

## OBSERVATIONS AND RECOMMENDATIONS

### A. FINANCIAL AUDIT

1. The recomputed amount of Allowance for Credit Losses for Loans and Receivables as at December 31, 2019 was not fully recognized, contrary to Philippine Financial Reporting Standard (PFRS) 9 and BSP Circular No. 1011, resulting in the overstatement of the Loans and Receivables by P1.841 million and understatement of the Provision for credit losses by the same amount as at December 31, 2019.

1.1 Relevant provisions of the PFRS 9 state that:

*5.5.1 An entity shall recognize a loss allowance for expected credit losses on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d).*

*5.5.3 Subject to paragraph 5.5.13-5.5.16, at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition.*

*5.5.5 Subject to paragraph 5.5.13-5.5.16, if, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, an entity shall measure the loss allowance.*

1.2 BSP Circular No. 1011, series of 2018, providing for the Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments, states among others that:

*d. Guidelines on the adoption of PFRS 9 Financial Instruments. BSFIs shall adopt, as part of the PFRS framework, PFRS 9: Financial Instruments upon its mandatory effectivity date of 01 January 2018.*

*For this purpose, BSFIs shall be governed by the following:*

*(1) Consistent with the duties and responsibilities of the board of directors provided under Subsection XI43.L/4L43Q.1 of the MORB/MORNBF, the board of directors or any equivalent governing body in the case of branches of foreign banks, shall ensure that the BSFI appropriately and consistently adopts PFRS 9 as part of its reporting governance process. In this respect, the board shall assess the impact of PFRS 9 on business strategies and risk management systems and ensure availability of sufficient resources, including capacity building initiatives, in adopting the standard.*

*The board shall approve policies and guidelines relative to the adoption of PFRS 9, which shall cover responsibilities of the different units in the BSFI (e.g., Treasury, Risk Management, Financial Controllorship) as well as the extent of participation or involvement of third parties in the adoption process. The board shall likewise ensure that adequate control measures are in place to ensure the integrity of reports.*

1.3 As at December 31, 2019, the Loans and Receivables account with net balance of P2.418 billion is composed of the following:

<b>Account</b>	<b>Balance as at December 31, 2019</b>	<b>Allowance for Credit Losses</b>	<b>Net balance</b>
Loans to Private Corporation	1,564,712,483.99	534,264,497.75	1,030,447,986.24
Loans to Small and Medium Enterprises	530,657,960.39	127,018,992.00	403,638,968.39
Loans to Agrarian Reforms and other Agricultural Loans	345,004,229.91	75,381,260.71	269,622,969.20
Loans to Government	173,715,986.23	0	173,715,986.23
Contracts to Sell	402,861,900.16	52,447,697.67	350,414,202.49
Loans to Individual for Housing Purposes	44,343,072.25	2,897,667.53	41,445,404.72
Loans to Individuals for Consumption Purposes	287,403,672.46	172,055,132.14	115,348,540.32
Loans to Individuals for Other Purposes	38,078,607.74	4,475,965.49	33,602,642.25
Microfinance Loans	8,931,733.96	988,313.98	7,943,419.98
General Loan Loss Provisions	0	8,622,999.12	(8,622,999.12)
<b>Total</b>	<b>3,395,709,647.09</b>	<b>978,152,526.39</b>	<b>2,417,557,120.70</b>

1.4 Verification of records disclosed that OFB does not have policies and guidelines on the adoption of PFRS 9 as required under the above-quoted section of BSP Circular No. 1011, series of 2018. Initially, an Allowance for Credit Losses (ACL) amounting to P977,699,941 as at year-end was computed based on PPSBI Credit Policy Memorandum No. 2016-004. This was generally based on five per cent of unclassified restructured loans and one percent of other unclassified loans as General Loan Loss Provision (GLLP), and assigned percentage of each classification of loans for Specific Loan Loss Provision (SLLP), as presented below:

<b>Classification</b>	<b>Percentage</b>
Loans Especially Mentioned (LEM)	5%
Substandard – Secured	10%
Substandard – Unsecured	25%
Doubtful	50%
Loss	100%

1.5 The Schedule of Loans and Receivables generated from the Central Liability System as at December 31, 2019 showed a total ACL, computed using the above guidelines, amounting to P1,688,739,760 but was not totally taken up in the books. This was due to the approval of the Monetary Board of BSP, in Resolution No. 993 dated June 14, 2018, to record 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, the amount of which was provided by BSP. Thus, OFB recorded starting in June 2018 a monthly ACL of P27.4 million, or a total of P507,859,527, leaving an unrecorded ACL of P1,138,140,473 as at December 31, 2019.

