Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Diliman, Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER I – Banking and Credit

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
LBP Insurance Brokerage, Inc.
12/F SSHG Law Centre Bldg.
105 Paseo de Roxas St.
Legaspi Village, Makati City

We have audited the accompanying financial statements of **LBP Insurance Brokerage, Inc.** (a wholly-owned subsidiary of Land Bank of the Philippines), which comprise the statement of financial position as at December 31, 2013, and the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As discussed in item no. 2 of the Observations and Recommendations portion of the audit report, the excess of Retained Earnings – Unappropriated over the Capital Stock by P80.649 million and the accumulation of Retained Earnings - Appropriated in the amount of P155 million as of December 31, 2013 are considered improper and not in accordance with paragraph 2, Section 43 of the Corporation Code of the Philippines, Sections 4 and 6 of Securities and Exchange Commission Memorandum Circular No. 11, series of 2008. These retained earnings can be subjected to 10% improperly accumulated earnings tax pursuant to Section 29 of Tax Code of 1997.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **LBP Insurance Brokerage, Inc.** as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 18 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of LIBI. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

COMMISSION ON AUDIT

ROSALINDA T. SILAGAN
OIC, Supervising Auditor

May 15, 2014

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 47
East Makati
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RCO's NAME: ARLENE G. NUGUID

LBP INSURANCE BROKERAGE, INC.
(A Land Bank Subsidiary)

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LBP (Land Bank of the Phils.) Insurance Brokerage, Inc.** (the company), is responsible for preparation and fair presentation of the financial statements for the years ended December 31, 2013, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

a. Reconciliation of Retained Earnings Available for Dividend Declaration, and
b. Schedule of PFRS Effective as of December 31, 2013.

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information.

Commission on Audit, the independent auditor, has examined the financial statements of **LBP (Land Bank of the Phil's.) Insurance Brokerage, Inc.** (Company) in accordance with Philippine Standards on Auditing, and in its report to the Board of Directors, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature: ______________________
TOMAS T. DE LEON, JR.
Chairman of the Board/
Concurrent President

Signature: ______________________
VIVIAN C. TAN
Treasurer

Signature: ______________________
SHIRLEY A. PALAPAL
Accounting Head

Signed this 30th day of May, 2014

12/F SSHG Law Centre Bldg., 105 Paseo de Roxas, Legaspi Village, Makati City 1209
Trunklines: 812-4911; 867-1063; 893-5638 * Direct Line: 840-4011 * Telefax: 893-7224; 818-7794; 817-1564

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF FINANCIAL POSITION
December 31, 2013
(In Philippine Peso)

	Note	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	3	202,539,220	619,738,995
Foreign currency held for trading		643,439	411,758
Trade and other receivables	4	76,092,994	68,219,379
Other current assets	5	833,501	921,398
		280,109,154	689,291,530
Non-current assets			
Property and equipment	6	24,291,253	25,603,362
Investments-held-to-maturity	7, 20	687,398,111	186,035,389
Other non-current assets	8	134,246	101,469
Deferred Tax Asset	18	3,560,957	3,090,676
		715,384,567	214,830,896
TOTAL ASSETS		**995,493,721**	**904,122,426**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Trade and other payables	9	136,927,969	85,760,293
Income taxes payable		5,815,544	4,093,843
Other liabilities	10	16,949,640	11,460,887
		159,693,153	101,315,023
Stockholders' Equity			
Capital stock	11	300,000,000	300,000,000
Authorized capital stock 3,000,000 common shares @ P100 par value			
Issued and outstanding 3,000,000 common shares			
Retained earnings	12		
Retained earnings - appropriated		155,000,000	266,000,000
Retained earnings free		380,800,568	236,807,403
		535,800,568	502,807,403
		835,800,568	802,807,403
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**995,493,721**	**904,122,426**

The Notes on pages 8 to 28 form part of these financial statements.

LBP INSURANCE BROKERAGE, INC.

(A wholly-owned subsidiary of Land Bank of the Philippines)

STATEMENT OF INCOME

For the year ended December 31, 2013

(In Philippine Peso)

	Note	2013	2012
INCOME			
Service fees	13	77,324,986	75,565,474
Interest income on investments		26,993,449	28,137,570
Trading income		10,282,234	10,410,688
Other income	14	1,338,718	1,195,660
		115,939,387	115,309,392
EXPENSES			
Manpower costs	15	16,843,397	15,994,917
Operating expenses	16	10,517,629	10,235,879
Taxes and licenses		1,712,698	1,754,637
Other expenses	17	2,118,539	2,973,549
		31,192,263	30,958,982
INCOME BEFORE TAX		84,747,124	84,350,410
PROVISION FOR INCOME TAX	18	17,203,055	16,767,024
NET INCOME		**67,544,069**	**67,583,386**

The Notes on pages 8 to 28 form part of these financial statements.

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2013
(In Philippine Peso)

	Capital Stock (Note 11)	Retained Earnings (Note 12) Appropriated	Unappropriated	TOTAL
Balance at January 1, 2013	300,000,000	266,000,000	236,807,403	802,807,403
Cash dividend			(34,550,904)	(34,550,904)
Prior period adjustments				-
Reversal of appropriations		(111,000,000)	111,000,000	-
Net income			67,544,069	67,544,069
Balance at December 31, 2013	**300,000,000**	**155,000,000**	**380,800,568**	**835,800,568**
Balance at January 1, 2012	300,000,000	230,000,000	241,552,012	771,552,012
Cash dividend			(36,000,000)	(36,000,000)
Prior period adjustments			(327,995)	(327,995)
Appropriation for cash dividend		36,000,000	(36,000,000)	-
Net income			67,583,386	67,583,386
Balance at December 31, 2012	**300,000,000**	**266,000,000**	**236,807,403**	**802,807,403**

