

EXECUTIVE SUMMARY

INTRODUCTION

Overseas Filipino Bank, Inc. (OFB), A Savings Bank of LandBank, formerly known as Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of the Land Bank of the Philippines (LBP). On September 26, 2017, President Rodrigo Duterte issued Executive Order (EO) No. 44, which mandates the Philippine Postal Corporation and the Bureau of Treasury to transfer their PPSBI shares to LandBank at zero value. The EO further stated that PPSBI will be converted to Overseas Filipino Bank.

On January 5, 2018, the PPSBI registered with the Securities and Exchange Commission the Amended Articles of Incorporation bearing the new corporate name. The Bangko Sentral ng Pilipinas through its Circular Letter No. CL-2018-007 dated January 18, 2018 approved the change of corporate name of the PPSBI to “Overseas Filipino Bank, Inc., a Savings Bank of LANDBANK”.

As stated in its Vision, OFB is a Digital Bank servicing Overseas Filipinos and their Beneficiaries through state-of-the-art Electronic Banking Channels such as Mobile Phone, ATM and Internet which are more convenient, faster (real-time), cheaper and secure, eliminating the need for over-the-counter services.

As of December 31, 2019, the Bank had 52 employees. Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts of OFB for the period January 1 to December 31, 2019 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2019 and 2018. 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 Philippine Peso)

I. Comparative Financial Position

| Particulars | 2019 | 2018 (As restated) | Increase/ (Decrease) |
|--------------------|---------------|-------------------------------|---------------------------------|
| Resources | 5,325,591,281 | 8,981,104,888 | (3,655,513,607) |
| Liabilities | 4,391,576,741 | 8,809,782,490 | (4,418,205,749) |
| Equity | 934,014,540 | 171,322,398 | 762,692,142 |

II. Comparative Results of Operations

| Particulars | 2019 | 2018 (As restated) | Increase/ (Decrease) |
|---|---------------|-----------------------|-------------------------|
| Income | 282,092,036 | 469,463,410 | (187,371,374) |
| Personal services | 91,418,310 | 371,429,483 | (280,011,173) |
| Maintenance and other operating expenses | 668,828,171 | 784,845,096 | (116,016,925) |
| Financial expenses | 131,120,136 | 105,784,501 | 25,335,635 |
| Total expenses | 891,366,617 | 1,262,059,080 | (370,692,463) |
| Net income | (609,274,581) | (792,595,670) | 183,321,089 |
| Other comprehensive income(loss) | 99,958,723 | (47,758,305) | 147,717,028 |
| Total comprehensive income | (509,315,858) | (840,353,975) | 331,038,117 |

III. Comparative Budget and Actual Expenditures

| | 2019 | | 2018 | |
|---|--------------------|--------------|--------------------|---------------|
| | Approved Budget | Expenditures | Approved Budget | Expenditures |
| Personal services | 115,770,000 | 91,418,309 | 350,340,897 | 371,350,023 |
| Maintenance & other operating expenses | 994,390,000 | 661,131,687 | 353,550,234 | 732,021,486 |
| Financial expenses | 480,320,000 | 131,120,136 | 94,580,087 | 105,784,501 |
| Capital outlay | 3,523,500 | 3,277,263 | 2,105,757 | 1,544,231 |
| Total | 1,594,003,500 | 886,947,395 | 800,576,975 | 1,210,700,241 |

AUDITOR'S OPINION

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of OFB as at December 31, 2019 and 2018 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.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above audit observations which caused the issuance of a qualified opinion, 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 PFRS 7 and PAS 8 in the Notes to the 2019 financial statements.

The following are the other significant audit observations and recommendations:

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 to present the Deposit for stock subscription under equity in the financial statements.

2. The Philippine Postal Bank, Inc., now Overseas Filipino Bank, Inc. (OFB), did not declare and remit dividends amounting to P43.083 million for dividend year 2016, 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 of the dividend rate for 2016 to zero.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Total disallowances amounted to P30.807 million as at December 31, 2019. There were no outstanding audit suspensions and charges as at year end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 23 audit recommendations embodied in the prior years' Annual Audit Reports, 13 were fully implemented, nine were partially implemented and one was not implemented, of which two were reiterated in Part II of this Report. Details are presented in Part III of this report.