

## OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL ISSUES

1. The Interest income/Miscellaneous income derived from the payments of finance charges and late payment fees of credit cardholders with past due accounts; and the succeeding installment payments under the LANDBANK Credit Card Easy Pay Program were not recognized to the proper account since 2017 resulting in the understatement of the Credit Card Receivable (CCR), Interest Income, and Miscellaneous Income accounts in an undetermined amount as at December 31, 2021.

1.1 Paragraph 15 of PAS 1 on Presentation of Financial Statement states:

*Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.*

1.2 Item X320.18 of the Bangko Sentral ng Pilipinas (BSP) Circular No. 1003, Series of 2018, on application of card payment provides:

*Upon receipt of a payment from a cardholder whose account carries different interest rates for different types of purchases (i.e., cash advances, regular purchases, balance transfers), the bank shall apply amounts in excess of the minimum payment amount first to the fees and charges, and then to the billed balance bearing the highest rate of interest, followed by the billed balance bearing the next higher rate of interest, until the payment is exhausted: Provided, That the original rates for promotional offers shall be the basis for determining hierarchy of payment. (Underscoring Ours)*

1.3 PFRS 9 Financial Instruments requires that amortised cost is calculated using the effective interest method, which allocates interest income and expense at a constant rate over the term of the instrument. The effective interest rate of a financial asset or financial liability is calculated at initial recognition and is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or financial liability to the: a) gross carrying amount (before deducting provisions for impairment) of a financial asset; or b) amortised cost of a financial liability.

#### **Payment of finance charges and late payment fees not recognized as interest income/miscellaneous income**

1.4 The walkthrough test of existing procedures on the recording of charges and fees, as well as the application of credit card payments of cardholders with past due accounts showed as follows:

a. Every end of the reference month, Credit Card Administration Department (CCAD) submits to the Loan Operations Management Department (LOMD) a

monthly Posted Transaction Details (PTD) Report with unmasked card number, Daily Transaction Posting (DTP) Report with unmasked card number, and Daily Due Report. The PTD and DTP reports are generated from the Electra Card System, the LANDBANK's credit card management system, while Daily Due Report is downloaded from MasterCard Connect. The Daily Due Report shows the principal amount, charges, fees and the aging of accounts based on the days past due (under ACCOUNT\_UNPAID\_STATUS column) of the individual cardholders' accounts.

b. The CCAD provides the LOMD a monthly report of extracted transactions tagged as "Debit Interest" and "Late Payment Fees" in the "Transaction Code/Description" column of the PTD Report. The transactions tagged as "Debit Interest" pertains to the amount of interest income arising from the cardholders' transactions. The "Late Payment Fees" pertains to the amount of miscellaneous income arising from the payment of cardholders' beyond their due date or if the amount paid is less than their minimum amount due. Both transactions are automatically calculated by the Electra Card System (ECS). LOMD uses the report of extracted data for the booking of accrual of Interest Income and Miscellaneous Income with current status for MasterCard.

c. CCAD no longer prepares and provides to LOMD a separate monthly Past Due Accounts Report since the latter maintains the subsidiary ledgers (SLs). The Daily Due Report becomes the basis for the reclassification of the CCR account from Current to Past Due status. However, the CCAD still monitors the past due accounts to ensure that they tally with LOMD booking of reclassification from current to past due.

d. Based on the Daily Due Report, LOMD determines if the interest income and miscellaneous income in the extracted Debit Interest and Late Payment Fees report is current or past due status. The LOMD processor uses the Microsoft EXCEL's VLOOKUP function to search, with the card number as reference point, and extract data from the "ACCOUNT\_UNPAID\_STATUS" column in the Daily Due Report.

e. Once the account status is determined for each card number, LOMD calculates the total balance of the "PRINCIPALOS" column in the Daily Due Report and prepares a reclassification journal entry of debit to Past Due Performing Credit Card Receivables account and/or Past Due Non-Performing Credit Card Receivables account and a credit to CCR account.