The Notes on pages 8 to 28 form part of these financial statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
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ARLENE G.
JUL 0 2 2014

LBP INSURANCE BROKERAGE, INC.
(A wholly-owned subsidiary of Land Bank of the Philippines)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Service fees - insurance received		83,783,666	62,906,482
Interest received		23,634,235	28,918,852
Trading income received		10,282,234	10,410,688
Other income received		1,014,231	904,306
Cash paid to settle manpower and operating expenses		(25,356,300)	(32,229,430)
Cash received from (paid to) insurance companies		34,119,685	(11,433,785)
Cash paid to settle unclaimed insurance premium previously treated as other income in 2009	12	-	(327,995)
		127,477,751	59,149,118
Income taxes paid		(7,737,827)	(9,297,027)
Net cash provided by operating activities		**119,739,924**	**49,852,091**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(1,070,380)	(1,318,349)
Proceeds from disposal of property and equipment		-	52,383
Placements to held to maturity investments		(553,585,534)	(100,000,000)
Proceeds from maturities of investments		52,267,119	340,109,476
Net cash (used in)/provided by investing activities		**(502,388,795)**	**238,843,510**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividend paid	12	(34,550,904)	(36,000,000)
Net cash (used in) financing activities		**(34,550,904)**	**(36,000,000)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(417,199,775)	252,695,601
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		619,738,995	367,043,394
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**202,539,220**	**619,738,995**

The Notes on pages 8 to 28 form part of these financial statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8 - MAKATI
Revenue District Office No. 47
East Makati
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1. CORPORATE INFORMATION

1.1 Corporate Background

The LBP Insurance Brokerage, Inc. (LIBI) was organized as a wholly owned subsidiary of Land Bank of the Philippines (LBP) on October 22, 1981 under Securities and Exchange Commission (SEC) Registration No. 105764. On May 16, 1983, its Articles of Incorporation was amended increasing the number of directors of the Board to 11. This was further amended on October 17, 1994 increasing the LIBI's authorized capital stock from P20,000,000 to P300,000,000 and revising its secondary purpose. It was created primarily for the purpose of engaging in the business of general insurance brokerage management and consultancy more particularly as follows:

- To act as insurance broker for life, health, accident, motor car, casualty, surety and fidelity, marine cargo and hull, comprehensive liability insurance and other insurance coverage allied with and incident to the above-mentioned lines; and,

- To engage in management and consultancy work on insurance and in this connection, to hold, own, purchase, acquire, underwrite, obtain participation in and manage the business of any corporation, partnership or equity.

Its secondary purpose is to engage in the business of buying and selling of foreign currencies; and buying, selling, importing, exporting and/or dealing in any manner, at wholesale or retail, goods and merchandise.

The registered and principal office of business is located at 12th Floor SSHG Law Centre Building, 105 Paseo de Roxas St., Legaspi Village, Makati City.

1.2 Authorization for Issue of the 2013 Financial Statements

The financial statements of LIBI for the year ended December 31, 2013 were authorized for issue by the Board of Directors per Board Resolution No. 2014-002-006A dated February 20, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Financial Statements Preparation

The accompanying financial statements have been prepared using historical cost basis except for Held-to-Maturity Investments in government securities which are stated at amortized cost using effective interest method, Investments in Agrarian Reform Bonds which are stated at cost, adjusted for accretion of discounts amortization and attrition due to partial redemption and foreign currency held for trading in LIBI-Forex division which is stated at spot exchange rate.

The financial statements are presented in Philippine Peso, the company's functional and presentation currency. All values are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance

The financial statements of LIBI have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

2.2 Adoption of Philippine Financial Reporting Standards (PFRS)

PAS 1, Presentation of Financial Statements, provides framework of financial statements presentation. It requires more specific statement of financial position line items (tax liabilities, provisions, non-current interest bearing debt, among others). The standard requires presentation of comparative financial statements and information.

PAS 7, Statement of Cash Flows, prescribes the provision of information about historical changes in cash equivalents of an entity by means of a cash flow statement which classifies cash flow during the period from operating, investing and financing. The standard explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and prospective restatement to correct prior period errors. It defines material omissions or misstatements, and describes how to apply the concepts of materiality when applying accounting policies and correcting errors.

PAS 10, Events after the Balance Sheet Date, prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events. Additional disclosures required by the standard were included in the financial statements, principally the date of authorization for release of the financial statements.

PAS 16, Property, Plant and Equipment, provides additional guidelines and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item, property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

PAS 18, Revenue, provides under item 13 of the appendix accompanying PAS 18 that Insurance agency commissions received or receivable which do not require the agent to render further service are recognized as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognized as revenue over the period during which the policy is in force.

PAS 19, Employees Benefits, the objective of this standard is to prescribe the accounting and disclosure of employee benefits (that is all forms of consideration given by an entity in exchange for service rendered by employees). This standard requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

PAS 21, Effects of Changes in Foreign Exchange Rates, addresses the accounting for transactions in foreign currency. It provides that foreign currency transactions shall be recorded, on initial recognition by applying to the foreign currency amount the spot exchange rate at the date of transaction; exchange difference arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recognized shall be recognized in profit or loss in the period in which they arise. The adoption of this standard will have no material impact on the financial statements.

PAS 24, Related Party Disclosures, provides additional guidance and clarification in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosures of the total compensation of key management personnel and benefit types.

PAS 26, Accounting and Reporting by Retirement Benefit Plans, the objective of this standard is to specify measurement and disclosure principles for the reports of retirement benefit plans. All plans should include in the report a statement of changes in net assets available for benefits, summary of significant accounting policies, and description of the plan and effect of any changes in the plan during the period.

PAS 28, Investment in Associates, provides that investments in associates will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements.