1.6 Inquiry with Management revealed that OFB did not adopt and implement the Expected Credit Loss (ECL) Model required under PFRS 9 due to the approval by its Board of Directors, in Board Resolution No. 2019-106 dated September 19, 2019, of the transfer of all its outstanding loans excluding current salary loans to Land Bank of the Philippines (LBP). On January 10, 2020, a Deed of Assignment was executed by and between LBP and OFB for the transfer of loan accounts and recorded in the books of OFB in January 2020.

1.7 In response to the issue raised on the sufficiency of loan loss provisioning, OFB recomputed the ACL on the Loans and Receivables as at December 31, 2019 amounting to P2,818,646,600 in accordance with PFRS 9 by applying the ECL Model of its parent. However, of the computed ACL, only P978,152,526 was recognized in the CY 2019 financial statements, representing the ACL of P977,699,941 and the ACL deficiency of P452,585 for outstanding current salary loans that were not transferred to LBP. Hence, a total of P1,840,494,074, consisting of the additional ACL of P702,353,601 in 2019 and the remaining ACL of P1,138,140,473, approved by BSP for staggered booking, was not recognized as at December 31, 2019.

1.8 In view of the forgoing, the Loans and Receivables was overstated by P1,840,494,074 and the Provision for credit losses was understated by the same amount in the financial statements as at December 31, 2019.

1.9 **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; and**

**b. Seek the final approval of the OFB Board of Directors for the adoption of the Policies and Guidelines on the ECL Model of the parent bank.**

1.10 Management explained that:

a. The Monetary Board, in its Resolution No. 1226 dated 26 July 2018, approved the guidelines governing the adoption of PFRS 9 -Financial Instruments. It was during the same period that OFB was hurdling the challenges of reversing its negative financial position to keep afloat and remain operational while at the same time comply with regulatory requirements. Hence, OFB was not able to immediately adopt PFRS 9 reporting as it started shifting to a new business model. Meanwhile, PFRS 9 requires the early recognition of allowance for credit losses even before the default or non-payment of the borrower. As such, the model should be capable of assessing factors on loan impairment, the development of which would require considerable man-days. OFB has, by this time, already transitioning to a digital-only bank for Overseas Filipino workers (OFWs), Overseas Filipinos (OFs) and their beneficiaries consistent with the provisions of EO 44.

b. The recording of the additional ACL will result to reduction of the net equity/capital of P966 million to more or less P200 million which would result to

OFB's inability to sustain its operation as a bank for OFWs/OFs as committed by the government;

c. The Retained Earnings deficit of P1.3 billion was due to accumulated operating losses and those pertaining to 2016 and prior years that were booked in 2017 and 2018; and

d. The computed deficiency shall be provided to LBP for their information/reference in recording the corresponding ECL on loans transferred by OFB as part of its loan portfolio.

1.11 As a rejoinder, we acknowledge the Management's comments, however, the non-recording of the correct ACL is contrary to applicable accounting and reporting standards and affected the faithful representation of the balances of affected accounts in the financial statements as at December 31, 2019, hence, we maintain our recommendation.

**2. Disclosures to the Notes to Financial Statements for CY 2019 required under Philippine Accounting Standard (PAS) 8 and PFRS 7 were not adequately provided, contrary to the Management representations in Note 2.2 on full compliance with PFRSs and on the fair presentation requirement of the financial statements under paragraphs 15 and 16 of PAS 1.**

2.1 Paragraphs 15 and 16 of PAS 1 require:

*15. The financial statements must "present fairly" the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.*

*16. IAS 1 requires an entity whose financial statements comply with IFRSs to make an explicit and unreserved statement of such compliance in the notes. Financial statements cannot be described as complying with IFRSs unless they comply with all the requirements of IFRSs (which includes International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations).*

2.2 In Note 2.2 to financial statements, Management represents, among others that "The Bank's financial statements have been prepared in accordance with the applicable accounting principles generally accepted in the Philippines and as set forth in the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRSs/PASs)."