f. Then, LOMD uses the extracted "Debit Interest" and "Late Payment Fees" column in the PTD report for the booking of accrual of interest income and miscellaneous income of cardholders with current accounts for MasterCard. LOMD calculates the total balance of the Debit Interest and the Late Payment Fees columns and deducts the interest income and miscellaneous income totals of cardholders with past due accounts status. The remaining balance, consisting of the Debit Interest and Late Payment Fees net of Past Due accounts, is recognized in the LBP books as debit to CCR account and a credit to Interest Income account and Miscellaneous Income account, respectively.

g. Credit cardholder payments are recognized as a debit to Cash account and a credit to IBTOLS-LOMD account. The IBTOLS account is reversed and recognized as deduction or credit to the CCR account based on the Cardholder's Payment Report Local (CPRL).

1.5 The above processes show that credit card payments, consisting of the principal and interest received are directly applied to CCR account and the interest income and miscellaneous income from cardholders with past due accounts are not applied and not recognized in the books.

1.6 Review further revealed that for those accounts with past due status, the Past Due Charges and Fees are continuously computed and shown in the "TOTALOS" column balance of the Daily Due Report of the MasterCard Connect, and billed to the cardholders in their Statement of Account balance. However, under the system, only the charges or interest income and fees or miscellaneous income for accounts with current status are recognized in LBP's books of accounts. The charges or interest income and fees or miscellaneous income for accounts with past due status that subsequently became current are not recognized in LBP's books of accounts.

1.7 Verification of sample cardholders' payments in the ECS disclosed that the minimum payments, interest and fees for accounts with current status were applied in accordance with Item X320.18 of BSP Circular No. 1003. However, the payments of cardholders with past due account status, which included the interest income and fees, were all applied/deducted to the CCR account.

1.8 In our analysis of the Daily Due Report and Posted PTD reports, the amount of fees and charges that were continuously computed by the system and subsequently paid by cardholders is not apportioned in the reports. LOMD has no alternate procedures to first apply the amounts in excess of the minimum payment to these fees and charges.

1.9 LOMD explained that finance charges and late payment fees are booked as lump sum under CCR account for past due accounts from the credit cardholders payment based on the Daily Transaction Posting and Post Transaction Details generated by ECS.

1.10 LOMD further explained that this matter was already raised to MasterCard Technology Private Limited (MTPL), the system host, and still waiting for the progress of the system enhancements from MTPL's Product Team in coordination with CCAD. The system enhancement on the generation of the Payment Apportionment Report (PAR) will give the correct representation and breakdown of the interest income and credit card receivable, i.e principal, interest, penalty, fees and other charges.

#### **Non-recognition of interest income from succeeding installment payments under the LANDBANK Credit Card Easy Pay Program**

1.11 The LANDBANK Credit Card Easy Pay Program allows cardholders in ACTIVE and CURRENT status to convert their retail transactions and single purchases into monthly installments up to 24 months payments. The minimum valid amount per transaction to qualify for installment payment is P5,000.00 and the maximum amount will be subject to the card's available credit limit at LANDBANK's discretion.

1.12 A walkthrough test on the Easy Pay Program or loan installment transactions of credit cardholders disclosed the following existing practices and procedures in recording the program:

a. A cardholder opting to convert a straight-transaction purchase into loan installment submits a duly accomplished Easy Pay Program Application Form and a photocopy of a valid ID with signature. The CCAD, specifically the Customer Service & Account Management Unit (CSAMU), evaluates the application form and approves it if found in order and qualified upon evaluation. A request slip with the duly approved application form for the program will be forwarded to LOMD for processing in the ECS.

b. No accounting/journal entry is prepared to record the conversion of straight-transaction purchases to loan installment. The converted transaction will be tagged as "Loan Transfer" and the monthly installment will be tagged as "Loan Installment" in the Daily Posted Transaction, a report generated from ECS.

c. At every month-end, the CCAD generates and forwards to LOMD the Loan Equal Monthly Installment (EMI) report, which shows data for every straight-transaction purchase converted to loan installment during the given month. The total amount of "Interest Amount" column in the Loan EMI report is the basis of LOMD to book the income by debiting CCR account and crediting Interest Income account.

