



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
Corporate Government Sector
Cluster 1 – Banking and Credit

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Overseas Filipino Bank, Inc.
Liwasang Bonifacio, Manila

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Overseas Filipino Bank, Inc. (OFB)**, which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section, the accompanying financial statements present fairly, in all material respects, the financial position of the OFB as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Qualified Opinion

The OFB recomputed allowance for credit losses (ACL) on loans and receivables applying the Expected Credit Loss (ECL) Model of its parent bank [Land Bank of the Philippines (LBP)] as at December 31, 2019 amounted to P2.818 billion. The Bank however, recognized only the amount of P978.153 million in the CY 2019 financial statements, based on the existing PPSBI Credit Policy Memorandum No. 2016-004 which was not aligned with PFRS 9 and Bangko Sentral ng Pilipinas (BSP) Circular No. 1011. Note 3.2 to the Financial Statements disclosed that the Bank estimated a total of P702.354 million additional credit losses as of December 31, 2019 computed using ECL Model of parent bank, LBP, on top of the remaining approved staggered booking of P1.138 billion. Further, Note 11 disclosed that the Monetary Board of BSP, in Resolution No. 993, dated June 14, 2018, approved the recording on a staggered basis over a five-year period the deficiency of the ACL with cut-off date of March 31, 2017 aggregating P1.646 billion. As of December 31, 2019, the remaining amount of ACL approved for staggered booking was P1.138 billion. Had OFB fully recognized the additional ACL of P702.354 million and the remaining ACL of P1.138 billion, the loans and receivables balance would have decreased by P1.840 billion and the net loss would have increased by the same amount in the financial statements as at December 31, 2019.

In addition, the disclosure requirements of PFRS 7 and Philippine Accounting Standard (PAS) 8 were not adequately provided in the 2019 and 2018 financial statements, contrary to the Management representations in Note 2.2 to the financial statements on full compliance with PFRSs and on the fair presentation requirement of the financial statements under paragraphs 15 and 16 of PAS 1. Had OFB provided adequate disclosures, the relevant information on the financial statements would have been presented.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the OFB in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the OFB's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the OFB or to cease operations, or has no realistic alternative but to do so.

Those charges with governance are responsible for overseeing the OFB's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a

basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

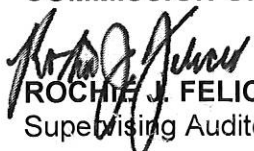
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OFB's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimate and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the OFB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the OFB to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 27 and Note 31 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and complying with the Bangko Sentral ng Pilipinas Circular No. 1074, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT


ROCHIE J. FELICES
Supervising Auditor

August 14, 2020