

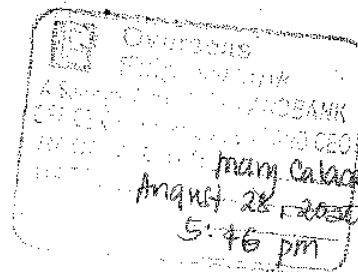


Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines  
**CORPORATE GOVERNMENT SECTOR**  
Cluster 1- Banking and Credit

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

## 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.

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## **PART I – AUDITED FINANCIAL STATEMENTS**



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



# Overseas Filipino Bank

A Savings Bank of **LANDBANK**

August 03, 2020

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of OVERSEAS FILIPINO BANK (OFB), formerly PHILIPPINE POSTAL SAVINGS BANK, INC. (PPSBI), is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, 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 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 OFB or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing OFB's financial reporting processes.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein and submits the same to the Stockholders, regulators, creditors and other users.

The Commission on Audit (COA) has audited the financial statements of the OFB in accordance with International Standards of Supreme Audit Institutions (ISSAI), and in its report to the Board of Directors, has expressed its opinion on the fairness of presentation upon completion of such audit.

**CECILIA C. BORROMEO**  
Chairman of the Board

**LEILA C. MARTIN**  
President and Chief Executive Officer

**PATRIA P. MADRIO**  
Head, Financial Management Unit

**OVERSEAS FILIPINO BANK, INC.**  
**(A SAVINGS BANK OF LANDBANK)**  
**STATEMENTS OF FINANCIAL POSITION**  
December 31, 2019 and 2018  
(In Philippine Peso)

	Note	2019	2018 As restated
<b>ASSETS</b>			
Cash and cash equivalents	5,22	2,143,055,367	4,272,282,745
Fair value thru profit or loss	9	0	44,660,866
Fair value thru other comprehensive income	10	48,087,121	476,887,524
Loans and receivables - net	11	2,417,557,121	3,376,847,969
Sales contract receivable	12,22	18,159,959	12,340,648
Investment property - net	13	0	267,210,491
Property and equipment - net	14,22	165,953,189	176,254,987
Non-current assets held for sale	15,22	354,463,717	95,884,791
Other Intangible Assets (net)	16	7,055,534	10,126,927
Other assets - net	17	171,259,273	248,607,940
<b>TOTAL ASSETS</b>		<b>5,325,591,281</b>	<b>8,981,104,888</b>
<b>LIABILITIES AND EQUITY</b>			
Liabilities			
Deposit liabilities	18	3,963,516,287	8,316,243,017
Manager's/Cashier's checks		3,403,770	17,622,225
Accrued expenses	19,22	333,425,097	351,091,493
Other liabilities	20	91,231,587	124,825,755
<b>Total Liabilities</b>		<b>4,391,576,741</b>	<b>8,809,782,490</b>
Equity			
Capital stock	21	1,000,000,000	1,000,000,000
Deposit for stock subscription	21	1,272,008,000	0
Retained earnings deficit	22	(1,336,080,581)	(726,806,000)
Unrealized loss on FVOCI financial assets	23	(1,912,879)	(101,871,602)
<b>Total Equity</b>		<b>934,014,540</b>	<b>171,322,398</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,325,591,281</b>	<b>8,981,104,888</b>

The Notes on pages 9 to 38 form part of these financial statements.

**OVERSEAS FILIPINO BANK, INC.**  
**(A SAVINGS BANK OF LANDBANK)**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended December 31, 2019 and 2018  
(In Philippine Peso)