1.13 Analysis of the monthly Loan EMI reports for CY 2021 disclosed that the interest amount recorded in the general ledger pertains only to the first installment payments converted during that given month. Interest income on succeeding installments were not recognized.

1.14 In CY 2021, there were 118 credit cardholders with purchases totaling P3,293,805.40 in the approved installment payments under the program. Verification of sample cardholders disclosed that the first EMI was applied to both principal and interest. The interest amount is recognized by LOMD based on the Loan EMI report from CCAD for the month of January 2021. However, interest income on succeeding monthly installment payments for February to December 2021 were not recognized.

1.15 According to LOMD, from the inception of MasterCard credit card operation in 2017 to present, the EMI for both principal and interest paid by the cardholders are recognized as lump sum under CCR account based on the report for the Daily Transaction Posting and Posted Transaction Details generated by the ECS.

1.16 All the information necessary for the application of payments are stored in the ECS, however, the system is not capable of generating reports apportioning principal and interest income from the succeeding monthly installment payments of card holders.

1.17 According to LOMD, the PAR will provide the correct representation and breakdown of the income and credit card receivable, i.e., principal, interest, penalty, fees and other charges. It is awaiting feedback on the progress of the PAR enhancement to be delivered by MasterCard Technology Private Limited (MTPL). The target date of completion of the PAR enhancement is October 2022.

1.18 During the sectoral exit conference, it was emphasized that the Interest income/Miscellaneous income derived from payments of finance charges and late payment fees of credit cardholders with past due accounts has to be recognized in the books. The manual computation of the income was discussed and Management informed that it is possible but tedious. They will look into other tools wherein they can formulate the adjusting entries to faithfully represent the balances of affected accounts.

1.19 The non-recognition of interest income/miscellaneous income from payments of finance charges and late payment fees from credit cardholders' with past due accounts and from succeeding installment payments under the LANDBANK Credit Card Easy Pay Program resulted in the understatement of the Credit Card Receivable, Interest Income and Miscellaneous Income accounts in an undetermined amount as at December 31, 2021.

#### **Variance between GL and SL balance of the CCR account**

1.20 The 2018 AAR raised the issue on the variance between the GL and SL balance of the CCR account initially at P734.971 million which affected the faithful representation of the balance of the account in the financial statements as at reporting date.

1.21 Among the causes cited for the discrepancy was the non-recognition of interest income/miscellaneous income from payments of finance charges and late payment fees from credit cardholders' with past due accounts and from succeeding installment payments to the proper accounts which were all lumped under the CCR account in the absence of PAR.

1.22 Status update of the variance between GL and SL balances aggregated to P563.440 million as at December 31, 2021, compared with the 734.971 million in CY 2018.

1.23 The Loans Operations Management Department (LOMD) System Administration is waiting for the feedback on the progress of the Payment Apportionment Report enhancement (PAR) from the MasterCard Technology Private Limited (MTPL). The PAR will give the correct representation and breakdown of the interest income and credit card receivable, i.e principal, interest, penalty, fees and other charges.

#### **1.24 We recommended and Management agreed that:**

- a. **Pending the completion and availability of the Payment Apportionment Report, consider other alternative means such as manual computation of the Interest income/Miscellaneous income derived from payments of finance charges and late payment fees of credit cardholders with past due accounts; and the interest from succeeding credit card installment payments under the LANDBANK Easy Pay program and accordingly recognize the same in the books to faithfully represent the balances of the Credit Card Receivable, Interest Income, and Miscellaneous Income accounts as at December 31, 2021. Manual computation of interest/miscellaneous income should consider the workback method in case the PAR will only cover prospective transactions;**

- b. **Follow up be made with the MasterCard Technology Private Limited to expedite the system enhancement on the generation of the Payment Apportionment Report to provide the correct breakdown of income and credit card receivable derived from the payments of credit cardholders with past due accounts from the start of the use of MasterCard Credit Card and the installment payments under the Easy Pay Program; and**
- c. **Reconciliation on a periodic basis of the GL and SL balances of CCR account be continuously conducted.**