2.3 Review of the initially submitted Notes to Financial Statements for CY 2019 revealed that there were required disclosures not complied with, summarized as follows:

PAS/PFRS	Paragraph Number	Subject
PAS 1	125	Assumptions and estimation of uncertainty
	134 to 135	Capital management
PAS 8	28, 30 to 31	Effects of New PAS/PFRS and amendments issued
PFRS 7	25	Fair value and carrying amounts of financial assets and liabilities
	35F to 35I, 35K to 35M	Credit risk management related to the recognition and measurement of expected credit losses
	40 to 42	Sensitivity analysis of exposure on market risk
PFRS 13	91	Valuation techniques and inputs used in fair value measurement of financial assets and liabilities

2.4 In 2018, a qualified audit opinion was rendered on the fairness of presentation of the financial statements due to lack of required disclosures. Evidently, OFB had not implemented our previous recommendation.

2.5 Management commented that required disclosures were already included in the revised Notes to FS for CY 2019.

2.6 Validation of additional disclosures provided after the exit conference revealed, however, that there are other required disclosures not included in the Notes to the 2019 financial statements, with details presented in Annex A and summarized as follows:

PAS/PFRS	Paragraph Number	Subject
PAS 8	28, 30 to 31	Effects of New PAS/PFRS and amendments issued
PFRS 7	35F to 35I & 35M	Credit risk management related to the recognition and measurement of expected credit losses
	40 to 42	Sensitivity analysis of exposure on market risk

2.7 With the incomplete disclosures, the OFB contravened its Management representations in Note 2.2 to the 2019 financial statements on full compliance with PFRSs, and departed from the requirements of pertinent accounting and reporting standards for fair presentation of financial statements.

**2.8 We recommended that Management provide all disclosures required under PAS 8 and PFRS 7 in the Notes to Financial Statements for 2019 to conform with 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.**

## B. COMPLIANCE AUDIT

3. 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.

3.1 Financial Reporting Bulletin (FRB) No. 006 dated May 11, 2017, as revised, issued by the Securities and Exchange Commission states that:

*Considering the requirements of the Corporation Code on increase in authorized capital stock and PAS 32 or Section 22.3 of PFRS for SMEs defining an equity instrument as "any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities," it can be held that the contract or agreement between the corporation and its contracting party (i.e., a stockholder or an investor) must create a right in favor of that party to claim over the residual interest in the net assets of the corporation. Such right could only arise when there are Board of Directors' and stockholders' approvals and, most importantly, regulatory imprimatur over the increase in capital stock. (Emphasis ours)*

*In view of the foregoing, an entity shall classify a contract to deliver its own equity instruments under equity as a separate account (e.g..Deposit for Future Stock Subscription) from "Outstanding Capital Stock" if and only if, all of the following elements are present as of end of the reporting period:*

- 1) X x x;
- 2) X x x;
- 3) X x x; and
- 4) The application for the approval of the proposed increase has been presented for filing or has been filed with the Commission. (Emphasis ours)

3.2 As at December 31, 2019, the equity in the Statement of Financial Position and Statement of Changes in Equity is comprised as follows:

<b>Account</b>	<b>Amount</b>
Capital stock	1,000,000,000
Deposit for stock subscription	1,272,008,000
Retained earnings deficit	(1,304,064,851)
Net Unrealized gain/loss on AFS	(1,912,879)
<b>Balance</b>	<b>966,030,270</b>

3.3 The Deposit on stock subscription account represents the capital infusion made by Land Bank of the Philippines (LBP) on January 04, 2019 and December 05, 2019 amounting to P500 million and P772.008 million, respectively. This is pursuant to Section 3 of Executive Order No. 44, dated September 28, 2017 that *"In order to strengthen that capital base of OFB and enable the same to attain its primary agenda of servicing the various financial and banking needs of overseas Filipinos, the LBP is hereby directed to infuse the necessary capital to OFB."*

3.4 On May 18, 2018, the Board of Directors of OFB approved the amendments to its Articles of Incorporation (AOI), that included the increase in the authorized capital stock from P1 billion to P3.5 billion to be divided into 30 million common shares and 5 million preferred shares, where the latter may be invested into by overseas Filipinos.

