

EXECUTIVE SUMMARY

INTRODUCTION

The Land Bank of the Philippines (“LBP”, the “Bank” or the “Parent”) was established on August 8, 1963 under the Agricultural Land Reform Code (Republic Act No. 3844) to finance the acquisition and distribution of agricultural estates for division and re-sale to small landholders and the purchase of landholdings by agricultural land tenants.

In July 1973, under Presidential Decree (PD) No. 251, the Bank became the first universal bank by charter and was granted expanded commercial banking powers to sustain its social mission of spurring countryside development. PD No. 251 empowered the Bank to grant loans to agricultural, industrial, home-building or home financing projects and other productive enterprises and enabled the Bank to extend credit assistance to farmers’ cooperatives and associations to facilitate the production and marketing of crops and the acquisition of essential commodities.

In 1988, following the enactment of the Comprehensive Agrarian Reform Law (Republic Act No. 6657), the Bank became the financial intermediary of the government’s Comprehensive Agrarian Reform Program (CARP). The government established an Agrarian Reform Fund for payment, in cash and bonds, of land compulsorily or voluntarily acquired from landowners.

In 1990, the government transferred to the Bank the primary responsibility of determining land valuation and compensation for land acquisition, which was previously the function of the Department of Agrarian Reform.

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

The Board of Directors of the Bank is composed of nine members and chaired by the Secretary of the Department of Finance. The Bank is headed by its President and Chief Executive Officer.

The Parent has a total manpower of 9,680 consisting of 1,282 officers and 8,398 operating staff as of December 31, 2020, deployed as follows:

	Officers	Staff	Total
Head Office	497	2,089	2,586
Branches/Field Units	785	6,309	7,094
	1,282	8,398	9,680

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of the accounts, financial transactions and operations of LBP for the period January 1 to December 31, 2020 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of LBP's financial statements (FS) and the Group's FS for the years ended December 31, 2020 and 2019. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS

(In thousand pesos)

I. Financial Position

	Group			Parent		
	2020	2019 As Restated	Increase	2020	2019 As Restated	Increase
Assets	2,369,393,403	2,043,018,757	326,374,646	2,364,374,146	2,034,860,524	329,513,622
Liabilities	2,191,750,673	1,890,526,956	301,223,717	2,189,694,634	1,885,943,949	303,750,685
Equity	177,642,730	152,491,801	25,150,929	174,679,512	148,916,575	25,762,937

II. Results of Operations

	Group			Parent		
	2020	2019 As Restated	Increase/ (Decrease)	2020	2019 As Restated	Increase/ (Decrease)
Income	82,350,493	85,616,470	(3,265,977)	80,998,556	84,752,538	(3,753,982)
Personal Services	13,518,488	13,170,586	347,902	13,388,833	12,952,800	436,033
MOOE	23,461,014	24,222,474	(761,460)	22,878,783	23,644,997	(766,214)
Financial Expenses	24,543,828	28,571,391	(4,027,563)	23,336,274	29,466,792	(6,130,518)
Net Income	20,827,163	19,652,019	1,175,144	21,394,666	18,687,949	2,706,717
Other Comprehensive Income	4,453,296	(694,511)	5,147,807	4,452,531	(788,152)	5,240,683
Total Comprehensive Income	25,280,459	18,957,508	6,322,951	25,847,197	17,899,797	7,947,400

III. Budget and Utilization

Parent	Budget		Utilization	
	2020	2019	2020	2019
Personnel Services	17,181,929	15,452,022	13,888,693	13,345,166
Maintenance and Other Operating Expenses	20,412,108	19,860,753	19,288,052	20,180,470
Financial Expenses	14,699,000	17,548,000	15,014,514	23,070,736
Capital Outlay	5,552,390	7,959,368	810,319	1,913,452
	57,845,427	60,820,143	49,001,578	58,509,824

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the LBP and its subsidiaries (Group) and of LBP (Parent) financial statements for the years ended December 31, 2020 and 2019.

SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant observations and recommendations:

1. Reconciling items from the Inter-Branch Transactions Online System (IBTOLS) batch processing errors with a net amount of P740.768 million were temporarily closed to Accounts Payable, hence, understating the balance of the account by the same amount and overstating/understating the balances of other related accounts by undetermined amounts in the financial statements as at December 31, 2020.

We recommended and Management agreed to:

a. Require the Administration Accounting Department (AAD) in coordination with Enterprise System Department and other booking units to identify the transactions affected by the batch processing errors; and

b. Accordingly, prepare the adjusting entries to close the reconciling items to the proper accounts.

