**EXECUTIVE SUMMARY**

**INTRODUCTION**

The Land Bank of the Philippines (“LBP”, the “Bank” or the “Parent”) was established on August 8, 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.

On June 25, 2021, President Rodrigo R. Duterte signed Executive Order No. 142 entitled, “Approving the Merger of the Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the Acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB.”

On September 24, 2021, the Parent acquired 12 billion Special Preferred Shares of UCPB held by the PDIC by issuing a 20-year Certificate of Indebtedness (COI) with face value and fair value of at the time of acquisition amounting to P12 billion and P4,038,227,868, respectively. The issuance of the COI represented 88.91 per cent of the total voting rights in UCPB.

At the acquisition date, the Parent classify/designate the identifiable assets acquired and liabilities assumed as necessary on the basis of the contractual terms, economic conditions, its operating or accounting policies and other pertinent conditions as they exist at the acquisition date.

LBP onboarded a total of 2,343 former UCPB employees; 101 reported in Head Office while majority in the field offices.

The Board of Directors of the Bank 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 Parent has a total manpower of 12,662 consisting of 1,587 officers and 11,075 operating staff as of December 31, 2022, deployed as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  **Officers** | **Staff** | **Total** |
| Head Office | 590 | 2,875 | 3,465 |
| Branches/Field Units | 997 | 8,200 | 9,197 |
|  | 1,587 | 11,075 | 12,662 |

**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, 2022 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of LBP’s financial statements (FS) and the Group’s FS for the years ended December 31, 2022 and 2021. Also, we conducted our audit to assess 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** |
|  | **2022** | **2021** | **Increase/ (Decrease)** | **2022** | **2021** | **Increase** |
| **As Restated** | **As Restated** |
| Assets | 3,171,711,652 | 2,933,437,932 | 238,273,720 | 3,150,119,945 | 2,592,932,558 | 557,187,387 |
| Liabilities | 2,938,242,902 | 2,697,766,254 | 240,476,648 | 2,920,503,862 | 2,374,189,378 | 546,314,484 |
| Equity | 233,468,749 | 235,671,678 | (2,202,929) | 229,616,083 | 218,743,180 | 10,872,903 |

1. **Results of Operations**

|   | **Group** | **Parent** |
| --- | --- | --- |
|  | **2022** | **2021** | **Increase/ (Decrease)** | **2022** | **2021** | **Increase/ (Decrease)** |
| **As Restated** | **As Restated** |
| Income | 115,522,200 | 98,771,107 | 16,751,093 | 115,640,044 | 81,437,924 | 34,202,120 |
| Personal Services | 19,464,173 | 15,556,001 | 3,908,172 | 18,728,610 | 14,284,684 | 4,443,926 |
| MOOE | 34,211,540 | 30,342,901 | 3,868,639 | 32,390,659 | 27,649,011 | 4,741,648 |
| Financial Expenses | 26,034,950 | 15,483,107 | 10,551,843 | 25,757,395 | 14,547,475 | 11,209,920 |
| Net Income | 35,811,537 | 37,389,098 | (1,577,561) | 38,763,380 | 24,956,754 | 13,806,626 |
| Other Comprehensive Income | (18,646,221) | (9,486,741) | (9,159,480) | (19,162,751) | (8,841,243) | (10,321,508) |
| Total Comprehensive Income | 17,165,316 | 27,902,357 | (10,737,041) | 19,600,629 | 16,115,511 | 3,485,118 |

1. **Budget and Utilization**

|  |  |  |
| --- | --- | --- |
|   | **Budget** | **Utilization** |
| **Parent** | **2022** | **2021** | **2022** | **2021** |
|  |  |  |  |  |
| Personnel Services  | 22,915,596 | 18,229,468 | 19,228,296 | 15,504,543 |
| Maintenance and Other Operating Expenses | 30,615,485 | 23,447,024 | 27,331,972 | 22,381,912 |
| Financial Expenses | 13,767,000 | 13,002,000 | 15,507,004 | 12,117,736 |
| Capital Outlay | 10,155,184 | 8,071,755 |  7,286,020 | 1,088,994 |
|  |  **77,453,265**  | **62,750,247** | **69,353,292** | **51,093,185** |

**AUDITOR’S OPINION**

The Auditor rendered an unmodified opinion on the fairness of presentation of the LBP and its subsidiaries (Group) and of LBP (Parent) financial statements for the years ended December 31, 2022 and 2021.

**SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

1. Unreconciled intragroup receivable and payable accounts, amounting to P7.069 million and P70.346 million, respectively, were not fully eliminated in the Bank’s consolidated financial statements as at December 31, 2022, contrary to paragraph 10 of PAS 1 and Item c of paragraph B86 of the Application Guidance of the PFRS 10; thus affecting the fair presentation of the balances of accounts in the financial statements.

We recommended and Management agreed to:

1. Continue to establish within specified timelines the balances of receivables from and payables to the subsidiaries by various concerned LBP departments/units to reconcile the variances as at December 31, 2022, and to ensure full elimination of intragroup accounts in the next consolidated financial statements; and
2. Formulate and faithfully comply with the guidelines on the periodic reconciliation of intragroup receivables and payables with the subsidiaries, to include the matter also on the exchanges between LBP and its subsidiaries of summary of transactions and supporting documents within specific timelines, to determine a common ground for the booking of the transactions.
3. Pre-merger/merger inventory and validations of loan records and accountabilities turned over by UCPB, and verification/ confirmation of the existence of subsidiary ledger (SL) items were not yet completed as at year-end by LBP, contrary to LBP EO Nos. 104 and 109, thus, affecting the faithful representation of the transferred UCPB loans and receivable balances of P92.486 billion and other related accounts in the financial statements as at December 31, 2022.

We recommended and Management agreed to:

a. Expedite the inventory and validation of credit and loan documents, and collateral security documents pursuant to LBP EO Nos. 104 and 109 and to confirm the existence, completeness, and accuracy of the balance of Loans and Receivable account as presented in the financial statements;

b. Reconcile inventory of loan/credit folders and collateral with the subsidiary ledger items to establish existence and completeness of the subsidiary ledger items;

c. Make the necessary adjustments for identified discrepancies, if any, as a result of the verification and confirmation of SL items;

d. Employ appropriate measures to address manpower issues; and

e. Consider a revised procedural guideline with specific timelines to
complete validation activities pursuant to LBP EO Nos. 104 and 109.

1. The faithful representation of the balance of Bank Property, Furniture, Fixtures and Equipment transferred from UCPB to LBP, with a net book value amounting to P651.857 million as of December 31, 2022, was not established since properties were not yet completely verified the Bank, the inventory report and SL account balances were not yet reconciled, while discrepancies during the actual merger/migration by the Bank were not yet resolved, contrary to paragraph 2.12 of the Conceptual Framework on Financial Reporting.

We recommended and Management agreed to:

1. Conduct physical inventory to determine the current actual physical location of properties transferred from the UCPB to the LBP, as reported by the Facilities Management Department to Financial Accounting Department – Accounting Transactions Unit in the Schedule of Head Office (HO) Unlocated Fixed Assets, Schedule of HO Vehicles Not Physically Accounted and Schedule of HO Fixed Assets – Equipment Which Existence Were Not Validated;
2. Reconcile results of physical inspection with the subsidiary ledger balances and prepare necessary adjustments, if any; and
3. On the accrual of capital expenditures:
4. Properties which existence has been verified, compute the corresponding depreciation and/or amortization and make the necessary adjustment; and
5. For payables to be reversed, confirm/coordinate with vendors the non-existence of outstanding balances from UCPB.

**Status of Audit Suspensions, Disallowances and Charges**

The total audit suspensions and disallowances as at December 31, 2022 is P2.848 billion, broken down as follows:

|  |  **Suspensions** |  **Disallowances** |  **Total** |
| --- | --- | --- | --- |
| Head Office\* | P | 0 | P |  2,813,431,297.32  | P | 2,813,431,297.32 |
| Regional Offices/Branches |  | 22,371,830.10 |  | 12,139,217.23 |  | 34,511,047.33 |
|   | **P** | **22,371,830.10** | **P** |  **2,825,570,514.55** | **P** |  **2,847,942,344.65** |

*\* Included are the NLDC and PCFC disallowances*

The total disallowances of P2.825 billion consists of P2.800 billion Priority Development Assistance Fund and Development Acceleration Program from National Livelihood Development Corporation, P0.016 billion payments of benefits and allowances to LBP Board of Directors, officers and employees, and P0.009 billion payments for other expenses which were not in accordance with existing laws, rules and regulations. Management has pending appeals with the Commission on the Notices of Disallowance, in accordance with the Revised Rules and Procedures of the Commission on Audit.

The total suspensions of P22.372 million issued by Regional Audit Teams in Regions VI and X pertain to payments of various expenses without complete supporting documents.

There are no audit charges as at December 31, 2022.

**STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS**

Out of the 13 audit recommendations embodied in the prior years’ Annual Audit Reports, 11 were fully implemented, one was partially implemented, and one was not implemented, of which one was reiterated in Part II of this report.