3.5 A manifestation in the Minutes of the 9<sup>th</sup> Regular Board Meeting held on September 19, 2019 stated that the Bangko Sentral ng Pilipinas (BSP) had approved the OFB's application for the amendment of its Articles of Incorporation on August 8, 2019 to increase its authorized capital stock from P1 billion to P3.5 billion. The OFB requested the Governance Commission for GOCCs (GCG) for the endorsement of the same to the SEC on September 2, 2019.

3.6 Inquiry with Management disclosed that the OFB's application for amendment of the AOI was neither presented nor filed with the SEC as of this writing due to a requirement of GCG to be included in the amendment. The OFB meeting with GCG scheduled in the first quarter of 2020 did not materialize due to the coronavirus pandemic.

3.7 Thus, OFB did not meet all the conditions set forth under the SEC FRB No. 006 to present the Deposit for stock subscription with balance of P1,272,008,000, as equity in the financial statements as at December 31, 2019.

**3.8 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 as equity in the financial statements.**

#### **Gender and Development (GAD)**

**4. The OFB did not a) allocate at least five per cent of the Corporate Operating Budget (COB); b) implement all its nine GAD projects or activities for CY 2019; and c) develop and maintain GAD Database, contrary to PCW-NEDA-DBM Joint Circular No. 2012-01.**

4.1 Relevant paragraphs of the PCW-NEDA-DBM Joint Circular No. 2012-01 that speaks of the Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budget and Accomplishment Reports to Implement the Magna Carta of Women, are as follows:

*4.4 Institutionalizing GAD Database/Sex-disaggregated Data: The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming, and policy formulation.*

*6.1 At least five percent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's*

*maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations.*

#### *6.4 Attributing agency major programs in the GAD budget*

*Attribution to the GAD budget of a portion or the whole of the budget of an agency major programs is a means toward gradually increasing the gender responsiveness of government programs and budget.*

*9.1 Upon receipt of the letter of endorsement from PCW and or the adjusted GPB, the agency head shall issue an appropriate policy directive, copy furnished PCW, to disseminate and implement the GPBs. The directive shall mandate the agency GFPS to: a) provide technical assistance, as needed, to attached agencies, bureaus and regional offices in the implementation of the GPBs; b) monitor its implementation; c) ensure the preparation and submission of GAD ARs; and d) consolidate reports on the implementation of the GPBs. (Emphasis ours)*

4.2 For CY 2019, review of the implementation of the above guidelines on GAD revealed the following:

- a. The GAD Plan and Budget (GPB) for CY 2019 submitted to Philippine Commission on Women (PCW) on January 31, 2018 showed a GAD Budget amounting to P681,000, which is extremely low compared to P51,632,000 or the equivalent five per cent of the total Corporate Operating Budget (COB) approved by its Board of Directors amounting to P1,032,640,000;
- b. The utilized budget was only P600.00;
- c. There was no attribution to the GAD budget of a portion or the whole of the budget of OFB's major programs;
- d. OFB did not allocate budget to five activities or projects in the GPB;
- e. Of the nine GAD projects or activities, the GAD Accomplishment Report submitted to PCW on February 5, 2020 showed that three were not implemented, three were partially implemented and three were fully implemented; and
- f. OFB has no GAD database to serve as basis for gender-responsive planning, programming and policy formulation.

4.3 Management explained that the implementation of GAD activities was not prioritized in 2019 since OFB is in the process of transition to digital banking in which almost all its employees will be separated from service. Further, the data or information on its employees are being maintained manually.

4.4 Also, the corresponding cost for implementing the GAD activities such as the salaries of personnel to be involved, honorarium of resource persons, cost of materials and venues, and cost of information system to be devised were not considered in the

allocation of budget. Moreover, GAD database did not contain information on current or prospective clientele.

4.5 In view of the forgoing, OFB did not fully comply with the requirements of PCW-NEDA-DBM Joint Circular No. 2012-01, thus, identified gender issues within the organization were not effectively addressed and the objectives of GAD activities in 2019 were not attained.