## **B. OTHER ISSUES**

**2. Unclaimed private deposit accounts in 22 LBP Branches amounting to P14.292 million and \$885.43 have been recognized in “Other Credits - Unclaimed Balances” account from 1994 to 2020 but not yet reported to the Treasurer of the Philippines for escheatment in favor of the government, contrary to Presidential Decree (PD) No. 679, and LBP Executive Order (EO) Nos. 083 and 012, Series of 2017 and 2020, respectively.**

2.1 As defined under PD No. 679, the **“Unclaimed Balances”** shall include credits or deposits of money, bullion, security or other evidence of indebtedness of any kind, and interest thereon with banks, buildings and loan associations, and trust corporations, as hereinafter defined, in favor of any person known to be dead or who has not made further deposits or withdrawals during the preceding ten years or more. Such unclaimed balances, together with the increase and proceeds thereof, shall be deposited with the Treasurer of the Philippines to the credit of the Government of the Republic of the Philippines to be used as the National Assembly may direct.

2.2 Moreover, PD No. 679 provides that **within the month of January of every odd year**, all banks, building and loan associations, and trust corporations shall forward to the Treasurer of the Philippines a statement, under oath, of their respective managing officers, of all credits and deposits held by them in favor of persons known to be dead, or who have not made further deposits or withdrawals during the preceding ten years or more.

2.3 LBP EO No. 083, series of 2017 on the handling of dormant deposit accounts and LBP EO No. 12, Series of 2020 on the guidelines in handling unclaimed balances were issued. Pertinent provisions of the EOs are as follows:

- a. Section E. 11 of EO No. 083, series of 2017

*11. Escheatment in Favor of the Republic of the Philippines*

- a. *For unclaimed dormant Peso and Foreign Currency Deposit accounts considered for escheatment, the Final Notice (as stated under Item E.5) shall be sent to the depositor at least sixty (60) days prior to the filing of the SSUB to BTr.*

b. *Filing of SSUB to BTr shall be facilitated by AAD on or before the last week of January of every odd year. Booking and monitoring of unclaimed balances transferred by Branches shall be handled by AAD for Peso accounts and FDRD for Foreign Currency accounts.*

b. Section E of LBP EO No. 012 Series of 2020

**E. ESCHEATMENT IN FAVOR OF THE REPUBLIC OF THE PHILIPPINES**

1. *Sworn Statement of Unclaimed Balances (SSUB, Exhibit 6) shall be prepared by the Branch of Account every December of the even year. It shall be duly notarized and supported by a Schedule of Unclaimed Balances Accounts (SUBA, Exhibit 7) prepared by the Branch of Account prior to endorsement to AAD or FDRD.*

2. *Accounts classified as “Other Credits – Unclaimed Balances” shall be transferred to AAD for Peso and FDRD for Foreign Currency Accounts through IBTOLS not later than the first week of January of every odd year (i.e., 2021, 2023, etc.).*

3. *Filing of SSUB to BTr shall be facilitated by AAD **on or before the last week of January of every odd year** in compliance to the existing Guidelines in Handling Dormant Deposit Accounts.*

2.4 Review of the Schedule of Other Credits - Unclaimed Balances of 22 LBP Branches disclosed private deposit accounts totaling P14.292 million (Domestic) and \$885.43 (FCDU) which were reclassified to Other Credits - Unclaimed Balances account from CYs 1994 to 2020. These, however, were not removed from the books on or before the last week of January of every odd year and transferred to the Administrative Accounting Department (AAD) for peso accounts and Foreign Domestic Remittance Department (FDRD) for foreign currency deposit accounts. As such, the Sworn Statement of Unclaimed Balances was not prepared and filled to the BTr, hence the dormant accounts were not yet escheated in favor of the government. These are presented below and details are shown in Annex A:

REGIONS	NO. OF BRANCHES	BOOKING DATE	PRIVATE ACCOUNTS	
			DOMESTIC	FCDU
NNCRBG	7	2007-2020	3,679,441.51	
IV	7	2009-2020	4,437,280.51	885.43
IX	6	1994-2020	5,867,571.32	
XIII	2	2011-2014	308,084.58	
<b>TOTAL</b>	<b>22</b>	<b>1994-2020</b>	<b>P14,292,377.92</b>	<b>\$885.43</b>