	<u>Note</u>	2019	2018 As restated
<b>INTEREST INCOME</b>			
Loans & discounts	22	114,189,245	265,546,525
Investments		12,774,824	17,430,167
Loans and receivables arising from RA/CA/PR/SLB		24,795,929	12,601,030
Due from Bangko Sentral ng Pilipinas		52,658,325	84,711,945
Deposits with banks		25,603,842	190,873
Sales contract receivable		1,204,166	2,178,673
Others		474	714
		<b>231,226,805</b>	<b>382,659,927</b>
<b>INTEREST EXPENSE</b>			
Deposit liabilities		131,107,126	105,526,328
<b>NET INTEREST INCOME</b>		<b>100,119,679</b>	<b>277,133,599</b>
Provision for credit losses		13,010	258,173
<b>NET INTEREST INCOME AFTER PROVISION FOR LOSSES</b>		<b>100,106,669</b>	<b>276,875,426</b>
<b>OTHER OPERATING INCOME</b>			
Fees and commission		6,361,570	12,926,774
Foreign exchange gains from revaluation	22	(92,931)	138,079
Miscellaneous income	22,24	44,596,592	73,738,630
		<b>50,865,231</b>	<b>86,803,483</b>
<b>OTHER OPERATING EXPENSES</b>			
Compensation and fringe benefits	22,25	91,418,310	371,429,483
Provision for probable losses	22,25	360,410,668	342,671,815
Depreciation and amortization	22,25	31,190,945	35,006,394
Rent		17,137,411	28,016,607
Taxes and licenses	27	11,347,872	20,628,308
Miscellaneous expenses	22,26	248,741,275	358,321,972
		<b>760,246,481</b>	<b>1,156,274,579</b>
<b>NET LOSS BEFORE TAX</b>		<b>(609,274,581)</b>	<b>(792,595,670)</b>
<b>PROVISION FOR INCOME TAX</b>		<b>0</b>	<b>0</b>
<b>NET LOSS FOR THE PERIOD</b>		<b>(609,274,581)</b>	<b>(792,595,670)</b>
<b>OTHER COMPREHENSIVE GAIN/ (LOSS)</b>			
Unrealized gain/(loss) on FVOCI financial assets	23	99,958,723	(47,758,305)
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(509,315,858)</b>	<b>(840,353,975)</b>

The Notes on pages 9 to 38 form part of these financial statements.

**OVERSEAS FILIPINO BANK, INC.**  
**(A SAVINGS BANK OF LANDBANK)**  
**STATEMENTS OF CHANGES IN EQUITY**  
December 31, 2019 and 2018  
(In Philippine Peso)

	Note	Capital Stock 21	Deposit for Stock Subscription 21	Unrealized Loss on FVOCI financial Assets 23	Retained Earnings Deficit 22	Total Equity
Balance as of January 1, 2018, before restatement		820,242,883	0	(54,113,297)	65,394,350	831,523,936
Net prior period adjustments					395,320	395,320
Balance as of January 1, 2018 as restated		820,242,883	0	(54,113,297)	65,789,670	831,919,256
Issuance of capital stock		428,992,000				428,992,000
Transfer of capital stock		(249,234,883)				(249,234,883)
Unrealized loss on available for sale financial assets				(47,758,305)		(47,758,305)
Net loss for CY 2018, as restated					(792,595,670)	(792,595,670)
Balance as of December 31, 2018, as restated		1,000,000,000	0	(101,871,602)	(726,806,000)	171,322,398
Deposit for Stock Subscription			1,272,008,000			1,272,008,000
Unrealized gain on available for sale financial assets				99,958,723		99,958,723
Net loss for CY 2019					(609,274,581)	(609,274,581)
Balance as of December 31, 2019		1,000,000,000	1,272,008,000	(1,912,879)	(1,336,080,581)	934,014,640

The Notes on pages 9 to 38 form part of these financial statements.

**OVERSEAS FILIPINO BANK, INC.**  
**(A SAVINGS BANK OF LANDBANK)**  
**STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2019 and 2018  
(In Philippine Peso)

	Note	2019	2018 As restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		252,341,181	398,474,303
Interest paid		(132,353,739)	(102,391,121)
Fees and Commissions		38,510,362	12,926,775
Loss on financial assets and liabilities at fair value thru profit or loss		(28,664,704)	(2,802,777)
Miscellaneous Income		12,447,801	72,038,629
General and Administrative Expenses		(340,185,421)	(472,209,043)
Operating loss before changes in operating assets and liabilities		(197,904,520)	(93,963,234)
Changes in operating assets and liabilities			
(Increase) / Decrease in operating assets			
Fair value thru profit or loss		44,660,866	2,806,385
Loans and Receivables		634,552,170	795,608,411
Other Resources		(2,077,708)	(105,697,450)
Increase / (Decrease) in operating liabilities:			
Deposit Liabilities		(4,352,726,729)	337,056,368
Treasurer's, Manager's and Cashier's Checks		(14,218,455)	(1,067,343)
Other Liabilities		(30,100,167)	(61,502,002)
Net Cash Provided by/ (Used) in Operating Activities		(3,917,814,543)	873,241,135
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment		(3,277,263)	(1,611,531)
Additions to Investment Property		(20,035,381)	(51,781,893)
Disposal of / (Additions to) Non-Current Assets Held for Sale		11,225,614	(76,039,753)
Decrease in Fair value thru other comprehensive income		528,759,126	1,997,012
Net Cash Provided by/ (Used) in Investing activities		516,672,096	(127,436,165)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of Common Shares		0	428,992,000
Other Charges to Capital		0	(249,234,883)
Deposit for Stock Subscription	21	1,272,008,000	0
Net Cash Provided by/ (Used) in Financing Activities		1,272,008,000	179,757,117
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH &amp; CASH EQUIVALENTS</b>			
	22	(92,931)	138,079
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(2,129,227,378)	925,700,166
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>			
	5	4,272,282,745	3,346,582,579
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>			
	5	2,143,055,367	4,272,282,745