PAS 32, Financial Instruments: Disclosures and Presentation, sets out the required disclosures and presentation of financial instruments to enhance financial statement users' understanding of the significance of financial instruments to an entity's overall financial position, performance, and cash flows. PAS 32 requires strict offsetting criteria for financial assets and liabilities.

PAS 36, Impairment of Assets, provides that an asset is impaired when its carrying amount exceeds its recoverable amount. Indications of impairments are the following: obsolescence or physical damage; asset is held for disposal and there is evidence that the economic performance of an asset is, or will be, worse than expected.

PAS 39, Financial Instruments: Recognition and Measurement, establishes specific categories into which all financial assets and liabilities must be classified.

Standard issued but not yet adopted by LIBI since 2012:

PFRS 9, Financial Instruments Part I: Classification and Measurements, covering the classification and measurements of financial assets. Mandatory effective date of PFRS 9 will be on January 01, 2015 as per SEC Memorandum Circular No. 03 dated May 24, 2012.

Despite of not early adopting PFRS 9, such has no financial impact on classification and measurements of financial assets and financial liabilities since all of LIBI's investments were held until maturity to collect (contractual cash flows) interest on a quarterly and semi-annually basis.

2.3 Use of Estimates

The preparation of financial statements in accordance with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumption used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

2.4 Cash and Cash Equivalents

Cash in the balance sheet comprises cash on hand and in banks. Cash equivalents consists of short-term investments in marketable government securities with maturities not exceeding three (3) months and that are subject to an insignificant risk of change in value.

2.5 Foreign Currency Held for Trading

Foreign currency held for trading in LIBI-Forex division is stated at spot exchange rate.

2.6 Investments in Held-to-Maturity Securities (HTM)

LIBI existing policy is to invest excess funds in government securities (GS) since the servicing and repayments are fully guaranteed by the government.

Investment in GS – Agrarian Reform Bonds are stated at cost, adjusted for accretion of discounts amortization and attrition due to partial redemption.

Investment in GS – Fixed Treasury Notes and Retail Treasury bonds are stated at amortized cost using effective interest method.

2.7 Trade and other receivables

The LIBI acts as an agent in placing the insurable risks of its clients with insurers and such, is not liable as principal for amounts arising from such transactions. However, premium receivables were recognized upon issuance of statement of accounts. Accrual of service fees from private insurers are based on premium production and accrual of extra remuneration from GSIS based on LIBI's compliance to 30-day period within which to remit premiums, were recognized and presented as Accrued service fees receivables which is included as one of the accounts under Trade and other receivables.

To fairly present the net realizable value of Accrued service fees receivable and Other receivable, an Allowance for doubtful accounts has been provided. The allowance was then determined based on the aging schedule multiplied by the rate or per cent of loss experienced by LIBI.

2.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition.

Depreciation and amortization is calculated on a straight-line basis computed at cost less ten per cent residual value over the estimated useful lives of the property and equipment as follows:

	Number of Years
Building	20
Furniture, fixtures and Equipment	5
Motor Vehicle	7

An item of property and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the statement of income in the year the asset is derecognized.

Minor expenditures incurred after the fixed assets have been put into operation, such as replacements, repairs and maintenance costs amounting to P10,000 or less are normally charged to profit and loss in the period in which the costs are incurred.

The assets' residual values, useful lives and depreciation and amortization method are reviewed periodically to ensure that the period, residual value and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

2.9 Income recognition

Beginning 2008, LIBI recognizes commission income (service fees) from private insurers based on premium billings upon rendition of brokering services to the assured and upon issuance of policies by the insurer. Accrual method is used in recognizing commission income from insurers. However, in the case of GSIS accounts, accrual of extra-remuneration will only be booked if the company was able to remit the premium within the 30 day grace period from the receipt of the policy from GSIS. Otherwise, LIBI will not be entitled to anything as per the Memorandum of Agreement[1] signed by both parties in 2007.

Interest Income is recognized using effective interest method.

Gain or losses arising from trading of foreign currency are reported in the statement of income.

Revenue is recognized to the extent that is probable that the economic benefits will flow to LIBI and the revenue can be reliably measured.

2.10 Income Taxes

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

Deferred tax asset refers to tax consequence attributable to differences between the financial reporting bases of assets and liabilities. It is measured using the tax rate applicable to taxable income in the year in which those temporary differences are expected to be recorded or settled. Deferred Tax Asset is recognized to the extent that the realization of the related income tax benefit through future taxable income.

2.11 Employee Benefits

The LIBI has a separate funded defined Retirement Benefit Plan which was approved and adopted for implementation on July 30, 2010.

The plan was established to provide for the payment of retirement or separation benefits to its permanent officials and employees or their beneficiaries in accordance with its policies and guidelines.

The set-up of Retirement Fund Liability was approved by the Board of Directors on September 01, 2010.

Based on the foregoing, LIBI engaged the services of a duly certified independent actuarial firm. Actuarial assumptions used in the valuation are the following:

- The retirement plan covers all its officers and regular employees, 18 males and 21 females totaling 39 eligible employees.
- Mortality and the disability rated used were based on 100 per cent of the 1985 Unisex Annuity Table and 100 per cent of the 1952 Disability Table;
- The interest rate was assumed at 7 per cent, compounded annually;
- The salary increase rate was assumed at 7 per cent, compounded annually;

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1 Effective May 31, 2013, LIBI ceased as the insurance broker of GSIS due to the unilateral termination of the latter on the above mentioned Memorandum of Agreement.

