

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 8,332, consisting of 971 officers, 6,091 operating staff and 1,270 contractual employees as of December 31, 2012, is deployed as follows:

	Officer	Staff	Contractual	Total
Head Office	425	1,472	448	2,345
Branches/Field Units	546	4,619	822	5,987
	971	6,091	1,270	8,332

The Corporate Operating Budget of the Group for CY 2012 was P20.253 billion broken down as follows: (In thousand pesos)

	Budget	Utilization	Variance
Personnel Services	7,500,000	6,479,330	1,020,670
Maintenance and Other Operating Expenses	10,277,000	8,973,325	1,303,675
Capital Outlay	2,476,000	593,848	1,882,152
	20,253,000	16,046,503	4,206,497

FINANCIAL HIGHLIGHTS

I. Comparative Financial Position (in thousand pesos)

	Group			Parent		
	2012	2011	Increase	2012	2011	Increase
Assets	691,539,104	645,812,386	45,726,718	689,128,695	643,275,882	45,852,813
Liabilities	607,566,842	568,088,207	39,478,635	607,225,269	567,445,675	39,779,594
Capital Funds	83,972,262	77,724,179	6,248,083	81,903,426	75,830,207	6,073,219

II. Comparative Results of Operations (in thousand pesos)

	Group			Parent		
	2012	2011	Increase (Decrease)	2012	2011	Increase (Decrease)
Income	38,104,552	34,519,551	3,585,001	37,683,098	34,200,828	3,482,270
Personal Services	6,527,745	6,409,079	118,666	6,477,791	6,455,650	22,141
MOOE	11,829,232	9,485,668	2,343,564	11,817,353	9,465,412	2,351,941
Financial Expenses	8,781,851	9,568,590	(786,739)	8,663,236	9,441,214	(777,978)
Net Income	10,965,724	9,056,214	1,909,510	10,724,718	8,838,552	1,886,166
Other Comprehensive Income	1,328,366	3,031,334	(1,702,968)	1,328,366	3,031,334	(1,702,968)
Total Comprehensive Income	12,294,090	12,087,548	206,542	12,053,084	11,869,886	183,198

SCOPE OF AUDIT

Our audit covered the examination on a test basis, the accounts and operations of LBP for CY 2012 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 2012 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. Accounts receivable-Others in the branches totaling P50.576 million remained uncollected due to certain deficiencies noted depriving LBP of the funds that could have been derived therefrom. Further, the receivable account is overstated due to the inadequate provision of valuation reserves amounting to P34.082 million for long outstanding accounts.

We recommend that Management:

a. Pursue the collection of the long outstanding receivables in accordance with existing regulations;

b. Exert all efforts to retrieve or reconstruct the documents pertaining to the bond transactions to support the adjusting/closing entries to be made;

c. Exhaust all possible means to reconstruct the inter-branch transactions to determine the actual nature thereof, identify the particular debtor-party, and, determine the appropriate entries to establish the correct balances of those unreconciled transactions; and

d. Provide valuation reserves in accordance with pars. B.2.2.3 and B.3.3.2 of LBP EO No. 012.

2. Accounts payable (AP) in the branches and Cash Department in the aggregate amount of P37.078 million remained long outstanding ranging from over one year to over 10 years as a result of the non-compliance with Items B.1.1.1.d, B.2.b and c, and, B.4.b of LBP EO No. 015, series of 1991, on GUIDELINES ON HANDLING OF OUTSTANDING ACCOUNTS PAYABLE.

We recommend that Management:

a. Strictly implement the provisions of LBP EO 015, series of 1991, on the required notices to clients with unclaimed balances and closely monitor the account to institute timely and appropriate action;

b. Require the branches to make the necessary adjusting journal entries to close to Miscellaneous income the Teller's overages amounting to P95,100.00 and demand drafts aggregating P280,594.30;

- c. Require the Accounting Center/Unit to reconcile all outstanding payables pertaining to re-ordered checkbooks to determine the proper entries to close the same.
- d. Consider revising the existing procedure to include the covering billing statement, upon delivery of the checkbooks to the branches, to support the preparation of accounting entry;
- e. Require the branches to evaluate if the long outstanding payables would still be claimed, otherwise; to prepare the necessary adjusting entries to close these accounts;
- f. Require the Accounting Center/Unit to analyze the accounts with negative balances and make the appropriate adjusting/correcting entries; and
- g. Require branches to submit to the Administrative Accounting Department the list of payable accounts which had been unclaimed for 10 years or more for reporting to the Bureau of Treasury in accordance with Act 3936, as amended by PD 679.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 53 audit recommendations embodied in the prior years' Annual Audit Reports, 14 were implemented, 35 were partially implemented and four were not implemented. Details are presented in Part II-B of this Report.