

## EXECUTIVE SUMMARY

### INTRODUCTION

The LBP Insurance Brokerage, Inc. (LIBI) was organized as a wholly-owned subsidiary of the Land Bank of the Philippines on October 22, 1981 under Securities and Exchange Commission Registration No. 105764. LIBI was primarily established to service the bank's insurance requirements and other government offices. It was created for the purpose of engaging in the business of general insurance brokerage management and consultancy services on insurance-related activities.

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 of goods and merchandise.

On May 16, 1983, its Articles of Incorporation was amended increasing the number of directors of the Board from 9 to 11. This was further amended on October 17, 1994 increasing the Corporation's authorized capital stock from P20,000,000 to P300,000,000.

The LIBI is currently headed by a General Manager. The policy-making body of the Corporation is its Board of Directors presently consisting of 10 members appointed by the President of the Philippines. It has a total of 40 personnel complement, of which 35 are permanent and 5 are contractual employees, who are assigned specific duties at the Insurance and Forex Divisions.

### SCOPE OF AUDIT

The audit covered the examination, on a test basis, of accounts and transactions of the LBP Insurance Brokerage, Inc. for the period January 1 to December 31, 2014 in accordance with the Philippine Standards on Auditing.

### FINANCIAL HIGHLIGHTS (In Philippine Peso)

#### I. Comparative Financial Position

	2014	2013	Increase/ (Decrease)
Assets	1,115,689,397	995,493,721	120,195,676
Liabilities	237,714,271	159,693,153	78,021,118
Equity	877,975,126	835,800,568	42,174,558

## II. Comparative Results of Operations

	2014	2013	Increase/ (Decrease)
Total revenues	133,199,905	115,939,387	17,260,518
Manpower costs	15,454,934	16,843,397	(1,388,463)
Operating expenses	11,198,036	10,517,629	680,407
Taxes and licenses	1,705,998	1,712,698	(6,700)
Other expenses	8,832,487	2,118,539	6,713,948
Total expenses	37,191,455	31,192,263	5,999,192
Net income before tax	96,008,450	84,747,124	11,261,326
Provision for income tax	20,245,192	17,203,055	3,042,137
Net income after tax	75,763,258	67,544,069	8,219,189

## III. Comparative Budget and Actual Expenditures

Particulars	Budget		Utilization	
	2014	2013	2014	2013
Personal services	18,516,008	19,181,922	15,454,934	16,843,397
Maintenance and other operating expenses	18,186,097	16,049,505	21,736,521	14,348,866
Capital expenditures	1,726,000	1,609,982	1,579,018	1,070,380
	<b>38,428,105</b>	<b>36,841,409</b>	<b>38,770,473</b>	<b>32,262,643</b>

## INDEPENDENT AUDITOR'S OPINION

The Auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of LIBI as at December 31, 2014, with emphasis of matters.

## SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. Despite the declaration of cash dividend of P41.246 million and appropriation of P110 million for LIBI's procurement and expansion programs, an excess of Unappropriated Retained Earnings over Capital Stock amounting to P78.729 million still remains, which is prohibited under the Corporation Code of the Philippines and SEC Memorandum Circular No. 11.

1.1 We recommended that Management submit for Board's approval a concrete plan to appropriate the excess amount of retained earnings after the declaration of dividend for CY 2014 to comply with the provisions of paragraph 2 of Section 43 of the Corporation Code of the Philippines and Section 6 of SEC Memorandum Circular No. 11, series of 2008.

2. The unexpired insurance premium pertaining to the Credit Life Insurance (CLI) covering LBP's Employee Salary Loan (ESL) and the related service fee totaling P50.425 million and P11.253 million, respectively, may not be collected and/or refunded by Philippine Prudential Life Insurance Company, Inc. (PPLICI) due to LIBI's

discontinuance of business with the former without prior written notification, which could result in financial loss to LIBI.

2.1 We recommended that Management:

- a. Work out with PPLICI the collection or refund of the unexpired portion of premiums and corresponding service fee totaling P61,678,322.82 and cause the remittance of the premiums due to Philam Life;
- b. Determine the liability of concerned officers for the losses that may be incurred in case of inability to collect from PPLICI; and
- c. Closely monitor and strictly enforce compliance by LIBI with the provisions in MOA entered into with insurance companies to prevent similar case in the future which may result in financial losses to LIBI.

3. The balance of the Due to Principal account as shown in the Aging Schedule was not reconciled with the book balance showing a difference of P4.780 million due to the deficiencies in the Integrated Insurance Brokerage System (IIBS), hence, the use of the said schedule as a monitoring tool could not be maximized.

3.1 We reiterate our recommendation that Management address the problems encountered in the computerized system relating to the generation of the correct aging schedule of the Due to Principal account to maximize the use of the report/schedule.

