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 7,834, consisting of 1,009 officers and 6,825 operating staff as of December 31, 2016, is deployed as follows:

	Officer	Staff	Total
Head Office	434	1,606	2,040
Branches/Field Units	575	5,219	5,794
	1,009	6,825	7,834

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 to December 31, 2016 in accordance with the Philippine Public Sector Standards on Auditing to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2016 and 2015. It was also made to assess the propriety of financial transactions and 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		
	2016	**2015**	**Increase**	**2016**	**2015**	**Increase**
Assets	1,402,306,101	1,205,750,407	196,555,694	1,399,759,397	1,203,068,216	196,691,181
Liabilities	1,309,480,173	1,117,001,775	192,478,398	1,309,540,276	1,116,824,258	192,716,018
Capital Funds	92,825,928	88,748,632	4,077,296	90,219,121	86,243,958	3,975,163

II. Results of Operations

	Group			Parent		
	2016	**2015**	**Increase/ (Decrease)**	**2016**	**2015**	**Increase/ (Decrease)**
Income	47,662,032	44,292,642	3,369,390	47,260,473	43,861,859	3,398,614
Personal Services	8,683,113	8,285,966	397,147	8,667,061	8,250,566	416,495
MOOE	13,861,746	12,820,177	1,041,569	13,845,476	12,834,850	1,010,626
Financial Expenses	11,303,043	9,220,632	2,082,411	11,184,240	9,112,859	2,071,381
Net Income	13,814,130	13,965,867	(151,737)	13,563,696	13,663,584	(99,888)
Other Comprehensive Income	(7,409,466)	(2,555,510)	(4,853,956)	(7,416,089)	(2,553,204)	(4,862,885)
Total Comprehensive Income	6,404,664	11,410,357	(5,005,693)	6,147,607	11,110,380	(4,962,773)

III. Budget and Utilization

	Budget		Utilization	
	2016	**2015**	**2016**	**2015**
Personal Services	9,268,610	8,253,000	8,924,448	8,247,392
Maintenance and Other Operating Expenses	11,781,390	10,532,000	11,904,945	12,061,439
Financial Expenses	15,156,000	7,864,000	10,319,068	8,836,085
Capital Outlay	49,614,144	2,650,000	1,322,978	1,862,617
	85,820,144	**29,299,000**	**32,471,439**	**31,007,533**

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of LBP for the years ended December 31, 2016 and 2015 in accordance with Philippine Financial Reporting Standards. However, attention was drawn to Note 10 which disclosed, among others, that the LBP's Available-for-sale-Domestic-Private investments account includes undelivered 3,366,800 MERALCO shares. Likewise, the corresponding cash dividends earned amounting to P297.086 million and P212.647 million as at December 31, 2016 and 2015, respectively, and property dividends of 9,488,394 shares of stock in Rockwell Land Corporation, were still unpaid to LBP.

SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

1. The equity investment in Small Business Corporation amounting to P360 million was classified as Investment in Non-Marketable Equity Securities (INMES) instead of Investment in Associate as required in Philippine Accounting Standard (PAS) 28 that overstated the INMES account and understated the Investment in Associates by P360 million.

1.1 We recommended that Management require the Treasury Operations Department to record the equity investment in SBC amounting to P360 million, as Investment in Associate and measure it at equity method to correct the classification and presentation of the said accounts in the financial statements as at December 31, 2016.

2. The acquired properties of a real estate corporation was recorded as ROPA/Investment Property at P16.855 million instead of P176.893 million pursuant to PAS 40 that understated both the Real and Other Properties Acquired/Investment Property and Miscellaneous Income accounts by P160.038 million.

2.1 We recommended that Management require the LID to make the necessary adjusting entry to record the above properties in accordance with paragraphs 5 and 20 of PAS 40.

3. The properties of a resort hotel amounting to P117.730 million were not derecognized as asset despite receipt of the down payment of P50 million for the settlement of outstanding obligation of P332.372 million contrary to PAS 40 and PAS 18, resulting in the overstatement of the NCAHS account by P117.730 million and understatement of the Sales Contract Receivable and Net Income by P282.371 million and P164.641 million, respectively.

3.1 We recommended that Management require the Loans Implementation Department to make the necessary adjusting entry to derecognize the properties of the hotel as asset for the fair presentation of affected accounts in the financial statements as at December 31, 2016.

4. The CCT service fees receivable from the Department of Social Welfare and Development aggregating P213.570 million were not recognized in the books resulting in the understatement of Accounts Receivable-Government Entities (AR-GE) and Fees and Commission Income accounts by the same amount and contributed to the total variance of P220.199 million between the General Ledger and Subsidiary Ledger balances of the A/R-GE account.