2.5 The concerned branch personnel informed that the dormant private deposit accounts from CYs 1994 and 2020 were reclassified to Other Credits-Unclaimed Balances, however, they admitted that removal from the books of the Branch and its transfer to AAD and FDRD were overlooked due to voluminous transactions they handle, limited manpower and skeletal workforce during the COVID-19 pandemic. Nevertheless,

the concerned branches committed to transfer the P14.292 million unclaimed balances from the branches books to AAD in January 2023.

2.6 The unclaimed private deposit accounts amounting to P14.292 million and \$885.43 recognized in Other Credits - Unclaimed Balances account but which were not reported to the Treasurer of the Philippines for escheatment in favor of the government, is contrary to PD No. 679, and LBP EO Nos. 083 and 012, Series of 2017 and 2020, respectively.

**2.7 We recommended and Management agreed to require:**

- a. The concerned LBP branches to prepare the Sworn Statement of Unclaimed Balances(SSUB) to support the transfer of Other Credits – Unclaimed Balances amounting to P14.292 million and \$885.43 to the Administrative Accounting Department for peso accounts and Foreign Domestic Remittance Department for foreign currency deposit accounts, respectively; and**
- b. The Administrative Accounting Department to facilitate the filing of the SSUB to the BTr for the escheatment of dormant accounts in favor of the government.**

#### **Gender and Development (GAD)**

**3. The preparation of the LBP GAD AGENDA 2020-2025 was not yet completed, hence, not submitted to PCW contrary to PCW Memorandum Circular (MC) No. 2018-04.**

3.1 PCW Memorandum Circular No. 2018-04 provides the guidelines and procedures in the formulation, implementation, monitoring, and evaluation of the multi-year GAD Agenda as basis for the annual GAD Plans and Budgets (GPB) of agencies.

3.2 The same Memorandum Circular provides that the GAD Agenda is the agency's strategic framework and plan on gender mainstreaming, and achieving gender equality and women's empowerment (GEWE). It shall:

- a. serve as basis in identifying programs, activities, and projects to be undertaken to achieve the GAD goals and outcomes;
- b. provide the monitoring and evaluation (M&E) framework for assessing GAD results and outcomes that shall be the basis for strengthening the mainstreaming of a GAD perspective in the agency's operations and programs; and
- c. be formulated in a participatory, consultative and inclusive process. It shall consider the results from consultations with women target beneficiaries as well women's groups/organizations working on the sector and other concerned stakeholders, and the identified gaps resulting from gender analysis.



3.3 The GAD Agenda is a two-part document consisting of the GAD Strategic Framework (GADSF) and the GAD Strategic Plan (GADSP). The GADSF outlines the agency's GAD Vision, Mission and Goals anchored on the mandate of the agency, while GADSP defines the strategic interventions, indicators, and targets to be pursued to achieve GAD goals over a period of time. The timeframe of the GAD Agenda is six years.

3.4 As required by PCW, the GAD Focal Point System (GFPS) shall prepare the GAD Agenda 2020-2025 and upload it through the Gender Mainstreaming Monitoring System (GMMS) in 2019. The GFPS started the preparation of the GAD Agenda 2020-2025, however, was not completed as of the end of December 2021. The GAD mission in which the GAD goals are anchored was not indicated in the draft GADSF. Likewise, the estimated annual budget for CYs 2021-2025 in most of the programs/projects/activities (PAPs) of each goal were not provided in the GAD Agenda.

3.5 Management explained that the LBP GAD Agenda 2020-2025 was crafted in 2021 as part of a planning session undertaken by the members of Bank's GFPS-TWG via their alternates. The GAD Agenda is still a work in progress and currently under review and refinements by the Bank's GFPS-TWG before its target presentation and final endorsement of the Bank's GFPS in November 2022 or within the fourth quarter of 2022.

