

## 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 8,071, consisting of 1,043 officers and 7,028 operating staff as of December 31, 2017, is deployed as follows:

	<b>Officer</b>	<b>Staff</b>	<b>Total</b>
Head Office	434	1,700	2,134
Branches/Field Units	609	5,328	5,937
	1,043	6,825	8,071

## 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, 2017 in accordance with the International Standards of Supreme Audit Institutions (ISSAI) to enable us to express an opinion on the fairness of presentation of the consolidated financial statements for the years ended December 31, 2017 and 2016. 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		
	2017	2016 As restated	Increase	2017	2016 As restated	Increase
Assets	1,627,130,486	1,405,272,329	221,858,157	1,623,837,515	1,402,725,626	221,111,889
Liabilities	1,510,516,792	1,309,480,173	201,036,619	1,509,813,588	1,309,540,277	200,273,311
Capital Funds	116,613,694	95,792,156	20,821,538	114,023,927	93,185,349	20,838,578

### II. Results of Operations

	Group			Parent		
	2017	2016 As restated	Increase/ (Decrease)	2017	2016 As restate	Increase/ (Decrease)
Income	54,663,622	47,822,070	6,841,552	54,095,908	47,420,511	6,675,397
Personal Services	11,304,293	8,683,113	2,621,180	11,271,951	8,667,061	2,604,890
MOOE	17,914,042	14,474,578	3,439,464	17,496,941	14,328,930	3,168,011
Financial Expenses	9,823,821	10,308,494	(484,673)	9,821,651	10,319,068	(497,417)
Net Income	15,621,466	14,355,885	1,265,581	15,505,365	14,105,452	1,399,913
Other Comprehensive Income	1,875,599	(7,409,465)	9,285,064	1,875,908	(7,416,089)	9,291,997
Total Comprehensive Income	17,497,065	6,946,420	10,550,645	17,381,273	6,689,363	10,691,910

### III. Budget and Utilization

	Budget		Utilization	
	2017	2016	2017	2016
Personal Services	11,581,240	9,268,610	11,580,988	8,924,448
Maintenance and Other Operating Expenses	18,947,578	11,781,390	14,142,327	11,904,945
Financial Expenses	10,462,000	15,156,000	9,821,651	10,319,068
Capital Outlay	3,565,860	49,614,144	1,551,645	1,322,978
	<b>44,556,678</b>	<b>85,820,144</b>	<b>37,096,611</b>	<b>32,471,439</b>

## **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, 2017 and 2016 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 P358.446 million and P297.086 million as at December 31, 2017 and 2016, 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:

1. The initial recognition of the financial assets amounting to P484.129 billion at a price and tax on premium or discount deviated from the provisions of PAS 39 resulting in the understatement of Held For Trading and Available For Sale accounts by P7.828 million and P598.524 million, respectively, and overstatement of the Held To Maturity account by P2.285 billion.

1.1 We recommended that Management require the Treasury Operations Department to prepare the necessary adjustments on the initial recognition of purchases of Fixed Term Treasury Notes, Retail Treasury Bonds and Corporate Bonds to conform to PAS 39 and for faithful representation of the affected accounts balances in the financial statements.

2. The adjustment on the amortizations of the investments in MRT III Tranche 3 Bonds of prior years was recognized as interest income instead of correction of error pursuant to PAS 8, thereby resulting in the overstatement of Interest Income account and understatement of Retained Earning account amounting to P1.449 billion.

2.1 We recommended that Management require the Treasury Operations Department to prepare the necessary adjustment on the Interest Income and Retained Earnings in conformity with PAS 8 and the faithful representation of the accounts balances in the Financial Statements as at December 31, 2017.

3. The incorrect computation of unused leave credits of bank employees and the unrecorded terminal leave benefits for separated employees amounting to P13.690 million resulted in the understatement of the Miscellaneous Liabilities account amounting to P444.096 million and approximately P1.030 billion as at December 31, 2017 and 2016, respectively.

3.1 We recommended that Management:

a. Compute the monetary value of unused leave credits for both active and separated employees of the bank as at December 31, 2017 and 2016 in accordance with DBM Circular No. 2016-2 dated March 29, 2016;

b. Accordingly, prepare the necessary adjusting entries for faithful presentation of affected accounts as at December 31, 2017 and 2016; and

c. Comply with paragraphs 41 and 42 of PAS 8 for the recording prior period errors.

4. Two hundred sixty eight ATM units managed by the Third Party Service Provider are continuously out-of-cash status resulting in client's complaints and customers dissatisfaction, thereby defeating the objective of engaging their services in improving ATM availability rate/efficiency in cash loading.

4.1 We recommended that Management:

a. Consider terminating the ATM outsourcing activities of the SP at the end of contract in August 2019;

b. Look for a more sophisticated ATM Monitoring System that will integrate with the Cash Forecasting System of the SP to automate the Forecasting Plan and minimize the ATM out-of-cash status;

c. Enforce to the SP the strict compliance on the forecasting schedule/replenishment plan and permit deviation only if justifiable;

d. Institute a standard validation of reasonableness of the cash order request of the Service Provider; and

e. Strictly comply with the prescribed schedule of billing penalties incurred due to inefficient performance by the Service Provider in the ATM cash loading and FLM services pursuant to the Clause 8.a and b of Annex A of the TOR.

5. Several ROPAs totaling P227.670 million were either occupied by informal settlers/former owners, or left abandoned/idle/undeveloped, or rented out to third parties by former owners, while titles of 2,505 acquired real estate properties valued at P1.636 billion were not yet consolidated in the Bank's name. Acquired real estate and personal properties valued at P3.891 billion and P227.909 million, respectively remained undisposed beyond the reglementary period, thereby depriving the Bank of early recovery of its investment in loans.

5.1 We recommended that Management:

a. Conduct physical inventory of all ROPAs and update database as to the status, condition and occupancy of said properties;

b. Take preventive measures against informal settlers to make the properties more attractive to potential buyers;

c. Expedite the consolidation of titles of foreclosed/acquired property in the name of the Bank;

- d. Revisit, for possible amendment, the administration of ROPA located outside Metro Manila to closely monitor the condition, status, and occupancy of the properties;
- e. Consider the following:
  - e.1 Collect rentals from the previous owners and/or third parties occupying them; and/or
  - e.2 Offer the property for lease with option to purchase or any mode of payment acceptable to the bank;
- f. File claim from concerned government agency for property constructed as road lots; and
- g. Intensify strategies to dispose the ROPAs to recover exposure to said properties.

#### **SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES**

The total unsettled audit suspensions and disallowances as of December 31, 2017 is P55,735,453.60, broken down as follows:

	<b>Suspensions</b>	<b>Amount Disallowances</b> (In Philippine Peso)	<b>Total</b>
Head Office	0	13,525,572.25	13,525,572.25
Regional Offices/Branches	29,996,440.86	12,213,440.49	42,209,881.35
	<b>29,996,440.86</b>	<b>25,739,012.74</b>	<b>55,735,453.60</b>

#### **STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Out of the 67 audit recommendations embodied in the prior years' Annual Audit Reports, 42 were implemented, 21 were partially implemented, and four were not implemented, of which eight are reiterated in Part II of this report.