The Notes on pages 9 to 38 form part of these financial statements.

**OVERSEAS FILIPINO BANK, INC.**  
**(A Savings Bank of LandBank)**  
**NOTES TO FINANCIAL STATEMENTS**  
(All amounts in Philippine Peso unless otherwise stated)

**1. Corporate Information**

Overseas Filipino Bank, Inc., a Savings Bank of LandBank (OFB or the Bank) formerly known as Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of the Land Bank of the Philippines (LBP) acquired by the latter at zero value as stated on Executive Order no. 44 dated September 26, 2017.

The PPSBI is a subsidiary of the Philippine Postal Corporation (PPC) re-established and re-opened by virtue of PPC Board Resolution No. 94-34 dated February 24, 1994 in fulfillment of the intents and purposes of Republic Act No. 7354, otherwise known as Postal Services Act of 1992, which was enacted by the Congress on April 03, 1992. The re-establishment of PPSBI was finally approved under the Bangko Sentral ng Pilipinas Board Resolution No. 267 dated March 18, 1994. The PPSBI was incorporated on June 22, 1994 and started operations as a savings and mortgage bank on July 21, 1994. The PPSBI shall mobilize savings and promote entrepreneurship to widen economic opportunities and to provide the Filipino people with a full range of professional banking and financial resources accessible in all areas of the country, and shall promote the values of thrift, industry and prudence especially in the youth.

In December 2016, the National Government directed the LBP to initiate the acquisition of PPSBI as its subsidiary, with the plan of eventually converting it to a bank for Overseas Filipino Workers.

On September 26, 2017, President Rodrigo Duterte issued Executive Order No. 44, which mandates the PPC and the Bureau of Treasury (BTR) to transfer their PPSBI shares to LBP at zero value.

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 18 January 2018, approved the change of corporate name of the PPSBI to "Overseas Filipino Bank, Inc., a Savings Bank of LANDBANK".

On March 2018, the BTR and PPC transferred and conveyed to LBP the 3,802,428 and 2,999,998 common shares respectively at P100 per share.

As stated in its Vision/Mission: "OFB is a Digital Bank servicing Overseas Filipinos and their Beneficiaries through state-of-the-art Electronic Banking Channels such as Mobile Phone, Automate Teller Machine and Internet which are more convenient, faster (real-time), cheaper and secure, eliminating the need for over-the-counter services. By 2023, LANDBANK through OFB will be the market leader among the top five universal banks in terms of online transactions from Overseas Filipinos and their Beneficiaries."

Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

As of December 31, 2019, the Bank had 52 employees.

The 24 branches and 6 branch life units were closed and ceased operations as of November 30, 2019 due to the implementation of new business model of the Bank.

The accompanying comparative financial statements were authorized for issue by the Board of Directors per Secretary's Certificate issued on August 17, 2020.

## **2. Statement of Compliance and Basis of Financial Statements Preparation**

### **2.1 Basis of Financial Statements Preparation**

The financial statements are prepared on historical cost basis unless otherwise stated. Fair Value through Other Comprehensive Income (FVOCI), Fair Value through Profit or Loss (FVTPL), and Non Current Asset Held for Sale (NCAHS) are measured at fair value while Loans and Receivables are measured at amortized cost.

The accompanying financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The preparation of financial statement requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

The accounting policies adopted are consistent with those of the previous year.

Financial statements are presented in Philippine peso, which is the country's functional currency.

### **2.2 Statement of Compliance**

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).

## **Summary of Significant Accounting Policies**

### **2.3 Foreign currency translation**

Foreign currency transactions are accounted for and revalued monthly using the month-end closing rate published by the Banker's Association of the Philippines. Foreign exchange differences arising from the revaluation are charged to operations.



