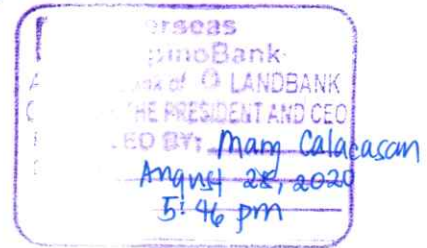




Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT SECTOR
Cluster 1- Banking and Credit

August 28, 2019

Ms. LEILA C. MARTIN
President and CEO
Overseas Filipino Bank, Inc.
Manila



Dear President Martin:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of the Overseas Filipino Bank, Inc. (OFB) for the year ended December 31, 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the OFB for the year ended December 31, 2019 because the recomputed amount of allowance for credit losses on loans and receivables as at December 31, 2019 was not fully recognized, contrary to Philippine Financial Reporting Standard (PFRS) 9; while the disclosure requirements of PFRS 7 and Philippine Accounting Standard (PAS) 8 were not adequately provided in the 2019 and 2018 financial statements.

For the above-cited observation, we recommended that Management:

- a. Provide LBP with data on the corrected computation of the expected credit losses on loan portfolios transferred to the parent bank as at December 31, 2019 for reference and guidance;
- b. Seek the final approval of the OFB Board of Directors for the adoption of the Policies and Guidelines on the Expected Credit Loss Model of the parent bank; and
- c. Provide all disclosures required under PAS 8 and PFRS 7 in the Notes to Financial Statements for 2019 in order to conform to the Management representations on full compliance with PFRSs and achieve the fair presentation requirement of the financial statements under paragraphs 15 and 16 of PAS 1.

The other significant observations and recommendations that need immediate action are as follows:

1. The conditions required under Securities and Exchange Commission (SEC) Financial Reporting Bulletin (FRB) No. 006 dated May 11, 2017, as revised, for the Deposit for Stock Subscription amounting to P1.272 billion to be presented as equity in the financial statements as of December 31, 2019, were not fully met.

We recommended and Management agreed to submit to SEC the application for the amendments of the Articles of Incorporation of OFB to fully comply with all the conditions set forth under FRB No. 006 for the presentation of Deposit for stock subscription under equity.

2. The Philippine Postal Bank, Inc., now Overseas Filipino Bank, Inc. (OFB), did not declare and remit the dividend for dividend year 2016 amounting to P43.083 million, notwithstanding the absence of approval by the President of the Philippines of the adjustment of its dividend rate to zero, hence, OFB had not complied with Republic Act No. 7656 in 2016.

We recommended and Management agreed to secure approval from the President of the Philippines, thru the Department of Finance, for the adjustment in dividend rate to zero for Dividend Year 2016.

The audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference on August 3, 2020, are presented in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



ADELA L. DONDONILLA
Director IV
Cluster Director

Copy Furnished:

The President of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee

The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission of Government-Owned or Controlled Corporation
The National Library
The UP Law Center



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
CORPORATE GOVERNMENT SECTOR
Cluster 1- Banking and Credit

August 28, 2020

THE BOARD OF DIRECTORS
Overseas Filipino Bank, Inc.
Manila



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of the Overseas Filipino Bank, Inc. (OFB) for the year ended December 31, 2019.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the OFB for the year ended December 31, 2019 because the recomputed amount of allowance for credit losses on loans and receivables as at December 31, 2019 was not fully recognized, contrary to Philippine Financial Reporting Standard (PFRS) 9; while the disclosure requirements of PFRS 7 and Philippine Accounting Standard (PAS) 8 were not adequately provided in the 2019 and 2018 financial statements.

For the above-cited observation, we recommended that Management:

- a. Provide LBP with data on the corrected computation of the expected credit losses on loan portfolios transferred to the parent bank as at December 31, 2019 for reference and guidance;
- b. Seek the final approval of the OFB Board of Directors for the adoption of the Policies and Guidelines on the Expected Credit Loss Model of the parent bank; and
- c. Provide all disclosures required under PAS 8 and PFRS 7 in the Notes to Financial Statements for 2019 in order to conform to the Management representations on full compliance with PFRSs and achieve the fair presentation requirement of the financial statements under paragraphs 15 and 16 of PAS 1.

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We recommended and Management agreed to submit to SEC the application for the amendments of the Articles of Incorporation of OFB to fully comply with all the conditions set forth under FRB No. 006 for the presentation of Deposit for stock subscription under equity.

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We recommended and Management agreed to secure approval from the President of the Philippines, thru the Department of Finance, for the adjustment in dividend rate to zero for Dividend Year 2016.

The audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference on August 3, 2020, are presented in detail in Part II of the report.

In a letter of even date, we requested the President and CEO of OFB that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from the date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:



ADELA L. DONDONILLA
Director IV
Cluster Director

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