4.6 **We recommended that Management:**

- a. **Allocate at least five percent of the annual COB for GAD related projects, programs and activities and attribute the corresponding costs to be incurred to the GAD budget.**
- b. **Require the GAD Focal Point System to fully monitor the implementation of the GAD activities in the PCW-endorsed GPB; and**
- c. **Develop and maintain a GAD database for gender-responsive planning, programming and policy formulation.**

4.7 Management informed that OFB has allocated at least five per cent of the 2020 COB to its GAD Plans and Budget for CY 2020 where attribution of related operating costs on GAD activities were accordingly made. Further the guidelines on GAD Plans and Budget and related activities including the creation of GAD Focal Point System was crafted and shall be presented to Management Committee on August 14, 2020 and endorsed to CGRMC for approval. The Bank has started building its GAD database.

4.8 As a rejoinder, we acknowledge the Management's efforts to comply with the recommendations and we will continue to monitor the status of implementation in the subsequent period.

#### **Compliance with Republic Act No. 7656**

**5. The Philippine Postal Bank, Inc. (PPSBI), 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.**

5.1 Sections 5, 7 and 8 of the Revised Implementing Rules and Regulations (IRR) to Republic Act (RA) No. 7656 dated August 5, 1998 and January 26, 2016 state that :

***Section 5. Dividends.*** – *All government-owned or –controlled corporations shall declare and remit at least fifty per cent (50%) of their annual earnings as cash, stock or property dividends to the National Government. X x x*

***Section 7 and 8 (2016 IRR). Flexible Clause.*** – *In the interest of national economy and general welfare, the percentage of annual net earnings that shall be declared by government-owned and/or*

controlled corporation may be adjusted by the President of the Philippines upon recommendation by the Secretary of Finance.  
(Emphasis ours)

5.2 On the other hand, Section 3 of the Revised IRR to RA No. 7656 date January 26, 2016, defines anew the “Net Earnings” as:

*Section 3.*

*“Net Earnings” refers to income derived from whatever source, whether exempt or subject to tax, net of deductions allowed under Section 29 of the National Internal Revenue Code, as amended, and income tax and other taxes paid thereon, but in no case shall any reserve for whatever purpose be allowed as a deduction from Net Earnings. For the avoidance of doubt, “Net Earnings” shall include:*

- i. Income subject to income tax, as provided in the Annual Income Tax Return, net of tax;*
- ii. Income subject to final tax, as provided in the Annual Income Tax Return Schedule on Supplemental Information, net of tax;*
- iii. Income exempt from tax, as provided in the Annual Income Tax Return Schedule on Gross Income/Receipts Exempt from Income Tax, net of tax*

5.3 The Philippine Postal Savings Bank, Inc. (PPSBI) was converted into Overseas Filipino Bank, Inc. (OFB) in September 2017 by virtue of the Malacanang Executive Order (EO) No. 44 dated September 28, 2017. The same EO directed the transfer of the common shares held by the Philippine Postal Corporation and Bureau of Treasury to the Land Bank of the Philippines (LBP). Accordingly, OFB became a wholly-owned subsidiary of LBP.

5.4 Review of the implementation of RA No. 7656 for Dividend Years 2014 to 2018 disclosed that OFB had not declared and remitted dividends on its net income or earnings for the five-year period.

5.5 In a letter dated April 25, 2016, the former President of OFB informed the Assistant Secretary of the Corporate Affairs Group, Department of Finance, that OFB is not qualified to declare dividend since its minimum capitalization and risk-based capital adequacy ratio are not sufficient pursuant to the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas.

5.6 In response to the letter, Executive Order No. 48 dated December 13, 2017 was issued by the President of the Philippines approving the adjustment of the dividend rate to zero percentage of OFB for Dividend Years 2014 and 2015.

5.7 Verification of records further disclosed that OFB had no net earnings for calendar years 2017 and 2018, hence, did not declare and remit dividends. However, based on the Income Tax Return (ITR) for CY 2016 filed with the Bureau of Internal Revenue, the OFB reported in 2016 net earnings amounting to P86,166,277, as shown below:

<b>Income</b>	<b>Amount</b>	<b>Tax Paid</b>	<b>Net Earnings</b>
Income subject to income tax (Part 4 of ITR)	8,138,572	2,441,572	5,697,000
Income subject to final tax (Schedule 9 of ITR)	93,213,678	18,642,735	74,570,943
Income exempt from tax	5,898,334	0	5,898,334
<b>Total Net Earnings</b>			<b>86,166,277</b>
<b>Dividend (50%)</b>			<b>43,083,138</b>

5.8 The above dividend due was confirmed by the Corporate Affairs Group, Department of Finance on February 26, 2020, in response to the audit team's letter dated January 31, 2020.