4. The AR-Trade, Due to Principal, Accrued Service Fee Receivable and Gross Service Fee accounts were overstated due to the pending action on the requests of some LBP Lending Centers (LC) for cancellation of insurance policies of its borrowers and deletion of fully paid and missent accounts totaling P4.092 million.

4.1 We recommended that Management:

- a. Require the Marketing Division to closely monitor the requests for cancellation and other concerns of the agents so that endorsements to concerned insurance companies could immediately be facilitated and the subsequent cancellation/adjustments by the Accounting Division could be made, and
- b. Require the analysis of accounts especially those accounts outstanding in the books beyond 365 days from inception date, in coordination with the Marketing Division, and prepare the necessary adjusting entries if warranted, for fair presentation of the affected accounts in the financial statements.

5. The reasonableness of the amount set aside for the retirement fund of LIBI employees totaling P11.046 million could not be determined due to the absence of an actuarial valuation of the retirement plan by a duly certified independent actuarial firm.

5.1 We recommended that Management:

a. Facilitate the hiring of the services of an actuarial firm to evaluate the cost of retirement of LIBI employees as at December 31, 2014 to determine the adequacy of the fund deposited at LBP TBG, and the amount of liability that should be recognized in the books, and

b. Require the Accountant to disclose in the Notes to Financial Statements the result of the actuarial firm's valuation of the Retirement Plan as required under Philippine Accounting Standards 19.

#### **SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES**

The audit disallowance as at December 31, 2014 amounting to P1.697 million pertains to the issued Notice of Disallowance No. LBP-Subs. 2008-015 (2002-2003) on August 11, 2008 (which was prior to the use of the Rules and Regulations on Settlement of Accounts) for the payment of additional allowances and benefits of LBP Officials acting as Officers/Board of Directors of LIBI. There are no other outstanding audit suspensions and disallowances as at year-end.

#### **STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Out of 14 audit recommendations embodied in the prior years' Annual Audit Reports, eight were fully implemented, five were partially implemented and one was not implemented. The details of the partially implemented and not implemented audit recommendations are presented in Part III of the report.



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Ave., Quezon City  
**CORPORATE GOVERNMENT SECTOR**  
**CLUSTER 1 – BANKING AND CREDIT**

**INDEPENDENT AUDITOR'S REPORT**

**The Board of Directors**  
**LBP Insurance Brokerage, Inc.**  
12<sup>th</sup> Floor, SSHG Law Center  
105 Paseo de Roxas  
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, 2014, and the statement of comprehensive 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.

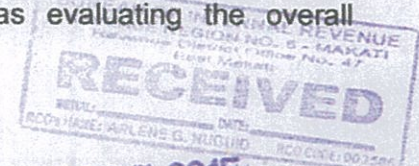
**Management's Responsibility for the Financial Statements**

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 Philippine 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.

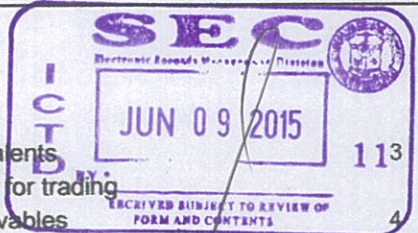


**MAY 27 2015**



**LBP INSURANCE BROKERAGE, INC.**  
 (A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2014**  
 (In Philippine Peso)

	Note	2014	2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	113	279,754,767	202,539,220
Foreign currency held for trading		353,911	643,439
Trade and other receivables	4	119,047,045	76,092,994
Other current assets	5	1,006,417	833,501
<b>Non-current assets</b>			
Property and equipment	6	23,541,822	24,291,253
Investment property	7	998,316	0
Investments-held-to-maturity	8	685,267,849	687,398,111
Other non-current assets	9	139,845	134,246
Deferred tax asset	21	5,579,425	3,560,957
		<b>715,527,257</b>	<b>715,384,567</b>
<b>TOTAL ASSETS</b>		<b>1,115,689,397</b>	<b>995,493,721</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	212,410,174	136,927,969
Income taxes payable	22	7,591,296	5,815,544
Other liabilities	11	17,712,801	16,949,640
		<b>237,714,271</b>	<b>159,693,153</b>
<b>Equity</b>			
<b>Capital stock</b>			
Authorized capital stock 3,000,000 common shares @ P100 par value			
Issued and outstanding 3,000,000 common shares	12	300,000,000	300,000,000
<b>Retained earnings</b>			
Retained earnings - appropriated	13	48,000,000	155,000,000
Retained earnings free		529,975,126	380,800,568
		<b>577,975,126</b>	<b>535,800,568</b>
		<b>877,975,126</b>	<b>835,800,568</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,115,689,397</b>	<b>995,493,721</b>



The Notes on pages 8 to 30 form part of these financial statements.