4.1 We recommended that Management require:

a. LBP Batasan Branch and CCT-PMO to:

a.1 regularly reconcile the AR/GE (DSWD) account balance as provided in the Manual of Regulations for Banks (MORB) on independent balancing, as well as to intensify the reconciliation, verification and analysis of the causes of the noted variance between the GL and SL of the said account to avoid occurrence of the same deficiencies in the future, and

a.2 ensure that their records are reconciled before a request for booking/recording of the Accounts Receivable and Fees & Commission Income from DSWD is made to avoid the double recording as well as the over/understatement of the account; and

b. CCT-PMO to prepare and send billing statement to DSWD on a timely manner and enforce collection with reference to the cited provisions in the IRR that DSWD shall reimburse the advances paid by LBP within five (5) working days upon receipt of LBP's weekly billing with attached supporting documents, and that DSWD shall remit payment to LBP within one (1) month from receipt of Billing Statement for Cash Cards.

5. The outsourced ATM Cash Loading and First Level Maintenance (FLM) Services did not meet the expected ATM availability and efficiency of the ATM cash loading and FLM operations of the Bank.

5.1 We recommended that Management revisit the Contract Agreement and the corresponding TOR to consider the following:

a. Allow emergency replenishment of ATMs that are not included in the replenishment plan upon directive of the Bank;

b. Impose stringent sanctions and study the possibility and viability that onsite ATMs currently outsourced to the SP be turned over and be managed by the Bank; and

c. Set a threshold or limit to the amount of retrieved and unutilized cash that can be used for onward replenishment to determine the reasonableness of the amount of cash in the custody of the Service Provider at the end of the day.

6. The LBP has no automated monitoring system linked to the other systems of the Bank, for the Funding, liquidation and related Service Fee (SF) of cash grants distribution through CCT Conduits despite being the depository and disbursing bank of the CCT Program for more than five years. Thus, monitoring of said transactions was prepared manually which entails tedious processes that are prone to human error.

6.1 We recommended that Management consider:

a. Developing an automated monitoring system for the CCT Program Fund and the CCT Conduits service fees receivable from DSWD, that is extracted or linked to the Bank CASA system to generate accurate and complete report as at a given date or period;

b. For the meantime, to continue maintaining proper documentation and monitoring of the CCT Program fund and Conduit's Service Fee Receivable from DSWD, using the data submitted/gathered from LBP EBSU, LBP Batasan Branch, the Conduits' designated LBP Servicing Branches and DSWD communications for the information as to payout extension; and

c. Distributing cash grants thru LCC except in remote places with no access to ATMs.

7. The enhancements under LBP EO No. 050, series of 2012, as amended by LBP EO No. 056, series of 2014, providing the increase ranging from 92 to 133 per cent of the maximum entitlement of Bank officers and members of the BOD, and the granting of MVLPP to officers with Pay Grades 9 and 10 were inconsistent with the conditions approved by the Office of the President of the Philippines (OPP) in 1992.

7.1 We recommended that Management:

a. Seek approval from the Office of the President of the Philippines for the grant of the increased maximum amounts of entitlement of MVLPP to LBP officers/directors and the inclusion of Bank officers with Pay Grades 9 and 10 in the coverage of the LBP MVLPP, and

b. In the meantime, limit the granting of the said benefit to what was provided in the Guidelines approved by the Office of the President of the Philippines.

8. The transfer of funds in the aggregate amount of P76.505 million for the CYs 2016 and 2017 uniform allowance of middle management officers and rank-and-file employees to the LBP Middle Management Officers Association, Inc. (LBPMMOAI) and LBP Employees Association (LBPEA) is not in accordance with the handling and safekeeping of public funds.

8.1 We recommended that Management discontinue the practice of channelling the funds for the employees' uniform allowance to LBPMMOAI and LBPEA and allowing them to administer said funds.

9. The LBP's Guidelines on the creation of its Liability Indemnity Fund (LIF) was not submitted for GCG's approval pursuant to Governance Commission for GOCCs (GCG) Memorandum Circular No. 2012-10.

9.1 We recommended that Management submit the Guidelines on LIF to GCG for formal approval in compliance with GCG Memorandum Circular No. 2012 -10.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

The total unsettled audit suspensions and disallowances as of December 31, 2016 is P62,802,303.44, broken down as follows:

	Suspended	**Amount Disallowed** (In Philippine Peso)	**Total**
Head Office	6,007,911.58	8,615,894.47	14,623,806.05
Regional Offices/Branches	39,334,964.46	8,843,532.93	48,178,497.39
	45,342,876.04	**17,459,427.40**	**62,802,303.44**

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 139 audit recommendations embodied in the prior years' Annual Audit Reports, 72 were implemented, 24 were partially implemented, and 43 were not implemented, 39 of which are reiterated in Part II of this report. The details of the partially implemented and unimplemented audit recommendations are presented in Part III of this Report.