

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.

On 25 June 2021, President Rodrigo R. Duterte signed Executive Order No. 142 entitled, “Approving the Merger of the Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the Acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB.”

On 24 September 2021, the Parent acquired 12 Billion Special Preferred Shares of UCPB held by the PDIC by issuing a 20-year Certificate of Indebtedness (COI) with face value and fair value of at the time of acquisition amounting to P12 Billion and P4,038,227,868.42, respectively. The issuance of the COI represented 88.91 per cent of the total voting rights in UCPB.

At the acquisition date, the Parent classify/designate the identifiable assets acquired and liabilities assumed as necessary on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

LBP onboarded a total of 2,343 former UCPB employees; 101 reported in Head Office while majority in the field offices.

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 9,790 consisting of 1,390 officers and 8,400 operating staff as of December 31, 2021, deployed as follows:

	Officers	Staff	Total
Head Office	532	858	1,390
Branches/Field Units	2,001	6,399	8,400
	2,533	7,257	9,790

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, 2021 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, 2021 and 2020. 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		
	2021	2020 As Restated	Increase	2021	2020 As Restated	Increase
Assets	2,934,311,582	2,369,325,199	564,986,383	2,593,799,795	2,364,315,156	229,484,639
Liabilities	2,697,761,485	2,190,251,419	507,510,066	2,374,189,378	2,188,288,022	185,901,356
Equity	236,550,097	179,073,780	57,476,317	219,610,417	176,027,134	43,583,283

II. Results of Operations

	Group			Parent		
	2021	2020 As Restated	Increase/ (Decrease)	2021	2020 As Restated	Increase/ (Decrease)
Income	98,769,831	82,350,493	16,419,338	81,437,924	80,998,556	439,368
Personal Services	15,556,000	12,111,875	3,444,125	14,284,684	11,982,220	2,302,464
MOOE	30,334,948	23,385,228	6,949,720	27,649,011	22,878,783	4,770,228
Financial Expenses	15,482,932	24,543,828	(9,060,894)	14,547,475	23,336,275	(8,788,800)
Net Income	37,395,949	22,309,562	15,086,387	24,956,754	22,801,278	2,155,476
Other Comprehensive Income	(9,350,649)	4,453,295	(13,803,944)	(8,841,243)	4,452,532	(13,293,775)
Total Comprehensive Income	28,045,300	26,762,857	1,282,443	16,115,511	27,253,810	(11,138,299)

III. Budget and Utilization

Parent	Budget		Utilization	
	2021	2020	2021	2020
Personnel Services Maintenance and Other	18,229,468	17,181,929	15,504,543	13,888,693
Operating Expenses	23,447,024	20,412,108	22,381,912	19,288,052
Financial Expenses	13,002,000	14,699,000	12,117,736	15,014,514
Capital Outlay	8,071,755	5,552,390	1,088,994	810,319
	62,750,247	57,845,427	51,093,185	49,001,578

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, 2021 and 2020.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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.

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 CCR, 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 Payment Apportionment Report 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 CCR 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 General Ledger and Subsidiary Ledger balances of CCR account be continuously conducted.

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 No. 679, and LBP Executive Order Nos. 083 and 012, Series of 2017 and 2020, respectively.

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.

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

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

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

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.

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.

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

STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS

Out of the 21 audit recommendations embodied in the prior years’ Annual Audit Reports, 13 were fully implemented, six were partially implemented, one of which is reiterated, and two were not implemented.