
Gain from investment securities	693,221	613,722	693,221	613,458
Decrease (increase) in amounts of:				
Available-for-Sale investments	(62,406,143)	-	(62,401,964)	-
Held to Maturity investments	(45,563,352)	-	(44,889,894)	-
Investments portfolio	100,179,836	(5,620,623)	99,553,868	(4,919,591)
Net cash used in investing activities	(6,980,186)	(8,504,738)	(6,906,694)	(7,813,307)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Cash dividends paid	(1,050,000)	(835,990)	(1,050,000)	(814,111)
Bills and acceptances payable	(9,521,501)	9,106,353	(9,521,501)	8,915,420
Other charges to capital	1,596,005	(89,563)	1,612,352	(883,608)
Net cash provided by (used in) financing activities	(8,975,496)	8,180,800	(8,959,149)	7,217,701
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>625,288</b>	<b>2,959,249</b>	<b>625,845</b>	<b>2,940,150</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
Cash and other cash items	8,661,239	7,119,046	8,594,881	7,118,010
Due from Bangko Sentral ng Pilipinas	12,123,272	9,986,622	12,123,272	9,986,622
Due from other banks	1,339,718	2,059,312	1,292,334	1,965,705
	22,124,229	19,164,980	22,010,487	19,070,337
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
Cash and other cash items	8,381,168	8,661,239	8,312,466	8,594,881
Due from Bangko Sentral ng Pilipinas	12,634,180	12,123,272	12,634,180	12,123,272
Due from other banks	1,734,169	1,339,718	1,689,686	1,292,334
<b>P 22,749,517</b>	<b>P 22,124,229</b>	<b>P 22,636,332</b>	<b>P 22,010,487</b>	

See accompanying Notes to Financial Statements.



# Statement of Changes in Capital Funds

December 31, 2005

(With comparative figures for 2004, as restated)

(In thousands)

	S		U		R	
	Common Stock	Preferred Stock	Surplus Free	Revaluation Increment		
<b>Balance, January 1, 2004 as previously reported</b>	P 10,000,000	P 200,000	P 3,300,259	P 61,200		
Effects of adoption of new accounting policies			(2,305,144)			
Effects of adoption of previously issued accounting standards			3,049,840			
<b>Balance as of January 1, 2004, as restated</b>	10,000,000	200,000	4,044,955	61,200		
Net Income during the Year as previously reported						
Effects of adoption of new accounting policies						
Effects of adoption of previously issued accounting standards						
<b>Net income, as restated</b>						
Net Unrealized Gain on Securities						
<b>Total profit for the year</b>						
Payment of Cash Dividends			(835,990)			
Transfer to Surplus Free			2,127,317			
Additional Reserve for Trust Business			(4,000)			
Additional Reserve for Contingencies			(250,000)			
Stock Dividend	871,000		(876,251)			
Redemption of NDC's Preferred Shares			(200,000)			
Sinking Fund for the Redemption of Preferred Shares			1,500,000			
Prior Period Adjustment			1,514			
Closure of excess of book value cost of investment in subsidiaries			296,648			
Revaluation increment on property						
50% Cash settlement of the tax diverted payments						
<b>Balance, December 31, 2004, as restated</b>	P 10,871,000	P -	P 6,004,193	P 61,200		
<b>Balance as of January 1, 2005</b>	P 10,871,000	-	P 6,004,193	P 61,200		
Effects of adoption of PAS 39			54,879			
<b>Effects of adoption of other PAS</b>			79,304			
<b>Balance as of January 1, 2005, as restated</b>	10,871,000		6,138,376	61,200		
Net Income during the Year						
Net unrealized gain on securities						
<b>Total profit for the year</b>						
Payment of Cash Dividends			(1,050,000)			
Stock Dividend	600,000		(693,683)			
Transfer to Surplus Free			2,841,165			
Additional Reserve for Trust Business			(5,000)			
Additional Reserve for Contingencies			(200,000)			
50% cash settlement of the tax diverted payments						
Closure of 1986 Gross Receipt Tax			20,094			
Closure of excess CY 2001 Minimum Corporate Income Tax over Normal			(62,824)			
Prior Period Adjustment			7,743			
Closure of excess book value over cost of investment in subsidiaries			78,293			
Revaluation Increment on Property						(3,672)
Currency Translation Difference						
<b>Balance, December 31, 2005</b>	P 11,471,000	P	P 7,074,164	P 57,528		

See accompanying Notes to Financial Statements.

<b>P</b>		<b>L</b>		<b>U</b>		<b>S</b>		<b>Net Unrealized Gains/(Losses) on AFS Investments</b>	<b>T O T A L</b>		
<b>Paid-In Surplus</b>		<b>Surplus Reserve</b>		<b>Currency Translation Difference</b>		<b>Undivided Profits</b>					
P	1,906,261	P	4,190,509	P		P	2,127,317	P	286,113	P	22,071,659
											(2,305,144)
			1,443,641								4,493,481
	1,906,261		5,634,150				2,127,317		286,113		24,259,996
							2,386,868				2,386,868
					(14)		(186,640)				(186,654)
							640,937				640,937
							2,841,165				27,101,147
									(447,267)		(447,267)
							4,968,482		(161,154)		26,653,880
							(2,127,317)				(835,990)
			4,000								-
			250,000								-
	(1,800,000)										(5,251)
											(2,000,000)
			(1,500,000)								-
											1,514
											296,648
			(110,025)								(110,025)
P	106,261	P	4,278,125	P	(14)	P	2,841,165	P	(161,154)	P	24,000,776
	106,261	P	4,278,125	P	(14)	P	2,841,165	P	(161,154)	P	24,000,776
			(249,695)								54,879
	106,261		4,028,430		(14)		2,841,165		(161,154)		(170,391)
							3,178,627				23,885,264
									1,875,457		3,178,627
							6,019,792		1,714,303		1,875,457
											28,939,348
											(1,050,000)
							(2,841,165)				(93,683)
			5,000								-
			200,000								-
			(109,835)								-
											(109,835)
											20,094
											(62,824)
											7,743
											78,293
											(3,672)
					(56)						(56)
P	106,261	P	4,123,595	P	(70)	P	3,178,627	P	1,714,303	P	27,725,408

## AR Acknowledgments

- All the clients and development partners featured in this annual report
- The following LANDBANK units:
  - ATM and Cash Management Department
  - ATM Management Department
  - Cash Department
  - Coron Branch
  - Customer Service and Product Development Department
  - Davao Lending Center
  - E-Banking Department
  - General Services Department
  - Intramuros Branch
  - Local Currency Department
  - Office of the Region XI Head
  - Palawan Lending Center
  - Property Maintenance Department
  - Technology Management Group

## Credits

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