**LBP INSURANCE BROKERAGE, INC.**  
 (A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENT OF COMPREHENSIVE INCOME**  
 For the year ended December 31, 2014  
 (In Philippine Peso)

	Note	2014	2013
<b>INCOME</b>			
Service fees	14	93,643,150	77,324,986
Interest income on investments	15	27,990,372	26,993,449
Trading income	16	9,994,891	10,282,234
Other income	17	1,571,492	1,338,718
		<b>133,199,905</b>	<b>115,939,387</b>
<b>EXPENSES</b>			
Manpower costs	18	15,454,934	16,843,397
Operating expenses	19	11,198,036	10,517,629
Taxes and licenses		1,705,998	1,712,698
Other expenses	20	8,832,487	2,118,539
		<b>37,191,455</b>	<b>31,192,263</b>
<b>INCOME BEFORE TAX</b>		<b>96,008,450</b>	<b>84,747,124</b>
PROVISION FOR INCOME TAX	21	20,245,192	17,203,055
<b>NET INCOME</b>		<b>75,763,258</b>	<b>67,544,069</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>0</b>	<b>0</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>75,763,258</b>	<b>67,544,069</b>

The Notes on pages 8 to 30 form part of these financial statements.

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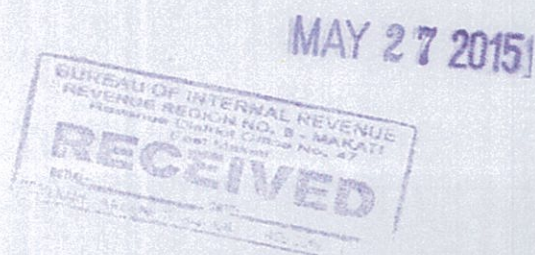




**LBP INSURANCE BROKERAGE, INC.**  
 (A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENT OF CHANGES IN EQUITY**  
**For the year ended December 31, 2014**  
 (In Philippine Peso)

	Capital Stock (Note 12)	Retained Earnings (Note 13)		TOTAL
		Appropriated	Unappropriated	
Balance at January 1, 2014	300,000,000	155,000,000	380,800,568	835,800,568
Cash dividend			(34,555,836)	(34,555,836)
Reversal of appropriations		(107,000,000)	107,000,000	0
Prior period adjustment			967,136	967,136
Net income			75,763,258	75,763,258
<b>Balance at December 31, 2014</b>	<b>300,000,000</b>	<b>48,000,000</b>	<b>529,975,126</b>	<b>877,975,126</b>
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)
Reversal of appropriations		(111,000,000)	111,000,000	0
Net income			67,544,069	67,544,069
<b>Balance at December 31, 2013</b>	<b>300,000,000</b>	<b>155,000,000</b>	<b>380,800,568</b>	<b>835,800,568</b>

The Notes on pages 8 to 30 form part of these financial statements.



**LBP INSURANCE BROKERAGE, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**STATEMENT OF CASH FLOWS**  
For the year ended December 31, 2014  
(In Philippine Peso)

	Note	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Service fees - insurance received		89,697,963	83,783,666
Interest received		28,087,872	23,634,235
Trading income received		9,994,891	10,282,234
Other income received		1,223,980	1,014,231
Cash payments for manpower and operating expenses		(31,739,458)	(25,356,300)
Cash received from insurance companies		22,779,780	34,119,685
		120,045,028	127,477,751
Income taxes paid		(8,827,031)	(7,737,827)
<b>Net cash generated from operating activities</b>		<b>111,217,997</b>	<b>119,739,924</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	6	(1,604,018)	(1,070,380)
Placements to held to maturity investments		0	(553,585,534)
Proceeds from maturities of investments		2,157,404	52,267,119
<b>Net cash provided by/(used in) investing activities</b>		<b>553,386</b>	<b>(502,388,795)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividend paid	13	(34,555,836)	(34,550,904)
<b>Net cash used in financing activities</b>		<b>(34,555,836)</b>	<b>(34,550,904)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>77,215,547</b>	<b>(417,199,775)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>202,539,220</b>	<b>619,738,995</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	3	<b>279,754,767</b>	<b>202,539,220</b>

The Notes on pages 8 to 30 form part of these financial statements.

MAY 27 2015



**LBP INSURANCE BROKERAGE, INC.**  
(A wholly-owned subsidiary of Land Bank of the Philippines)  
**NOTES TO FINANCIAL STATEMENTS**  
(All Amounts in Philippine Peso unless otherwise stated)

**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 from 9 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 of goods and merchandise.

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

**1.2 Authorization for Issue of the 2014 Financial Statements**

The financial statements of LIBI for the year ended December 31, 2014 were authorized for issue by the Board of Directors per Board Resolution No. 2015-001-002 dated February 2, 2015.