- The funding method used was the Entry-Age-Normal (EAN) cost method;
- The employee turnover rates are 100 per cent of the following standard table:

Age	Rate (%)	Age	Rate (%)
20	10.00	50	2.00
25	10.00	51-56	1.50
30	7.50	57	1.00
35	5.50	58	0.50
40	3.00	59	Nil
45	2.50	60	100.00

The group's average remaining years of service to retirement age 60 was determined by applying the above actuarial assumptions. The expected average remaining years of service to retirement for the employees of the company is 13 years.

Based on the above actuarial funding method and actuarial assumptions, the total annual compensation of P8,415,000 was computed by multiplying the average covered annual compensation of P215,769 with the total eligible 39 eligible employees.

The normal cost rate and the accrued liability were determined to be 7.08 per cent of the total covered annual compensation equivalent to P596,052 for the current year and P8,963,615, respectively.

LIBI appropriated its Retained Earnings from 2000 to 2008 a total amount of P10,000,000 for retirement benefit plan. On July 18, 2011, the Retirement Fund was finally set-up by LIBI of which LBP-Trust Banking Group was appointed as Trustee of the fund. LIBI treated this fund as off books in accordance with PAS 26-Accounting and Reporting by Retirement Benefit Plan. The monitoring of this fund is to be done by the LIBI Administrative Head which is to be checked periodically by the Accounting Head.

Out of the original 39 eligible employees, 8 employees availed of the Retirement Fund wherein retirement benefits totaling to P3,836,534 were withdrawn from the fund as of December 31, 2013. Remaining balance of the Retirement Fund as at December 31, 2013 is P6,164,466. Net Interest Income earned since the transfer of the fund on July 18, 2011 to LBP-TBG reached P803,008 as at December 31, 2013.

Since three years had lapsed after the actuarial assumptions were made in 2010 and because of changes in manpower complement, LIBI Administrative Head submitted to LBP-TBG all the pertinent data needed for the actuarial assumptions to be done by their accredited actuarial company, E.M. Zalamea Actuarial Services Inc. However, there were no reports yet submitted to LIBI as at December 31, 2013.

3. CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash and cash equivalents includes the following:

	2013	2012
Petty cash fund	27,000	27,000
Revolving fund	150,476	238,534
Cash in bank	202,361,744	69,473,461
Short-term investment in government securities \1	-	550,000,000
	202,539,220	**619,738,995**

\1 Due to termination of offerings of Special Deposit Account (SDA) by Bangko Sentral ng Pilipinas (BSP), LIBI's short-term investments that matured during the year under SDA were all shifted to long-term investments to government securities particularly to Retail Treasury Bills (RTBs) and to DBP Tier-II.

4. TRADE AND OTHER RECEIVABLES

This account consists of:

	2013	2012
Accounts receivable – Trade \1	44,434,296	32,738,478
Accounts receivable – Non-trade	2,782,973	3,170,316
Accrued service fee receivable	31,682,378	38,141,058
Accrued interest receivable	4,968,568	1,609,354
Tax withheld receivable	3,664,411	2,429,702
Creditable value added tax	-	2,500
	87,532,626	78,091,408
Less: Allowance for doubtful accounts	11,439,632	9,872,029
	76,092,994	**68,219,379**

\1 This account represents outstanding premium receivable from the assured whose insurance policies were issued by private insurers with inception covering October 01, 2013 to December 31, 2013, in compliance to Insurance Commission's Circular Letter No.22-2009 dated November 8, 2007, that for purposes of determining compliance with the margin of solvency requirement of non-life insurance companies, premiums receivable to be considered as admitted assets must cover policies within the 90 days from inception as of the cut-off date.

For the current year, additional allowance for doubtful accounts of P 1,567,603 or 50 per cent has been provided which represents full provision for the unpaid extra-remuneration due from GSIS for PY2010 Accrued service fees receivable amounting to P3,135,204. Allowance for doubtful accounts was computed based on aging of accounts receivable and then multiplied by the rate or per cent of loss experienced by LIBI.

5. OTHER CURRENT ASSETS

This account consists of:

	2013	2012
Prepaid expense	662,834	700,428
Office supplies inventory	99,799	155,584
Input tax	70,868	65,386
	833,501	**921,398**

6. PROPERTY AND EQUIPMENT

This account consists of:

	Office Equipment	Information Technology	Furniture and Fixtures	Building and Improvements	Motor Vehicles	TOTAL
Cost, Jan. 1, 2013	5,371,497	-	2,176,028	37,515,423	2,849,429	47,912,377
Acquisitions	172,317	666,774		231,289	-	1,070,380
Reclassification	(284,937)					(284,937)
Dec. 31, 2013	5,258,877	666,774	2,176,028	37,746,712	2,849,429	48,697,820
Accumulated depreciation, Jan. 1, 2013	4,471,042	-	1,793,370	14,972,326	1,072,276	22,309,015
Depreciation	199,432	30,005	154,467	1,678,298	287,511	2,349,712
Reclassification	(252,160)					(252,160)
Dec. 31, 2013	4,418,314	30,005	1,947,837	16,650,624	1,359,787	24,406,567
Net carrying amount, Dec. 31, 2013	840,563	636,769	228,191	21,096,088	1,489,642	24,291,253
Net carrying amount, Dec. 31, 2012	900,455	-	382,658	22,543,096	1,777,153	25,603,362

7. INVESTMENTS – HELD –TO- MATURITY (HTM)

Details of this account are as follows:

	2013	2012
Retail treasury bonds	610,896,800	183,855,000
DBP-Tier II	75,000,000	-
Agrarian reform bonds	1,501,311	2,180,389
	687,398,111	**186,035,389**

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

	2013	2012
Retail treasury bonds	6.125% and 3.250%	5.876% to 6.125%
DBP-Tier II	4.875%	-

8. OTHER NON-CURRENT ASSETS

This account consists of:

	2013	2012
Miscellaneous deposits	72,169	72,169
Other assets	32,777	-
Investment in PLDT stocks	29,300	29,300
	134,246	**101,469**

9. TRADE AND OTHER PAYABLES

This account consists of:

	2013	2012
Due to principal \1	58,340,732	57,465,020
Accounts payable \2	42,384,066	22,083,237
Accounts payable – Others	36,203,171	6,212,036
	136,927,969	**85,760,293**

\1 This pertains to insurance premiums actually collected, net of LIBI's service fees for remittance to insurance companies. Also, included in CY 2013 is the corresponding Due to principal of booked Premium receivable under Note No. 4.

