EXECUTIVE SUMMARY

INTRODUCTION

The Land Bank of the Philippines (LBP), the “Bank”, was established on 8 August 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 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 total manpower of 8,623, consisting of 999 officers, 6,231 operating staff and 1,393 contractual employees as of December 31, 2013, is deployed as follows:

	Officer	Staff	Contractual	Total
Head Office	457	1,663	503	2,623
Branches/Field Units	542	4,568	890	6,000
	999	6,231	1,393	8,623

The Corporate Operating Budget of the Group for CY 2013 was P19.175 billion broken down as follows: (In thousand pesos)

	Budget	**Utilization**	**Variance**
Personnel Services	7,335,000	7,429,239	(94,239)
Maintenance and Other Operating Expenses	9,420,000	10,114,437	(694,437)
Capital Outlay	2,420,000	1,224,319	1,195,681
	19,175,000	18,767,995	407,005

FINANCIAL HIGHLIGHTS

I. Comparative Financial Position (in thousand pesos)

	Group			**Parent**		
	2013	**2012**	**Increase**	**2013**	2012	Increase
Assets	849,330,280	691,539,183	157,791,097	847,083,111	689,128,695	157,954,416
Liabilities	767,187,139	607,566,083	159,621,056	767,126,961	607,225,269	159,901,692
Capital Funds	82,143,141	83,973,100	(1,829,959)	79,956,150	81,903,426	(1,947,276)

II. Comparative Results of Operations (in thousand pesos)

	Group			**Parent**		
	2013	**2012**	**Increase (Decrease)**	**2013**	**2012**	**Increase (Decrease)**
Income	42,550,869	38,104,557	4,446,312	42,030,789	37,683,098	4,347,691
Personal Services	7,480,363	6,527,905	952,458	7,429,238	6,477,791	951,447
MOOE	12,206,761	11,831,985	374,776	12,083,173	11,817,353	265,820
Financial Expenses	11,073,130	8,781,851	2,291,279	10,988,267	8,663,236	2,325,031
Net Income	11,790,615	10,962,816	827,799	11,530,111	10,724,718	805,393
Other Comprehensive Income	(8,363,555)	1,328,366	(9,691,921)	(8,364,064)	1,328,366	(9,692,430)
Total Comprehensive Income	3,427,060	12,291,182	(8,864,122)	3,166,047	12,053,084	(8,887,037)

SCOPE OF AUDIT

Our audit covered the examination on a test basis, the accounts and operations of LBP for CY 2013 in accordance with the International Standards on Auditing. Our audit was also made to assess the propriety of financial transactions and compliance with laws, rules and regulations.

AUDITOR'S OPINION

The Auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of LBP for CY 2013 in accordance with Philippine Financial Reporting Standards.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant observations and recommendations, among others, discussed with Management:

1. The interest rate of 4½ per cent imposed to the P2 billion loan facilities granted to a multi-purpose cooperative was below the required minimum rate of five per cent, contrary to LBP Board Resolution No. 13-582 dated September 16, 2013, Rediscounting and Credit Line Agreements, both dated October 30, 2013.

We recommended that Management enforce strictly the terms and conditions provided in LBP's Board Resolution No. 13-582 and the Rediscounting and Credit Line Agreements on the required minimum interest rate to be imposed to borrowers.

2. The term loans granted to a Local Government Unit in the amount of P1.102 billion did not comply with the 20 percent equity participation requirement under the Risk Assets Acceptance Criteria of the Revised Policy Guidelines for LGU Lending Program. Further, the COA audit findings/opinions were not considered in the evaluation of loan applications for the credit facilities amounting to P1.434 billion and P1 billion, thereby exposing the Bank to credit risks.

We recommended that Management establish appropriate guidelines on loan take-out and consider the relevant audit findings of the COA Auditor in the evaluation of the loans to be granted to LGUs.

3. The restructured loans of two borrowers consisting of a corporation and spouses with a total outstanding loan balance of P742 million were not sufficiently covered by collaterals and supported by appraisal report of an independent appraiser, contrary to the LBP Revised Credit Manual. Further, the full amount of P591 million loan was released to the corporation despite partial completion of three poultry buildings with an appraised value of only P73.714 million, thereby exposing the Land Bank to high credit risk.

We recommended that Management exercise the highest degree of diligence in the evaluation and approval of loan restructuring, and ensure strict compliance with LBP internal policies on restructuring of loans. Likewise, we recommended that additional collateral be required to have adequate coverage of the outstanding restructured loan.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 43 audit recommendations embodied in the prior years' Annual Audit Reports, four were implemented, 34 were partially implemented and five were not implemented. Details are presented in Part III of this Report.