**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 Corporation'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 Accounting Standards (PAS)/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 Reporting Period**, 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 12, Income Taxes**, prescribes the accounting treatment for income taxes. Current tax for the current and prior periods should be recognized as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceed the amount due. Current tax assets and liabilities should be measured at the amount expected to be paid to (recovered from) taxation authorities, using the rates/laws that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

**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 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.

**PAS 40, Investment Property**, provides that Investment property should be recognized as an asset when it is probable that the future economic benefits that are associated with the property will flow to the enterprise, and the cost of the property can be reliably measured. Investment property is initially measured at cost, including transaction costs. Such cost should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.

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 statement of financial position comprises cash on hand and in banks. Cash equivalents consists of short-term investments in marketable government securities with maturities not exceeding three 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, Retail Treasury Bonds are stated at amortized cost using effective interest method.

## 2.7 Trade and Other receivables

LIBI acts as an agent in placing the insurable risks of its clients with insurers and as 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 percent 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 comprehensive 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<sup>1</sup> 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 comprehensive 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 comprehensive 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 reporting 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 of the realization of the related Income Tax Benefit through future taxable income.

## 2.11 Employee Benefits

In compliance with the provisions of the Retirement Law [Republic Act (R.A.) No. 7641], which requires corporation to provide retirement benefits for their employees, and the National Internal Revenue code (R.A. No. 8424), which allows tax deductibility of employer's contributions for the retirement benefits of its employees, LIBI has established a retirement fund pursuant to Board Resolution No. 2010-006-012 dated July 30, 2010. The retirement benefit plan is a defined benefit type and is non-contributory.

The set-up of Retirement Fund Liability was approved by the Board of Directors on September 01, 2010 per Board Resolution No. 2010-007-013.

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<sup>1</sup> 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 cost of defined benefit plan is determined by using actuarial valuation, hence, 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 rates 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;
- 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 (LBP-TBG) 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 would be done by the LIBI Administrative Head, which would be checked periodically by the Accounting Head.

Out of the original 39 eligible employees, 10 employees availed of the Retirement Fund wherein retirement benefits totaling to P4,179,503 were withdrawn from the fund as at December 31, 2014. The remaining balance of the Retirement Fund as at December 31, 2014 is P5,871,004. Net interest income earned since the transfer of the fund on July 18, 2011 to LBP-TBG reached P1,008,464 as at December 31, 2014.

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. Thus, the Corporation is obtaining price offers for selection of an actuarial firm to maintain actuarial soundness of the remaining retirement fund.

### 3. CASH AND CASH EQUIVALENTS

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

	2014	2013
Petty cash fund	27,000	27,000
Revolving fund	451,539	150,476
Cash in bank	279,276,228	202,361,744
	<b>279,754,767</b>	<b>202,539,220</b>

### 4. TRADE AND OTHER RECEIVABLES

This account consists of:

	2014	2013
Accounts receivable – Trade <sup>11</sup>	90,053,086	44,434,296
Accounts receivable – Non-trade	1,760,472	2,782,973
Accrued service fee receivable	35,627,566	31,682,378
Accrued interest receivable	4,871,068	4,968,568
Tax withheld receivable	4,895,213	3,664,411
Creditable value added tax	7,500	0
	137,214,905	87,532,626
Less: Allowance for doubtful accounts	18,167,860	11,439,632
	<b>119,047,045</b>	<b>76,092,994</b>

<sup>11</sup> This account represents outstanding premium receivable from the assured whose insurance policies were issued by private insurers.

For the current year, allowance for doubtful accounts amounting to P6,728,228 was provided for the Accrued service fee receivable account:

Aging	Accrued Service Fee Receivable	% of Allowance	Allowance for Doubtful Accounts (Note 20)
<b>Extra Remuneration-GSIS</b>			
2013	2,123,551	50%	1,061,775
2012	2,565,244	50%	1,282,622
2011	3,426,764	100%	3,426,764
	<b>8,115,559</b>		<b>5,771,161</b>
<b>Accrued Service Fees-Private Insurers</b>			
Over 90 days to 365 days	914,797	15%	137,219

365 days (service fee on partially paid salary loans) \ <sup>1</sup>	1,770,649	25%	442,662
Over 365 days	377,186	100%	377,186
	<b>3,062,632</b>		<b>957,067</b>
			<b>6,728,228</b>

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.

\<sup>1</sup> This represents accrued service fee on unexpired premium collectible from Philippine Prudential Life Insurance Company, Inc. (Note 24).