\2 This refers to advance payments of premiums by clients/assured awaiting issuance of insurance policies and/or matching of premium invoices. Transactions representing excess payments of premiums are also recorded under this account awaiting instruction from assured/LBP for its refund or application to future renewal of policies.

10. OTHER LIABILITIES

This account consists of:

	2013	2012
Accrued expenses payable	8,600,666	5,953,624
Handling fee payable	6,546,145	4,383,076
Output tax	1,291,550	467,064
Withholding tax payable	280,393	136,088
Gross receipts tax payable	79,619	50,215
LBP-MBC salary loan payable	1,267	3,980
Trustee fee payable	-	316,840
Miscellaneous liability	150,000	150,000
	16,949,640	**11,460,887**

11. CAPITAL STOCK

The Board of Directors approved the declaration of stock dividends of P75,000,000 or 750,000 shares per Board Resolution No. 07-03-006 dated March 28, 2007.

Additional 250,000 shares or P25,000,000 was declared and approved by the Board of Directors on September 25, 2007 representing full subscription of the corporation's authorized capital stock.

As at December 31, 2013, issued and outstanding shares totaled 3,000,000.

12. RETAINED EARNINGS

Declaration of Cash Dividend of P34,550,904 was approved on June 27, 2013 per Board Resolution No.2013-008-027. Payment of the cash dividend was made directly to Bureau of Treasury on August 22, 2013.

Previous allocations on retained earnings for prior years cash dividends with an aggregate amount of P111,000,000 was reversed in October 2013 since the purposes of the appropriations had already been served.

13. SERVICE FEES

Details of this account are as follows:

	2013	2012
Gross service fees	84,704,746	79,711,334
Less: Handling fees	7,379,760	4,145,860
	77,324,986	**75,565,474**

14. OTHER INCOME

Details of this account are as follows:

	2013	2012
Rental income	600,000	600,000
Interest on bank deposits (net)	365,850	259,459
Gain on foreign exchange	280,179	228,053
Bond discount	44,307	63,301
Dividend income	-	-
Miscellaneous income	48,382	44,847
	1,338,718	**1,195,660**

15. MANPOWER COSTS

This account consists of the following:

	2013	2012
Salaries and wages	8,521,293	8,556,050
Employees other benefits	5,497,032	4,625,912
Rice subsidy	787,840	798,450
Bonus to employees	544,833	713,631
SSS, EC and Medicare premium expense	484,852	475,230
Medical, dental and hospitalization	435,500	431,094
Uniform allowance	155,968	140,957
Overtime	234,772	139,843
Executive and employment development	139,407	72,350
HDMF premium expense	41,900	41,400
	16,843,397	**15,994,917**

16. OPERATING EXPENSES

Details of this account are as follows:

	2013	2012
Depreciation expense	2,349,712	2,626,542
Janitorial, security and contractual services	1,329,432	931,420
Directors and committee member's fees	1,085,000	688,146
Light and water	980,493	974,469
Office supplies and stationeries	714,464	642,069
Business development	600,897	719,240
Representation and entertainment	591,626	779,365
Postage, telephone and telegram	561,635	591,875
Audit fee	500,000	376,500
Professional fees	351,659	404,046
Insurance expense	191,298	230,364
Transportation and travel	180,960	266,996
Office rental	153,768	157,628
Rental - Office equipment	117,143	128,571
Repairs	61,711	43,804
Planning, sports and development	38,330	56,563
Books and periodicals	14,987	14,018
Advertising and promotion	3,848	5,162
Miscellaneous expense	690,666	599,101
	10,517,629	**10,235,879**

17. OTHER EXPENSES

This account consists of the following:

	2013	2012
Provision for probable losses	1,567,603	1,567,603
Trustee fee expense	500,936	1,356,764
Donation and contribution	50,000	-
Loss on Disposal of Office Equipment	-	49,182
	2,118,539	**2,973,549**

18. INCOME TAXES

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

	2013	2012
Provision for income tax	17,673,336	17,237,305
Income tax benefit	(470,281)	(470,281)
	17,203,055	**16,767,024**

Reconciliation of Income before income tax against taxable income is as follows:

	2013	2012
Income before income tax	84,747,124	84,350,410
Non-deductible expenses –provision for probable losses	1,567,603	1,567,602
Non-taxable income and income subjected to final tax:		
Interest income on investments	(26,993,449)	(28,137,570)
Interest income on bank deposits	(365,850)	(259,459)
Bond discount	(44,307)	(63,301)
Dividend income	-	-
Net Taxable income	58,911,121	57,457,682
Income Tax rate	30%	30%
Provision for income tax	**17,673,336**	**17,237,305**

Deferred tax asset/ Income tax benefit

	2013	2012
Deferred tax asset beginning of the year	3,090,676	2,620,395
Uncollected extra remuneration from GSIS		
PY2010 accrued extra remuneration	3,135,205	3,135,205
Percentage for probable losses	50%	50%
Provision for probable losses recorded at year end	1,567,603	1,567,603
Prevailing income tax rate	30%	30%
Deferred tax asset/income tax benefit recorded at year end	470,281	470,281
Balance at the end of the year	**3,560,957**	**3,090,676**

Income tax benefits shall be deducted in our future tax obligations if the receivables we have provided will have no economic benefits to the Company.

