

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 9,298 consisting of 1,225 officers and 8,073 operating staff as of December 31, 2019, is deployed as follows:

| | Officer | Staff | Total |
|----------------------|----------------|--------------|--------------|
| Head Office | 497 | 2,009 | 2,506 |
| Branches/Field Units | 728 | 6,064 | 6,792 |
| | 1,225 | 8,073 | 9,298 |

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, 2019 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, 2019 and 2018. 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 | | |
|-------------|---------------|---------------------|-------------|---------------|---------------------|-------------|
| | 2019 | 2018 As Restated | Increase | 2019 | 2018 As Restated | Increase |
| Assets | 2,043,019,189 | 1,888,739,949 | 154,279,240 | 2,034,861,108 | 1,877,100,570 | 157,760,538 |
| Liabilities | 1,890,601,983 | 1,751,781,690 | 138,820,293 | 1,885,943,949 | 1,742,741,946 | 143,202,003 |
| Equity | 152,417,206 | 136,958,259 | 15,458,947 | 148,917,159 | 134,358,624 | 14,558,535 |

II. Results of Operations

| | Group | | | Parent | | |
|-------------------------------|-------------|------------|-------------------------|-------------|------------|-------------------------|
| | 2019 | 2018 | Increase/ (Decrease) | 2019 | 2018 | Increase/ (Decrease) |
| Income | 85,980,440 | 67,722,331 | 18,258,109 | 85,116,150 | 66,568,663 | 18,547,487 |
| Personal Services | 13,171,022 | 13,853,218 | (682,196) | 12,952,800 | 13,367,317 | (414,517) |
| MOOE | 29,406,939 | 24,287,717 | 5,119,222 | 29,888,264 | 23,266,398 | 6,621,866 |
| Financial Expenses | 23,389,122 | 14,089,010 | 9,300,112 | 23,223,525 | 13,944,655 | 9,278,870 |
| Net Income | 20,013,357 | 15,492,386 | 4,520,971 | 19,051,561 | 15,990,293 | 3,061,268 |
| Other Comprehensive Income | (1,963,174) | 6,681,749 | (8,644,923) | (2,056,814) | 6,728,364 | (8,785,178) |
| Total Comprehensive Income | 18,050,183 | 22,174,135 | (4,123,952) | 16,994,747 | 22,718,657 | (5,723,910) |

III. Budget and Utilization

| Parent | Budget | | Utilization | |
|---------------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Personnel Services | 15,452,022 | 12,355,937 | 13,345,166 | 13,685,829 |
| Maintenance and Other Operating Expenses | 19,860,753 | 40,298,991 | 20,180,470 | 17,882,754 |
| Financial Expenses | 17,548,000 | 12,371,000 | 23,070,736 | 13,941,371 |
| Capital Outlay | 7,959,368 | 5,035,470 | 1,913,452 | 2,295,159 |
| | 60,820,143 | 70,061,398 | 58,509,824 | 47,805,113 |

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, 2019 and 2018.

SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant observations and recommendations:

1. Reconciling items totaling P616.36 million were not recognized in the proper accounts and corrected retrospectively as at December 31, 2019 contrary to Philippine Accounting Standard (PAS) 1 and PAS 8, resulting in the understatement of Due from Foreign Banks, Due from Local Banks – Clearing accounts, and liability accounts by P596.38 million, P19.98 million and P617.33 million, respectively, and overstatement of net income by P0.97 million as at December 31, 2019.

We recommended that Management: a) identify the nature of all reconciling items and prepare the necessary adjusting entries in order to faithfully represent balances of all affected accounts in the financial statements as at December 31, 2019; b) include in the policy guidelines the complete recognition of transactions beyond the cut-off date of the General Ledger System up to the last day of the financial period; and c) update the policy guidelines to include the resolution of long outstanding reconciling items of nostro and clearing accounts.

2. The balance of Real and Other Properties Acquired (ROPA) in the ROPA Manager System (ROPA MS) and in the Financial Management System General Ledger (FMS GL) showed an unreconciled difference of P99.887 million, thereby affecting the faithful representation of the ROPA as at year-end.

We recommended that Management require: a) Special Assets Department (SPAD) and Loans Implementation Department to reconcile the discrepancy in the balance of ROPA in the ROPA MS and FMS GL; b) SPAD to effect manual adjustments in the computation of residual value for old ROPA in the ROPA MS to reconcile with the FMS GL; and c) Lending Centers and Lending Units to submit documents required in encoding ROPA to the ROPA MS.

3. Bank service fees for Cash Card distribution and withdrawal transactions under the Unconditional Cash Transfer (UCT) Program were not properly recognized contrary to Philippine Financial Reporting Standard 15 and PAS 1, resulting in the overstatement of Accounts Receivable-Government Entities (AR-GE) and Accounts Payable-Others (AP-Others) by P13.978 million, and P89.057 million, respectively, and understatement of Net Income by P75.079 million as at December 31, 2019.

We recommended that Management require: a) the concerned LBP Servicing Branches to timely submit the required liquidation documents/reports of the UCT/TRCT [Tax Reform Cash Transfer] program funds as per Memorandum of Agreement (MOA)/Implementing Rules and Regulations (IRR)/guidelines, prepare Journal Tickets on the accrued service fee receivable totaling P57,432,810 plus reimbursable expenses, and submit to respective Accounting Centers for booking; b) the CCT-PMD [Conditional

Cash Transfer - Program Management Department] to regularly coordinate with the LBP Servicing Branches for the timely submission of reports required in the MOA between DSWD [Department of Social Work and Development] and LBP for the distribution of UCT, and IRR for the cash disbursements for the UCT Programs; and c) the LBP Batasan Branch to prepare an adjusting entry to correct the overstatement of AR-GE, and AP-Others accounts amounting to P71,410,632.20 and P89,057,268.20, respectively, and understatement of Fees and Commission Income account amounting to P17,646,636 to present the correct balances of the accounts as at December 31, 2019.

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The total audit suspensions and disallowances as at December 31, 2019 is P2.858 billion, broken down as follows:

| Parent | Suspensions | Disallowances | Total |
|---------------------------|----------------------|-------------------------|-------------------------|
| Head Office | - | 2,824,431,297.32 | 2,824,431,297.32 |
| Regional Offices/Branches | 25,977,699.37 | 12,491,438.40 | 38,469,137.77 |
| | 25,977,699.37 | 2,832,922,735.72 | 2,862,900,435.09 |

The suspensions and disallowances included the P2.811 billion disallowances relating to Priority Development Assistance Fund (PDAF) and Development Acceleration Program (DAP) transferred from National Livelihood Development Corporation. The other suspensions and disallowances were payments of benefits and allowances to LBP Board of Directors, officers and employees which were not in accordance with existing laws, rules and regulations. Management has already filed appeals on the Notices of Disallowances, in accordance with the Revised Rules and Procedures of the Commission on Audit (RRPC).

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 68 audit recommendations embodied in the prior years' Annual Audit Reports, 48 were fully implemented, 20 were partially implemented, of which six are reiterated in Part II of this report.