## 5. OTHER CURRENT ASSETS

This account consists of:

	2014	2013
Prepaid expense	697,813	662,834
Input tax	209,780	70,868
Office supplies inventory	97,417	99,799
Advances to suppliers	1,407	0
	<b>1,006,417</b>	<b>833,501</b>

## 6. PROPERTY AND EQUIPMENT

This account consists of:

	Office Equipment	Information Technology	Furniture and Fixtures	Building and Improvements	Motor Vehicles	TOTAL
Cost,						
Jan. 1, 2014	5,258,877	666,774	2,176,028	37,746,712	2,849,429	48,697,820
Acquisitions	360,715	79,018			1,164,285	1,604,018
Balance,						
Dec. 31, 2014	<b>5,619,592</b>	<b>745,792</b>	<b>2,176,028</b>	<b>37,746,712</b>	<b>4,013,714</b>	<b>50,301,838</b>
Accumulated depreciation,						
Jan. 1, 2014	4,418,314	30,005	1,947,837	16,650,624	1,359,787	24,406,567
Depreciation	223,552	127,131	14,190	1,701,065	287,511	2,353,449
Balance,						
Dec. 31, 2014	<b>4,641,866</b>	<b>157,136</b>	<b>1,962,027</b>	<b>18,351,689</b>	<b>1,647,298</b>	<b>26,760,016</b>
Net carrying amount,						
Dec. 31, 2014	<b>977,726</b>	<b>588,656</b>	<b>214,001</b>	<b>19,395,023</b>	<b>2,366,416</b>	<b>23,541,822</b>
Net carrying amount,						
Dec. 31, 2013	<b>840,563</b>	<b>636,769</b>	<b>228,191</b>	<b>21,096,088</b>	<b>1,489,642</b>	<b>24,291,253</b>

## 7. INVESTMENT PROPERTY

This represents assets acquired through dacion en pago from the former employee with outstanding obligation amounting to P998,316. The dacioned properties consist of two parcels of land containing a total area of 5,847 square meters and are located at Catbalogan, Western Samar. The concerned employee was given the right to repurchase the properties within one year. However, it did not materialize. Hence, these were consolidated in the name of LIBI. The appraised value of one lot amounted to P876,900 while there is no appraisal yet conducted for the other one. Management will request appraisal of the said lot from LBP.

## 8. INVESTMENTS – HELD –TO- MATURITY

Details of this account are as follows:

	2014	2013
Retail treasury bonds	609,448,949	610,896,800
DBP-Tier II	75,000,000	75,000,000
Agrarian reform bonds	818,900	1,501,311
	<b>685,267,849</b>	<b>687,398,111</b>

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

	2014	2013
Retail treasury bonds	6.125% and 3.250%	6.125% and 3.250%
DBP-Tier II	4.875%	4.875%

Board Resolution No. 2014-009-027 dated October 29, 2014 approved the request of LBP Leasing Corporation (LLC) for the assignment of P500,000,000 worth of government securities – Retail Treasury Bonds as partial collateral for LLC's existing short term loan from Land Bank of the Philippines. The Deed of Assignment by way of security was executed on October 31, 2014 by and between LIBI and LLC for a period of two years. In consideration of the assignment, LLC shall pay LIBI a guarantee/assignment fee equivalent to 1/8 of 1 per cent or P625,000 per annum or P52,083.33 per month. Payment of the guarantee/assignment fee will be on a monthly basis.

## 9. OTHER NON-CURRENT ASSETS

This account consists of:

	2014	2013
Miscellaneous deposits	77,769	72,169
Other assets	32,776	32,777
Investment in PLDT stocks	29,300	29,300
	<b>139,845</b>	<b>134,246</b>

## 10. TRADE AND OTHER PAYABLES

This account consists of:

	2014	2013
Due to principal <sup>11</sup>	113,470,601	58,340,732
Accounts payable <sup>12</sup>	50,047,252	42,384,066
Accounts payable—others <sup>13</sup>	48,892,321	36,203,171
	<b>212,410,174</b>	<b>136,927,969</b>

<sup>11</sup> This pertains to insurance premiums payable to insurance companies as of December 31, 2014.

<sup>12</sup> This refers to the 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.

<sup>13</sup> This includes unreleased checks and authority to debit totaling P44,090,734 for payment of insurance premiums to various insurance companies that remain under the custody of the Cashiering Unit as at December 31, 2014 awaiting corresponding tax certificates (BIR Form 2307) from various insurance companies.

## 11. OTHER LIABILITIES

This account consists of:

	2014	2013
Accrued expenses payable	9,557,706	8,600,666
Handling fee payable (Note 23)	6,964,029	6,546,145
Output tax	757,811	1,291,550
Withholding tax payable	204,491	280,393
Gross receipts tax payable	70,936	79,619
LBP-MBC salary loan payable	7,828	1,267
Miscellaneous liability	150,000	150,000
	<b>17,712,801</b>	<b>16,949,640</b>

## 12. 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, 2014, issued and outstanding shares totaled 3,000,000.

### 13. RETAINED EARNINGS

Declaration of cash dividend to the National Government of P34,555,836 was approved on February 17, 2014 per Board Resolution No. 2014-002-005 and payment of such dividend was made directly to Bureau of Treasury on June 19, 2014.

Prior year's appropriations on retained earnings for expansion, computerization and technology upgrade, contingencies and for motor vehicle purchase with an aggregate amount of P107,000,000 were reversed on June 30, 2014 in accordance with Board Resolution No. 2014-006-020 because some of the purposes of the appropriations did not materialize or had already been served.