## 2.4 Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments include the following:

Cash and cash equivalents and short-term investments – Carrying amounts that approximate fair values due to the relatively short-term maturity of these instruments.

Debt securities – Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either value obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments.

Other financial assets and financial liabilities – Since quoted market prices are not readily available, they are reported at cost.

## 2.5 Financial assets and liabilities

### *Date of recognition*

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers, and loans are recognized when cash is received or released to the borrowers.

### *Initial recognition and classification*

The Bank's financial instruments, including investment securities and loans and receivables, are initially recognized at fair value, except for financial assets and financial liabilities valued at Fair Value through Profit or Loss (FVTPL). The initial measurement of financial instruments includes transaction costs. The Bank generally classifies its financial assets in the following measurement categories as: (1) financial assets at FVTPL, (2) financial assets at Fair Value through Other Comprehensive Income (FVOCI) investments, and (3) financial assets at amortized cost.

The Bank classifies its financial assets under the following categories:

#### a. Financial assets at Fair Value through Other Comprehensive Income

These investments are measured at fair value through other comprehensive income that meets the following conditions:

- i. the Financial Asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b. Financial assets at Fair Value through Profit or Loss

This refers to the debt and equity securities held for trading that are measured at fair value through profit or loss that the company may, at initial recognition, irrevocably designate as such to eliminate or significantly reduce a measurement or recognition inconsistency. The financial assets are:

- i. acquired principally for the purpose of selling or repurchasing them in the near term; or
- ii. part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

c. Financial assets at amortized cost

The financial asset shall be measured at amortized cost if the following conditions are met:

- i. The financial asset is held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This represents loans and receivables, due from BSP, due from other banks, and securities under agreement to resell.

The financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost. Under PFRS 9, the classification and measurement of financial assets are driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

*Determination of fair value*

The fair value of financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotation. In the absence of an available current bid or asking prices, the price of the most recent transaction is used because it provides evidence of the current fair value as long as there has no significant change in the economic circumstances since the time of the transaction. For other financial instruments not listed in an active market, the Bank determines fair value using relevant valuation models.

*Prepayment Features with Negative Compensation*

All loans are payable within the amortization periods and prepayments, if any, shall be equal to the unpaid amounts of principal and interests.

## 2.6 Impairment of Financial Assets

The Bank determines at each reporting date if there is objective evidence that assets may be impaired.

### *Financial assets at FVOCI*

The Bank opted to apply the impairment requirements for the recognition and measurement of loss allowance for FVOCI investments. The said allowance is to be recognized in other comprehensive income and will not reduce the carrying amount of the financial asset in the statement of financial position.

### *Financial assets at amortized cost*

The Bank calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes. Because every loan and receivable carries with it some risk of default, every such asset has an expected loss attached to it – from the moment of its origination or acquisition.

The Bank recognizes in profit or loss, as impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with PFRS 9.

Uncollectible loans are written off against the related allowance account for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written off are recognized as deductions to provisions in the income statement.

The Bank measures expected credit losses of a financial instrument that reflects:

- a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- b. the time value of money; and
- c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions."

The maximum period considered when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

### *Investment Property, Property and Equipment and Other Assets*

Where an indicator of impairment exists, the Bank makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the higher of its fair market value less cost to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. The impairment loss on non-revalued asset is recognized in the profit or loss and an allowance account is set up to reduce the carrying amount of the asset.

## 2.7 Investment Property

These are generally land and buildings acquired by the Bank either through foreclosure (legal proceedings initiated by the Bank to acquire the collateral securing the loan of the defaulting borrowers) or dacion en pago in settlement of loans and advances of defaulting borrowers, or assets acquired through the implementation of an execution of attachment of real properties in settlement of the Bank's deficiency claims against defaulting borrowers (legal proceedings initiated by the Bank in case there are still deficiency claims after all the underlying collaterals of the borrowers were judicially/extra-judicially acquired by the Bank). These assets are being held until such time that these are readily available for disposition and are reclassified to Non-Current Assets Held for Sale.

Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Straight line method was being used in depreciating the properties over 10 years useful lives.

Expenditures such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of acquired assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of acquired assets held for sale.