3.6 Management further explained that:

a. The formal expression of the GAD mission had to be deferred pending instruction on policy directions for the next years, considering the impending change of leadership in the National Government which may impact LANDBANK. Also, the merger between LANDBANK and the United Coconut Planters Bank, which took effect in March 2022 has to be factored in; and

b. The estimated budget for most of the PAPs of each goal in the draft GADSP is still for deliberation/discussion with implementing units concerned, where budget allocation will be established once finalized.

3.7 Due to the non-completion of the GAD AGENDA 2020-2025, it was not submitted to PCW contrary to PCW Memorandum Circular (MC) No. 2018-04.

**3.8 We recommended and Management agreed to complete/finalize the GAD Agenda and submit to PCW in compliance to PCW MC No. 2018-04.**

#### **Compliance with Republic Act No. 7656**

4. Parent

The LBP Board of Directors in its Board Resolution No. 22-312 dated May 11, 2022 approved the request for dividend relief for CY 2021 net income to the Department of Finance (DOF). The letter dated May 12, 2022 requesting for dividend relief was forwarded to DOF on May 13, 2022.

#### 4.1 Subsidiaries

In compliance with Republic Act No. 7656, three of five subsidiaries declared and remitted cash dividends totalling P173.436 million to the Bureau of the Treasury (BTr) for CY 2021 net income, details as follows:

<b>Name of Subsidiaries</b>	<b>Amount (In million pesos)</b>
LBP Leasing and Finance Corporation	51.192
LBP Insurance Brokerage, Inc.	96.474
LBP Resources and Development Corporation	25.770
	<b>173.436</b>

The other two subsidiaries, Overseas Filipino Bank, Inc. and Masaganang Sakahan, Inc., did not declare and remit dividends due to net loss in CY 2021.

#### **Compliance with Tax Laws**

5. Taxes withheld for the month were remitted on or before the 10th day of the following month, except those withheld for the month of December which were remitted on or before the 15th day of January of the following year.

5.1 In compliance with Tax Laws, information on taxes and licenses paid or accrued during the taxable year 2021 were disclosed in Part I of this report, specifically under Note 26 to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P3.379 billion were remitted to the Bureau of Internal Revenue in accordance with the deadlines on payment/remittance of taxes prescribed by the National Internal Revenue Code.

#### **Philhealth and Pag-ibig Premiums**

6. In CY 2021, LBP complied with Title III Rule III, Section 18 of the Implementing Rules and Regulations of Republic Act (R.A) No. 7875 as amended in the payment of national health insurance premium contributions to the Philhealth.

6.1 LBP also complied with Rule VII, Section 3 of the Implementing Rules and Regulations of R.A. No. 9679 in the collection and remittance of contributions to the Pag-ibig Fund.

#### **GSIS Contributions and Remittances**

7. In CY 2021, LBP complied with the rules and regulations implementing the GSIS Act of 1997, particularly on the collection and remittance of contributions to GSIS as follows:

- a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18 of the GSIS Act of 1997; and

b. Remittance of employees' and employer's contributions and employees compensation premium within the due date pursuant to Section 19 of the GSIS Act of 1997.

## STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

8. The total audit suspensions and disallowances as at December 31, 2021 is P2.863 billion, broken down as follows:

	<b>Suspensions</b>		<b>Disallowances</b>		<b>Total</b>
Head Office*	P	0	P	2,824,431,297.32	P 2,824,431,297.32
Regional Offices/Branches		26,104,084.46		12,185,972.49	38,290,056.95
	<b>P</b>	<b>26,104,084.46</b>	<b>P</b>	<b>2,836,617,269.81</b>	<b>P 2,862,721,354.27</b>

\* Included are the NLDC and PCFC disallowances

8.1 The total disallowances of P2.837 billion consists of P2.811 billion Priority Development Assistance Fund and Development Acceleration Program from National Livelihood Development Corporation, P0.017 billion payments of benefits and allowances to LBP Board of Directors, officers and employees, and P0.009 billion payments for 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.

8.2 The total suspensions of P26,104,084.46 issued by Audit Teams in Regions 6, 9 and 10, pertain to payments of various expenses without complete supporting documents.

8.3 There are no audit charges as at December 31, 2021.