In compliance with the requirements set forth by the RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

A. LIBI is a VAT- registered company with VAT output tax declaration of P10,667,410 based on actual collections during the year of service fees and rental income amounting to P88,895,085. Actual VAT paid for the year amounted to P9,995,926 after applying input tax of P643,984 and creditable withholding tax of P27,500.

The LIBI's secondary purpose is to engage in the business of buying and selling of foreign currencies and paid the amount of P 719,256 charged under Taxes & licenses account representing gross receipt tax pursuant to RR 9-2004 regulations and based on the amount reflected in the Trading income account of P 10,282,234.

B. The amount of VAT input taxes claimed are broken down as follows:

Beginning of the year		65,386
Current year's purchases:		
Capital Goods	13,928	
Gross other than for resale or manufacture	157,066	
Services lodged under other accounts	472,990	
Claims for tax credit/ refund and other adjustment	(638,502)	5,482
Balance at the end of the year		**70,868**

C. Other taxes and licenses charged under Taxes and licenses account are as follows:

a) Local	
Mayor's permit	665,964
Real property tax	188,050
Real estate tax	100,037
Community tax certificate	10,500
Barangay clearance	1,100
	965,651
b) National	
Gross receipt tax	719,756
License and filing fee – Insurance Commission	20,100
Registration of motor vehicle at LTO	4,158
Fringe benefit tax	2,033
BIR annual registration	1,000
	747,047
Balance at the end of the year	**1,712,698**

D. The income taxes/withholding taxes paid/accrued for the year amounted to:

Corporate tax	11,339,903
Creditable withholding tax at source (paid in advance by LIBI and used as Tax credits)	6,268,532
Tax on compensation and benefits	1,520,071
Creditable withholding tax from suppliers	303,436

There is an outstanding Letter Notice (LN) 047-RLF-11-00-00123 dated January 28, 2013 regarding discrepancy resulting from Reconciliation of Listing for Enforcement (RELIEF) and Third Part Matching – Tax Reconciliation System (TRS) as declared in LIBI's tax returns filed for CY2011 particularly VAT returns filed by suppliers. Required documents needed to refute the findings were forwarded to the BIR.

19. RELATED PARTY DISCLOSURES

19.1 The financial statements include various transactions with its parent and affiliated companies. The more significant related party transactions, arising from normal course of business, include the following:

19.2 The LIBI with its foreign exchange trading division, LIBI-Forex, entered into a lease contract agreement with its parent company, LBP. The essential terms and conditions of the contract are as follows:

a. That LIBI (Lessee) has agreed to lease from LBP (Lessor) an office space with an aggregate floor area of 64.07 sq. m., at the 14th Floor of Land Bank Plaza located at 1598 M. H. del Pilar cor. Dr. J. Quintos Sts., Malate, Manila.

b. The term of the lease shall be for a period of five years, commencing from November 01, 2012 and shall expire on October 31, 2017.

c. The Lessee shall pay a concessional rate of P200 per sq. m. or Pesos; Twelve Thousand Eight Hundred Fourteen and 00/100 (P12,814.00) per month, inclusive of electricity, electrical fixtures, water, toilet fixtures/ supplies, (except the telephone), which rental shall be payable upon receipt of notice/billing statement from Lessor.

d. The Lessee shall share pro-rata in the cost of the receptionist, janitorial services, pest, and similar expenses to maintain the floor area, and the cost shall be computed based on the leased area divided by the total floor area, which amount shall be payable upon receipt of notice/billing statement from the Lessor.

19.3 To defray expenses in appraisal, inspection of property to be insured and other administrative matters such as collection of payments of insured properties, handling fees are given to our clients, the LBP units, branches and subsidiaries. For the current year, handling fee accrued and payable to LBP units, branches and subsidiaries reached P7,379,761.

19.4 Compensation of key management personnel for 2013 and 2012 are as follows:

	2013	2012
For the Retired President and New General Manager		
Total salaries and wages	972,166	2,243,775
Total short-term employee benefits (RA, per diem, bonuses, medical benefits)	628,608	1,045,003
	1,600,774	3,288,778
For Corporate officers who are employees of the parent company, LBP		
Total short-term employee benefits (RA, per diems and bonuses)	187,743	206,000
Total compensation paid to key management personnel	1,788,517	3,494,778

19.5 A Trust Agreement was made and entered between LIBI and LBP – Trust Banking Group (LBP-TBG) on July 18, 2011 thereby appointing the latter as the Trustee of LIBI's Retirement Benefit Plan. The essential terms and conditions of the agreement are as follows:

a. The Trustor (LIBI) shall deliver and pay to the Trustee such sums representing the annual contributions of the Trustor as provided in the Plan, starting with the contribution for the current year in the amount of PESOS: Ten Million One Thousand Pesos (Php10,001,000.00).

b. The Trustor hereby waives all its rights and interest to the money or properties which are and will be paid or transferred to the Fund, to the extent required to provide the benefits pursuant to the Plan.

c. The Trustee shall hold the title to the Fund to be held in trust for the purpose stated in and subject to all the terms and conditions of the Agreement as well as the Plan, which shall be deemed part of this Agreement. The Trustee shall invest and re-invest the Fund, together with all increments and proceeds in fixed-income government securities like Treasury bills or notes, Agrarian reform bonds, Retail treasury bonds, BSP Special Deposit Account and other financial instruments duly guaranteed by the Republic of the Philippines; deposit arrangements/special deposit account with reputable banks including the Trustee's own commercial banking sector; and common or preferred shares of stocks, bonds or note issued by blue-chips private and government-owned corporations. Other investment outlets shall require prior written approval of the Trustor.