Meanwhile, after the declaration of cash dividend to the National Government of P41,245,743 for CY 2014 on March 27, 2015 as approved for implementation in Board Resolution No. 2015-003-009, part of the excess of retained earnings of P188,729,383 over the paid-in capital totaling P110,000,000 was approved by the Board in its Resolution No. 2015-004-010 dated April 30, 2015 for appropriation to the following:

Appropriation for non-collection of refund of premium from Prudential Life	P 63,000,000
Appropriation for the reversal of related service fee	15,000,000
Appropriation for procurement of Risk Modeling System	27,000,000
Appropriation for trainings and seminars for ISO/GQMSS certification	2,000,000
Appropriation for office expansion	2,000,000
Appropriation for procurement of office equipment, furniture and fixtures	1,000,000
	<b>P 110,000,000</b>

While there is still an excess of P78,729,383, the LIBI Management was advised by the LBP (parent company) to keep its financial resources intact due to the on-going technical discussion regarding the merger of the LBP and Development Bank of the Philippines.

### 14. SERVICE FEES

Details of this account are as follows:

	2014	2013
Gross service fees	102,668,996	84,704,746
Less: Handling fees (Note 23)	9,025,846	7,379,760
	<b>93,643,150</b>	<b>77,324,986</b>

### 15. INTEREST INCOME ON INVESTMENTS

This pertains to interest income earned from investment held-to-maturities such as retail treasury bonds, DBP-Tier II and Agrarian Reform Bonds totaling P685,267,849 as of December 31, 2014.

## 16. TRADING INCOME

This refers to income earned from buying and selling, and brokering of foreign currencies with a volume totaling USD87,360,361 and USD97,733,723 for CY 2014 and CY 2013, respectively. Average spread has increased from 0.105 centavos in 2013 to 0.114 in 2014, equivalent to 8.57 percent or .009 centavos.

## 17. OTHER INCOME

Details of this account are as follows:

	2014	2013
Rental income	600,000	600,000
Interest on bank deposits (net)	506,965	365,850
Gain on foreign exchange	320,370	280,179
Bond discount	27,142	44,307
Miscellaneous income	117,015	48,382
	<b>1,571,492</b>	<b>1,338,718</b>

## 18. MANPOWER COSTS

This account consists of the following:

	2014	2013
Salaries and wages	7,662,288	8,521,293
Employees other benefits	4,548,990	5,497,092
Rice subsidy	878,155	787,840
Bonus to employees	607,850	544,833
SSS, EC and Medicare premium expense	510,447	484,852
Medical, dental and hospitalization	418,167	435,500
Overtime	409,697	234,772
Executive and employment development	234,659	139,407
Uniform allowance	142,857	155,968
HDMF premium expense	41,824	41,900
	<b>15,454,934</b>	<b>16,843,397</b>

## 19. OPERATING EXPENSES

Details of this account are as follows:

	2014	2013
Depreciation expense (Note 6)	2,353,449	2,349,712
Janitorial, security and contractual services	1,687,790	1,329,432
Directors and committee member's fees	1,408,800	1,085,000
Light and water	968,946	980,493
Audit fee	700,347	500,000

	<b>2014</b>	<b>2013</b>
Business development	697,698	600,897
Postage, telephone and telegram	688,533	561,635
Representation and entertainment	644,505	591,626
Office supplies and stationeries	627,522	714,464
Office rental (Note 23)	171,638	153,768
Insurance expense	170,372	191,298
Repairs	154,745	61,711
Transportation and travel	154,011	180,960
Rental-office equipment (Note 25)	120,000	117,143
Professional fees	53,437	351,659
Advertising and promotion	22,399	3,848
Books and periodicals	5,000	14,987
Planning, sports and development	0	38,330
Miscellaneous expense	568,844	690,666
	<b>11,198,036</b>	<b>10,517,629</b>

## 20. OTHER EXPENSES

This account consists of the following:

	<b>2014</b>	<b>2013</b>
Provision for probable losses (Note 4)	6,728,228	1,567,603
Trustee fee expense	0	500,936
Donation and contribution <sup>1</sup>	2,000,000	50,000
Bank service charge	104,259	0
	<b>8,832,487</b>	<b>2,118,539</b>

<sup>1</sup> For CY 2014, the amount of P2,000,000 was a LIBI's donation and contribution to LandBank Countryside Development Foundation, Inc. (LCDFI), a subsidiary of Land Bank of the Philippines.