5.9 The non-declaration and remittance of dividend notwithstanding the restatement of net earnings in CY 2016 and the absence of approval of the President of the Philippines on the adjustment of dividend rate to zero for Dividend Year 2016, the OFB did not comply with the pertinent provision of RA 7656 in the same period.

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

### **Compliance with Tax Laws**

6. Taxes withheld for the month were remitted on or before the tenth day of the following month, except those withheld for the month of December which were remitted on or before the 15<sup>th</sup> day of January of the following year.

6.1 Information on taxes and licenses paid or accrued during the taxable year 2019 were disclosed in Note 27 to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P95.909 million were remitted to the Bureau of Internal Revenue in accordance with the deadlines on payment/remittance of taxes prescribed under the National Internal Revenue Code.

### **SSS Contributions and Remittances**

7. In 2019, the Bank complied with RA No. 8282 on the collection and remittance of contributions to SSS as follows:

- a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and
- b. Remittance of employee's and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

## Philhealth and Pag-IBIG Premiums

8. In 2019, the Bank complied with Section 18, Rule III, Title III, of the implementing Rules and Regulations of RA No. 7875, as amended, in the payment of national health insurance premium contributions to the Philhealth.

8.1 The Bank also complied with Sections 2 and 3, Rule VII, of the Implementing Rules and Regulations of RA No. 9679 in the collection and remittance of contributions to the Pag-IBIG Fund.

## DISALLOWANCES AND CHARGES

9. Total disallowances as of December 31, 2019 amounted to P30.807 million, details as follows:

Particulars	Amount	Status
a. Payment of per diems to former board members of the Bank for FY 2010 in violation of Memorandum Order No. 20 dated June 25, 2001 and Administrative Order No. 103 dated August 31, 2004	3,770,587.83	COA Order of Execution was issued to principal persons liable on June 17, 2014. A supplemental Notice of Disallowance was issued on March 11, 2016 to former members of the Board of Directors pursuant to COA Decision no. 2016-01 dated January 22, 2016 . Notice of Finality of Decision no. 2019-190 dated May 21, 2019 was issued approving the Decision no. 2018- 417 dated December 21, 2018 and COA CGS Cluster 1 Decision no. 2015-02 dated March 25, 2015 excluding Mr. Victor A. Tantoco as person liable under ND. Nos. 13-01(2010) to 13-05(2010). Also, Notice of Finality of Decision no. 2019-021 dated January 18, 2019 approving Decision no. 2017-314 dated September 22, 2017 and COA CGS Cluster 1 Decision no. 2014-07 dated October 13, 2014 excluding Ms. Alda R. Bañez as person liable under ND. Nos. 13-01(2010) to 13-05(2010), was issued.

<b>Particulars</b>	<b>Amount</b>	<b>Status</b>
b. Payment of compensation to the Corporate Treasurer apart from per diems and reimbursable expenses without authority and prior approval from the Office of the President contrary to Section 8 of Executive Order No. 24.	4,017,142.85	With CGS C-1 Decision No. 2015-13 dated December 18, 2015 and pending Petition for Review.
c. Payment of basic pay/salary, RATA and other benefits to paid to Officers who are 65 years of age or above under Officers' Employment Contract exercising direct supervision and control over regular employees contrary to Bank's policy and existing laws, rules and regulations, particularly to Memorandum Circular No. 134 dated October 31, 1995 issued by the Office of the President and COA Circular No. 2012-003 on Irregular Expenditures.	13,608,309.47	With Cluster decision for automatic review by the Commission Proper.
d. Payment of Health Maintenance Program contrary to COA Circular No. 2012-003 dated October 29, 2012 and COA Resolution No. 2005-001 which prohibits the grant of health care allowance and securing of health care insurance from private insurance agencies, respectively.	8,150,784.50	PPSBI has filed an Appeal Memorandum to COA on April 06, 2017.
e. Payment of Representation Allowance for the period covered January 2016 to February 2017	1,260,000.00	Mr. Cesar N. Sarino has filed an Appeal Memorandum to COA on March 27, 2018.
<b>Total</b>	<b>30,806,824.65</b>	

There are no balances of suspensions and charges as at December 31, 2019.