d. To cause any asset acquired from the investment/reinvestment of the Fund to be held, registered and issued in its own name as Trustee or in the name of its nominee, provided, that the books and records of the Trustee shall at all times show that all such properties are part of the Fund. To pay all costs, fees, charges and such other expenses connected with the investments, administration, reservation and maintenance of the Fund and to charge the same to the Fund.

e. In the management of the fund, the Trustee shall pay to the members of the beneficiaries the benefits under the Plan upon written advice of the Trustor. To keep and maintain books of accounts and/or records of the management and operations of the Fund, which the Trustor or its authorized representative may inspect from time to time. At the end of every calendar quarter, to submit the financial reports, investment activity reports or such other reports as may be requested by the Trustor. The Trustee shall administer the funds held in trust with such degree of skill and care as a prudent man would exercise in the conduct of an enterprise of like character and with similar aims.

f. For its services, the Trustee shall be entitled to a fee equivalent to 0.75 per cent per annum of the average total assets of the Fund, computed daily and collected at the end of each quarter. The Trustee is hereby authorized to debit its fees from the Fund. The above fee is quoted with the understanding that the same may be reviewed at the request of either party and adjusted in a mutually satisfactory basis.

g. Except for fraud, bad faith or gross negligence, the Trustee shall not be liable for any losses or depreciation in the value of the Fund resulting from investments or reinvestments thereof as authorized herein, or from the performance of any act in accordance with the provision of the Agreement. This Agreement shall not guarantee a yield, return of income on the investment/reinvestments of the Fund as the same can fall as well as rise depending on prevailing market conditions and is not covered by Philippine Deposit Insurance Corporation. Losses, if any, shall be for the account of the Trustor (pursuant to Section X409.1 of the Manual of Regulations for Banks - Part IV).

h. The Agreement shall remain in full force and effect until the termination of the Plan unless sooner terminated by either party hereto by giving thirty days advance notice to the other.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

LIBI recognizes the importance of an effective financial risk management program and a Risk Management Manual was finalized and approved by the members of the Board in 2009.

The objective of the Manual is to serve as basis and reference of consistent risk management that is applicable to all employees of LIBI. It aims to create a culture of risk-awareness, not risk-aversion based on the prudential framework required by BSP circulars. It provides a general set or risk principles delegated to each business unit through its reporting and approval procedures.

A Risk Management Committee was created to be primarily responsible for the development and oversight of the risk management programs of LIBI which include oversight of management functions and approval of proposals regarding LIBI's policies, procedures and best practice relative to asset and liability management, credit, market and business operations risks ensuring that insurance requirements of its mother unit Land Bank of the Philippines and their lending units are passed on to LIBI; system of limits remain effective; and immediate corrective actions are taken whenever limits are breached or whenever necessary.

As part of identification risk, the following are classified as major risks that LIBI manages in the course of its business.

Market Risk

Market risk can be generally defined as risk of loss, immediate or over time, due to adverse, fluctuations in price or market value of instruments, products and transactions in LIBI's overall portfolio. Market risks are central focus of risk measurement methodologies and limits, as well as gauge by which LIBI can determine returns it will require for its activities.

Insurance Division

Net premium volume produced during the year amounted to P533,830,853, a decrease of P22,081,147 or 3.97 per cent compared to last year's P555,912,625 net premium volume. This was primarily due to the reduction in premium production of GSIS accounts by P126,618,515 or 48.24 per cent, from P262,467,303 million premium production last year compared to only P135,848,788 this year. This was a consequence of the unforeseen and unilateral termination of GSIS of the Memorandum of Agreement (MOA) between LIBI and GSIS on May 31, 2013. Nevertheless, the impact of the loss of GSIS accounts for the period June 01, 2013 to December 31, 2013 has not adversely affected LIBI's performance for the year because premium production in private insurers of the current year of P397,981,064 increased significantly by P104,535,742 or 35.62 per cent compared to last year's premium production of P293,445,322 million.

Net service fees from insurance brokering for the year of P77,324,986 is P1,759,512 million or 2.33 per cent higher against last year's P75,565,474 net service fees. Despite service fees derived from private insurers of P63,275,120 is higher by P7,769,112 or 14% compared to last year's figure of P55,506,008, the increase in total service fees from all sources represents only a net effect increase of 2.34 per cent because of the decline in current year's extra remuneration of P5,610,982 or 34.12 per cent against last year's extra remuneration of P16,442,570 as a result of the MOA termination. Further, contingent profit commission (CPC) received from the company's accredited insurers who did not suffer from claim losses this year amounted to P3,227,324, which was P389,247 or 10.77 per cent lower against last year's CPC of P3,616,571.

LIBI, as a subsidiary of LBP, has already a captured market for its products and services. Nonetheless, LIBI continues to intensify its campaign to solicit more direct business from private corporations and other government entities.

Forex Division

Volume of dollars traded by LIBI-Forex Division for CY2013 amounted to USD97,733,723. This represents a negative variance of USD13,495,579 or 12.14 per cent compared to last year's volume of dollars traded of USD111,229,302. This was due to non-recurring transaction (infusion of foreign investment in the amount of USD25,000,000) of one of the client of LBP's Corporate Banking Department I. Likewise, decline in volume of forex transaction from Overseas Remittance Group and LBP branches affected LIBI-Forex performance this year. Average spread has increased from .094 centavos in to 2012 to .105 in 2013, equivalent to 11.70 percent or .011 centavos.

Foreign Exchange risk

LIBI-Forex's foreign currency held for trading has a minimal balance of P643,439 which is 0.65 per cent of the division's total assets of P98,201,416, thus, foreign exchange risk is low.

Liquidity Risk

It is the risk that LIBI will be unable to make a timely payment of any of its financial obligations to customers or counterparties in any currency. Trading Liquidity risk refers to inability to unwind positions created from markets, exchanges and counterparties due to temporary or permanent factors.