## 21. INCOME TAXES

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

	<b>2014</b>	<b>2013</b>
Provision for income tax	22,263,660	17,673,336
Income tax benefit	(2,018,468)	(470,281)
	<b>20,245,192</b>	<b>17,203,055</b>



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

	2014	2013
Income before income tax	96,008,450	84,747,124
Non-deductible expenses—provision for probable losses	6,728,228	1,567,603
Non-taxable income and income subjected to final tax:		
Interest income on investments	(27,990,372)	(26,993,449)
Interest income on bank deposits	(506,965)	(365,850)
Bond discount	(27,142)	(44,307)
	(21,796,251)	(25,836,003)
Net taxable income	74,212,199	58,911,121
Income tax rate	30%	30%
<b>Provision for income tax</b>	<b>22,263,660</b>	<b>17,673,336</b>

Deferred tax asset/Income tax benefit is computed as follows:

	2014	2013
Deferred tax asset, beginning of year	3,560,957	3,090,676
Provision for probable losses recorded at year end for (Note 4):		
Accrued service fees receivable from private insurance	957,067	
Uncollected extra remuneration from GSIS:		
PY2013 accrued extra remuneration	1,061,775	
PY2011 accrued extra remuneration	1,282,622	
PY2012 accrued extra remuneration	3,426,764	
PY2010 accrued extra remuneration	0	1,567,603
	6,728,228	1,567,603
Prevailing income tax rate	30%	30%
Deferred tax asset/income tax benefit recorded at year end	2,018,468	470,281
<b>Balance, end of year</b>	<b>5,579,425</b>	<b>3,560,957</b>

Income tax benefits shall be deducted from the LIBI's future tax obligations to the extent of the amount of provision for accrued service fees receivable that will have no economic benefits to the Corporation.

## 22. COMPLIANCE WITH TAX LAWS

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

A. LBP Insurance Brokerage Inc. is a VAT- registered Corporation with VAT output tax declaration of P11,205,223 based on actual collections during the year of service fees and rental income amounting to P93,376,858. Actual VAT paid for the year amounted to P10,428,274 after applying Input Tax of P744,449 and creditable withholding tax of P32,500.

LIBI's secondary purpose is to engage in the business of buying and selling of foreign currencies and paid the amount of P699,642 charged under Taxes and licenses account

representing gross receipt tax (GRT) pursuant to RR 9-2004 regulations and based on the amount reflected in the Trading income account of P9,994,891.

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

Beginning of year		P 70,868
Current year's purchases:		
Capital goods	55,047	
Goods other than for resale or manufacture	162,924	
Services lodged under other accounts	526,478	
Claims for tax credit/refund and other adjustments	(605,537)	138,912
End of year		<b>P209,780</b>

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

a. Local

Mayor's permit		P 671,394
Real property tax		188,050
Real estate tax		100,037
Community tax certificate		10,500
Barangay clearance		2,200
		<b>972,181</b>

b. National

Gross receipts tax		699,642
License and filing fee – Insurance Commission		25,150
Registration of motor vehicle at LTO		3,229
Fringe benefits tax		4,796
BIR annual registration		500
BIR certification on filed audited FS		500
		<b>733,817</b>
		<b>P1,705,998</b>

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

Corporate tax		P13,688,432
Creditable withholding tax at source (paid in advance by LIBI and used as tax credits)		8,575,227
Tax on compensation and benefits		1,581,749
Creditable withholding tax from suppliers		303,316
		<b>P24,148,724</b>

The income tax payable as of December 31, 2014 amounted to P7,591,296.

There is an outstanding Letter Notice (LN) No. 047-RLF-11-00-00123 dated January 28, 2013 regarding the discrepancy resulting from Reconciliation of Listing for Enforcement (RELIEF) and Third Party Matching – Tax Reconciliation system (TRS) as declared in

LIBI's tax returns filed for CY2011 particularly VAT returns filed by suppliers. The required documents needed to refute the findings were forwarded to the BIR.

### 23. RELATED PARTY DISCLOSURES

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:

a. 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:

- That LIBI (Lessee) has agreed to lease from Land Bank of the Philippines (Lessor) an office space with an aggregate floor area of 64.07 sq. m., at the 14<sup>th</sup> Floor of Land Bank Plaza located at 1598 M. H. del Pilar cor. Dr. J. Quintos Sts., Malate, Manila.
- 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.
- The Lessee, shall pay a concessional rate of P200 per sq. m. or Pesos; Twelve Thousand Eight Hundred Fourteen and 00/100 (P12,814) 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 the Lessor (Note 19).
- 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.

b. 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 LIBI's clients, the LBP units, branches and subsidiaries. For the current year, handling fee accrued and payable to LBP units, branches and subsidiaries reached P9,025,846 (Note 14).

c. Compensation of key management personnel for 2014 and 2013 are as follows:

	2014	2013
For the General Manager:		
Total salaries and wages	P1,080,000	P972,166
Total short-term employee benefits (RA, per diem, bonuses, medical benefits)	509,956	628,608
	1,589,956	1,600,774
For Corporate officers who are employees of the parent company, LBP:		

Total short-term employee benefits (per diems and reimbursable expenses)	191,500	187,743
Total compensation paid to key management personnel	<b>P1,781,456</b>	<b>P1,788,517</b>

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

- 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).
- 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.
- 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.
- 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.
- 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.