2. LBP does not have written criteria, parameters and policy guidelines on the application of "matched deal close out" method for the selection of the book value from a group of similar financial assets used as basis in the computation of realized and unrealized gains and losses from the part derecognized and the remaining part that continues to be recognized in investments in debt securities. Hence, consistency of application of the method used was not established, while the faithful representation of the balances of Gain or Loss from sale of non-trading Financial Assets and Net Unrealized Gain or Loss accounts of P1.789 billion and P14.274 billion, respectively, as at December 31, 2020, were also not ascertained.

We recommended that Management consider the inclusion in the LBP's Operations Manual specific criteria, parameters, and policy guidelines in applying the selection from among similar deal transactions with the corresponding book value as basis in the computation of the gain or loss for the part to be derecognized and the remaining part continued to be recognized in investments in debt securities for a more transparent and consistent application.

3. The balance of Salary Based General Consumption Loan (SLR) account in the Financial Management System-General Ledger (FMS-GL) and Subsidiary Ledger (SL) showed an unreconciled difference amounting to P497.324 million, hence, the faithful representation of the balance of the account amounting to P2.596 billion and balances of other related accounts as at December 31, 2020 were not ascertained.

We recommended that Management:

- a. Require the concerned National Capital Region Branches to:
 - a.1 Reconcile the variance in the current and past due balances of SLR between the General Ledger (GL) and SL and record the necessary adjusting entries for faithful representation of the balances of affected accounts in the financial statements; and
 - a.2 Strictly comply with the policies and procedures for Electronic Salary Loan (eSL) Migration activities issued by Systems Implementation Department (SID) to ensure that the generated reports from eSL are correct, valid, protected, and conforming with the FMS-GL balance;
 - b. Require the Overseas Filipino Bank, Inc. to submit all the loan folders of past due loans transferred to LBP; and
 - c. Require SID to fast track the system enhancement to resolve the misclassification of loan account status.
4. The intra-group receivables and payables accounts showed a balance of P122.338 million and P251.132 million, respectively, as at December 31, 2020, representing unreconciled variances between the books of LBP and its subsidiaries, contrary to PAS 1 and PFRS 10.

We recommended that Management:

- a. Require the Financial Accounting Department to coordinate with concerned units and subsidiaries to reconcile the variances in the intra-group balances of receivables and payables and accordingly undertake elimination procedures in accordance with PFRS 10 and PAS 1; and
 - b. Require the AAD and other concerned booking units to prepare the necessary adjusting entries to correct the intra-group balances of receivables and payables as at December 31, 2020.
5. The transfer of ownership on equity shares of the Northern Foods Corporation (NFC) with cost of P84.905 million from National Livelihood Development Corporation pursuant to Section 2 of Memorandum Order (MO) No. 85, series of 2015, was not undertaken, thus, the equity investment in NFC together with the corresponding Allowance for credit losses of the same amount were not recognized in the books of the Bank, and the required disclosure of the investment in NFC was not provided in the Notes to the Financial Statements as at December 31, 2020, contrary to PAS 27, PAS 36 and PFRS 12.

We recommended that Management:

- a. Coordinate with the Governance Commission for GOCCs, Bangko Sentral ng Pilipinas and Department of Finance for the transfer of ownership on the equity shares of NFC to LBP pursuant to MO No. 85;

- b. Recognize the correct cost of equity investment in NFC and the corresponding allowance for credit losses in the LBP books; and
- c. Provide sufficient and required disclosures in the Notes to financial statements.

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The total audit suspensions and disallowances as at December 31, 2020 is P2.862 billion, broken down as follows:

Parent	Suspensions	Disallowances	Total
Head Office	-	2,824,431,297.32	2,824,431,297.32
Regional Offices/Branches	25,806,241.72	12,237,184.49	38,043,426.21
	25,806,241.72	2,836,668,481.81	2,862,474,723.53

The total disallowances pertain to the P2.811 billion Priority Development Assistance Fund and Development Acceleration Program from National Livelihood Development Corporation and payments of benefits and allowances to LBP Board of Directors, officers and employees and other expenses which were not in accordance with existing laws, rules and regulations. Management has pending appeals with the Commission on the Notices of Disallowance, in accordance with the Revised Rules and Procedures of the Commission on Audit.

The total suspensions of P25,806,241.72 issued by Audit Teams in Regions 6, 7 and 9, pertain to payments of various expenses without complete supporting documents.

There are no audit charges as at December 31, 2020.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 38 audit recommendations embodied in the prior years' Annual Audit Reports, 30 were fully implemented and eight were partially implemented. Of the eight partially implemented, one is reiterated in Part II of this report.