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 8,599, consisting of 1,139 officers and 7,460 operating staff as of December 31, 2018, is deployed as follows:

	Officer	Staff	Total
Head Office	465	1,813	2,278
Branches/Field Units	674	5,647	6,321
	1,139	7,460	8,599

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, 2018 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, 2018 and 2017. 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		
	2018	2017 As restated	Increase	2018	2017 As restated	Increase
Assets	1,888,776,080	1,627,078,412	261,697,668	1,877,693,337	1,623,837,515	253,855,822
Liabilities	1,751,759,252	1,510,855,700	240,903,552	1,742,735,050	1,510,143,729	232,591,321
Equity	137,016,828	116,222,712	20,794,116	134,958,287	113,693,786	21,264,501

II. Results of Operations

	Group			Parent		
	2018	2017 As restated	Increase/ (Decrease)	2018	2017 As restated	Increase/ (Decrease)
Income	68,314,263	54,663,622	13,650,641	67,161,430	54,095,908	13,065,522
Personal Services	13,853,218	11,309,939	2,543,279	13,367,317	11,271,951	2,095,366
MOOE	24,227,919	18,246,128	5,981,791	23,259,502	17,827,081	5,432,421
Financial Expenses	14,089,010	9,836,156	4,252,854	13,944,655	9,821,651	4,123,004
Net Income	16,144,116	15,271,399	872,717	16,589,956	15,175,225	1,414,731
Other Comprehensive Income	6,681,749	1,870,732	4,811,017	6,728,364	1,875,908	4,852,456
Total Comprehensive Income	22,825,865	17,142,131	5,683,734	23,318,320	17,051,133	6,267,187

III. Budget and Utilization

	Budget		Utilization	
	2018	2017	2018	2017
Personal Services	12,355,937	11,581,240	13,685,829	11,580,988
Maintenance and Other Operating Expenses	40,298,991	18,947,578	17,882,754	14,142,327
Financial Expenses	12,371,000	10,462,000	13,941,371	9,821,651
Capital Outlay	5,035,470	3,565,860	2,295,159	1,551,645
	70,061,398	**44,556,678**	**47,805,113**	**37,096,611**

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, 2018 and 2017 in accordance with Philippine Financial Reporting Standards (PFRS). However, attention was drawn to Note 12 which disclosed, among others, that the LBP's Fair Value Through Other Comprehensive Income/ Available-for-sale investments account includes undelivered 3,366,800 MERALCO shares. Likewise, the corresponding cash dividends earned amounting to P403.481 million and P358.446 million as at December 31, 2018 and 2017, respectively, and property dividends of 9,488,394 shares of stock in Rockwell Land Corporation, were still unpaid to LBP. Further, as discussed in Note 2.4 to the Financial Statements, the Group will adopt PFRS 15 effective 1 January 2019 retroactive 1 January 2018. The deferred adoption of PFRS 15 has insignificant impact on the financial statements of the Group.

SUMMARY OF AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant observations and recommendations:

1. The faithful representation of the investments in equity securities recorded under Financial Assets (FA) at Fair Value through Profit or Loss (FVTPL), Fair Value through Other Comprehensive Income (FVTOCI) and Hold-to-Collect (HTC) accounts amounting to P45.753 million, P104.594 million and P11.448 million, respectively, could not be established due to their valuation which are not compliant with the requirements of paragraphs 4.1.4 and B5.2.3 of PFRS 9.

1.1 We recommended and Management agreed to:

a. Expedite the validation of the valuation models to be applied for the marking-to-market of investments in equity securities of the Bank; and

b. Adjust the investments recorded under FA-FVTPL and FA-FVTOCI accounts amounting to P45.75 million and P104.594 million, respectively, at fair value and HTC amounting to P11.448 million at amortized cost less allowance for losses in accordance with PFRS 9.

2. The faithful representation of Credit Card Receivables account amounting to P401.929 million as at December 31, 2018 cannot be ascertained due to the variance between the General Ledger (GL) and Subsidiary Ledger (SL) balances in the aggregate amount of P734.971 million.

2.1 We recommended and Management agreed to:

a. Prepare monthly reconciliation between the GL and SL using the automated "TOTALOS" balance of the Daily Due Report for the subsidiary ledger of the Credit Card Receivable account and record the necessary adjusting entries for faithful representation of the CCR account in the financial statements; and

b. Ensure timely and proper recording of credit card transactions to reflect the correct balances of CCR and the related income accounts in the FMS or GL.

STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The total audit suspensions and disallowances as at December 31, 2018 is P2.872 billion, broken down as follows:

	Suspensions	Disallowances	Total
Head Office	-	2,827,551,622.86	2,827,551,622.86
Regional Offices/Branches	31,913,741.49	12,252,340.49	44,166,081.98
	31,913,741.49	**2,839,803,963.35**	**2,871,717,704.84**

The suspensions and disallowances included the P2.811 billion disallowances relating to Priority Development Assistance Fund (PDAF) and Development Acceleration Program (DAP) transferred from National Livelihood Development Corporation. The other suspensions and disallowances were payments of benefits and allowances to LBP Board of Directors, officers and employees which were not in accordance with existing laws, rules and regulations. Management has already filed appeals on the Notices of Disallowances, in accordance with the Revised Rules and Procedures of the Commission on Audit (RRPC).

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 83 audit recommendations embodied in the prior years' Annual Audit Reports, 51 were implemented, 30 were partially implemented, and two were not implemented, of which 20 are reiterated in Part II of this report.