- 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.
- 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).
- 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.

#### **24. 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 for consistent risk management that is applicable to all employees of LBP Insurance Brokerage, Inc. (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 of 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 practices relative to asset and liability management, credit, market and business operations risks ensuring that: (a) insurance requirements of its mother unit Land Bank of the Philippines and their lending units are passed on to LIBI; (b) system of limits remain effective; and (c) 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 reached P567,903,271, an increase of P34,072,418 or 6.38 per cent compared to last year's P533,830,853 net premium volume. This was primarily due to the significant increase in premium from LBP Branches borrowers of employee salary loan and premium for loan releases from Agricultural Development Lending Sector (ADLS).

Net service fees from insurance brokering for the year of P93,643,150 is P16,318,164 or 21.10 per cent higher against last year's P77,324,986 net service fees (Note 14).

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

Trading income for the year of P9,994,891 is 2.79 per cent or P287,343 lower against last year's Trading income of P10,282,234.

Volume of dollars traded by LIBI-Forex Division for CY2014 amounted to USD87,360,361. This represents a decrease of USD10,373,362 or 10.61 per cent compared to last year's volume of dollars traded of USD97,733,723. This was due to non-recurring transactions. Average spread has increased from 0.105 centavos in 2013 to 0.114 in 2014, equivalent to 8.57 percent or .009 centavos.

## **Foreign Exchange risk**

LIBI-Forex's foreign currency held for trading has a minimal balance of P353,911 which is 0.23 per cent of the division's total assets of P153,436,728, 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 in held-to-maturity investments are exposed to such risk. Interest income derived from investments this year of P27,990,372 was higher by 3.69 per cent or equivalent to P996,923 against last year's interest income of P26,993,449.

It is the policy of LIBI to invest excess funds in government securities (GS) where 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, held-to-maturity investments consist primarily of investment in government securities like Retail Treasury Bonds, DBP Tier-II and Agrarian Reform Bonds (Note 8). These are not subjected to mark-to-market valuation but impairment testing is being done on HTM in RTBs.

Total HTM investments as at December 31, 2014 is P685,267,849, which is 61.42 per cent of the LIBI's total assets of P1,115,689,397. Liquid assets of P279,754,767 are 1.18 times the total liabilities of P237,714,271.

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

	Up to 3 mos.	3 to 6 mos.	6 mos. to 1 year	More than 1 year	TOTAL
<b>ASSETS</b>					
Cash and cash equivalents	279,754,767	0	0	0	279,754,767
Foreign currency held for trading	353,911	0	0	0	353,911
Trade and other receivables	47,077,599	27,524,431	18,394,231	26,050,784	119,047,045
Other current assets	785,259	131,901	47,276	41,981	1,006,417
Property and equipment	1,177,123	0	379,300	21,985,399	23,541,822
Investment property	998,316	0	0	0	998,316
Investments-held-to-maturity	0	0	0	685,267,849	685,267,849
Other non-current assets	5,600	0	0	134,245	139,845
Deferred tax asset	2,018,468	0	0	3,560,957	5,579,425
<b>Total Assets</b>	<b>332,171,043</b>	<b>27,656,332</b>	<b>18,820,807</b>	<b>737,041,215</b>	<b>1,115,689,397</b>
<b>LIABILITIES AND EQUITY</b>					
Trade and other payables	125,025,205	28,822,326	29,539,892	29,022,751	212,410,174
Other liabilities	6,803,655	4,673,524	333,177	5,902,445	17,712,801

	Up to 3 mos.	3 to 6 mos.	6 mos. to 1 year	More than 1 year	TOTAL
Income tax payable	7,591,296	0	0	0	7,591,296
Capital	20,167,385	20,848,058	34,747,815	802,211,868	877,975,126
<b>Total Liabilities and Equity</b>	<b>159,587,541</b>	<b>54,343,908</b>	<b>64,620,884</b>	<b>837,137,064</b>	<b>1,115,689,397</b>

## 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 86.24 per cent for the current year is 4.23 per cent lower than the 90.47 per cent collection rate last year. This was the due to the discontinuance of business with Philippine Prudential Life Insurance Company, Inc. as LIBI's insurance provider for the credit life insurance of LBP's employees' salary loan effective August 31, 2013. Renewals for CLI were transferred to Philam Life effective September 1, 2013. The change resulted in unexpired premium that are supposed to be refunded by PPLICI and to be remitted to Philam Life. However, reconciliation for the unexpired portion of the premium is still ongoing (Note 4).

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 non-delivery 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 the 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.

## **25. 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:

- a. Decrease in monthly rental of P800, from P12,000 to P11,200; and
- b. Decrease in charge per copy of P0.11, from P0.56 centavos to P0.45 centavos