Prudent liquidity risk management implies sufficient cash and cash equivalents and marketable securities. Insurance and Forex Divisions' cash inflows from operations and readily marketable government securities investments provide the bulk of LIBI's liquidity buffer.

Interest Rate risk

This is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. LIBI's fixed rate investments like short-term and held-to-maturity investments are exposed to such risk. Interest income derived from investments this year of P26,993,449 was lower by 4.07 per cent or equivalent to P1,144,121 against last year's interest income of P28,137,570. This was due to continued decline in market interest rates.

It is the policy of LIBI to invest excess funds in government securities (GS) of which the servicing and repayments are fully guaranteed by the government. The investment in GS may be placed with the Land Bank Treasury and Investment Banking Group or Land Bank Trust Banking Group.

LIBI's Investment Committee observes diversified GS portfolio, varied maturity spectrum and optimum yields in deciding the type and term of investment. When yields of GS are expected to go down, LIBI buys long-term GS in order to lock-in on high yielding GS. Conversely, when yields are expected to go up, it buys short-term GS to stay liquid and be able to switch to high yielding GS when rates start to pick up.

LIBI's principal financial instruments comprise of cash deposits; short-term investment in the form of Special Deposit Account (SDA) to Bangko Sentral ng Pilipinas, held-to-maturity investments (HTM) consist primarily of investment in government securities like Retail treasury bonds, DBP tier-II and Agrarian reform bonds. These are not subjected to mark-to-market valuation but impairment testing is being done on HTM in RTBs.

A total of P456,000,000 previously under SDA were shifted to HTM. Total HTM investments as at December 31, 2013 is P687,398,111, which is 69.09 per cent of the LIBI's total assets. Liquid assets of P203,182,659 are 1.27 times the total liabilities of P159,251,076.

The table below summarizes the Maturity Profile of the Corporation's Assets, Liabilities and Capital.

	Up to 3 mos.	3- 6 mos.	6 mos. to 1 year	More than 1 year	TOTAL
ASSETS					
Cash and cash equivalents	202,539,220	-	-	-	202,539,220
Foreign currency held for Trading	643,439	-	-	-	643,439
Trade and other receivables	35,254,896	7,034,329	7,638,654	26,165,115	76,092,994
Other current assets	676,697	94,936	38,974	22,894	833,501
Property and equipment	345,682	654,113	31,875	23,259,583	24,291,253
Investments-held to maturity	75,000,000	20,000,000	407,041,800	185,356,311	687,398,111
Other non-current assets	-	-	-	134,246	134,246
Deferred Tax Asset	470,281			3,090,676	3,560,957
Total Assets	314,930,215	27,783,378	414,751,303	238,028,825	995,493,721
LIABILITIES AND EQUITY					
Trade and other payables	110,502,849	7,007,346	9,644,792	9,772,982	136,927,969
Other liabilities	9,915,379	4,062,130	25,628	2,946,503	16,949,640
Income tax payable	5,815,544	-	-	-	5,815,544
Capital	19,380,927	17,473,849	30,689,293	768,256,499	835,800,568
Total Liabilities and Stockholders' Equity	145,614,699	28,543,325	40,359,713	780,975,984	995,493,721

Credit risk

Insurance Division

a. Direct Credit Risk – is the risk that a customer or counterparty will be unable to pay obligations on time or in full as expected or previously contracted, subjecting LIBI to a financial loss. It lasts for the entire tenor and is set at full amount of a transaction. The possibility of non-collection of Accounts Receivable within one year is moderate due to intensified collection through faster sending of Statement of Accounts thru fax, email, mail and frequent follow-ups by phone. LIBI's collection rate of 90.47 per cent for the current year is 1 per cent lower than the 91.47 per cent collection rate last year. The management has negotiated with Land Bank of the Philippines for the advance payment of policies by the branches/lending units.

Forex Division

b. Counterparty Risk – is the risk that occurs from transactions where reciprocal obligations are made between LIBI and counterparties or customers.

- Pre-Settlement Risk - risk that LIBI-Forex's counterparty or customer defaults prior to settlement date of transaction and will be unable to fulfill the transaction. LIBI would then be subjected to exposure equivalent to economic replacement cost for defaulted contract (a current market value) plus a potential increase in that cost due to future market fluctuation.

- Settlement Risk – occurs from simultaneous exchange of value with a customer or counterparty, where verification of payment from counterparty is not received until after LIBI-Forex's is already delivered. Should a nondelivery on the part of the counterparty occur, LIBI-Forex is exposed to direct credit risk.

- Clearing Risk – occurs from payments and transfer made on or behalf of customers, where transfers are made prior to verification of reimbursement. Similar to settlement risk, LIBI-Forex is exposed to direct credit risk if customer fails to make reimbursement

Settlement and clearing risks are noteworthy in that these may be controlled by using operational or transactional methods such as delaying payment until receipt of funds is confirmed from the counterparties.

Compliance to Anti-Money Laundering Law and BSP regulations has to be conscientiously observed all throughout LIBI-Forex trading transactions. Trading personnel are encouraged to attend trainings/seminars for enhancement in trading skills and to keep abreast with new regulations (if any) from its regulatory body, the BSP.

21. COMMITMENT

LIBI has renewed its Full Service and Maintenance Agreement (FSMA) with FUJI XEROX Philippines, Inc. for another term of 48 months that commenced on December 04, 2013 and shall expire on December 04, 2017. New and upgraded equipment had been installed to replace the old model. The renewed FSMA contains same terms and conditions as with the previous one except for the following:

1. Decrease in monthly rental of P800, from P12,000 to P11,200.
2. Decrease in charge per copy of P0.11, from P0.56 centavos to P0.45 centavos