## 2.8 Property and Equipment

Property and equipment including leasehold improvements are stated at cost less accumulated depreciation and amortization and any impairment in value. Depreciation is computed based on a straight-line method net of ten percent residual value of acquisition cost over the estimated useful lives of the related assets as follows:

	Number of Years
Building	10 - 20
Furniture, fixtures and equipment	5 - 10
Leasehold improvements	5 (maximum)
Transportation equipment	5

Impairment is only recognized when there is substantial evidence of the decline in the value of the property and equipment.

The cost of leasehold improvements is amortized over the term of the lease or the estimated useful life of the improvements not exceeding five years whichever is shorter. Minor expenditures for replacement, maintenance and repairs are expensed as incurred. Major renovations and improvements that will extend the life of the asset are capitalized.

Properties that are no longer needed or uneconomical to maintain are disposed of in accordance with the existing guidelines on disposal. The cost and the related accumulated depreciation and amortization of the disposed assets are derecognized in the books and any resulting gain or loss is credited or charged to current operations.

#### 2.9 Non-Current Assets Held for Sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management is committed to a plan to sell the assets and an active program to locate a buyer and the plan has been initiated. Further, the assets are actively marketed for sale at a price that is reasonable in relation to its current fair value. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Non-current assets classified as held for sale should be measured at the lower of its carrying amount and fair value less cost to sell. The Bank recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less cost to sell.

#### 2.10 Sales Contract Receivable (SCR)

These are receivables from assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said properties are transferred to the names of the respective buyers only upon full payment of the agreed selling price. These are recorded initially at the value of the installment receivables due from borrower. Discounts are accreted over the life of the SCR by crediting interest income. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PFRS 15 Revenue from Contracts with Customers.

#### 2.11 Intangible Assets

Intangible assets represent costs of software licenses and cost incurred directly in the development and maintenance. These are measured at cost and amortized based on a straight-line method with an expected maximum useful life of 10 years. Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Cost that are directly associated with the production of identifiable and unique software products controlled by the bank and that will probably generate economic benefits exceeding costs, beyond one year, are recognized as intangible assets. Direct costs include software licenses, software development, employee costs and the related overheads.

#### 2.12 Deferred Tax Asset

Deferred tax assets are the amount of income taxes recoverable in future periods, which are recognized for all deductible temporary differences.

## 2.13 Leases

The leases entered into by the bank are primarily operating leases. The payments made under operating leases are recognized as an expense on a straight-line basis over the period of the lease. The Bank leases the premises of its 3 branches (Cagayan de Oro, Baguio and Dagupan) from Philippine Postal Corporation (PPC), its former mother corporation, for periods ranging from five to 10 years renewable upon mutual agreement of both parties. The costs of renovations effected by the bank on PPC premises are charged against future rentals payable.

The Bank leases the premises occupied by its provincial branches. The terms of these contracts are renewable at the mutual agreement of both lessee and lessor. Various lease contracts contain escalation clauses. In 2019 and 2018, rent expenses were included in the statement of comprehensive income, amounting to P17.137 million and P28.017 million, respectively.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2019 are as follows:

Within one year	P3,862,531
After one year but not more than five years	3,014,448
	<b>P6,876,979</b>

Due to the closure of branches in 2019, the Bank assessed that the impact of adopting PFRS 16 was insignificant.

## 2.14 Recognition of Income and Accounting for Expenses

Interest, other income and expenses are recognized on accrual basis, except for those loan accounts, which are adversely classified consistent with the guidelines of the BSP.

## 3. **Significant Accounting Judgments and Estimates**

The following are the critical judgments and key assumptions that have significant influence in the carrying amounts of assets and liabilities:

### 3.1 Operating lease commitments

The Bank has entered into lease agreement on branch premises for its operations wherein the lessor retains all the significant risks and rewards of ownership of these properties. The terms and conditions provide no transfer of ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life.

### **3.2 Impairment losses of loans and receivables**

The Bank reviews its loan portfolio to assess impairment at least annually or as the need arises. In determining whether an impairment loss should be recorded in the books, the Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows including information indicating that there has been an adverse change in payment status of borrowers, or national or local economic conditions that correlate with defaults on assets.

The Bank estimated a total of P702.4 million additional credit losses as of December 31, 2019 computed using Expected Credit Losses Model of parent bank, LBP, on top of the remaining approved staggered booking of P1.138 billion. Net carrying value of loans from customers stood at P2.418 billion.

### **3.3 Impairment of FVOCI investments**

The Bank considers FVOCI investments as impaired when there has been a significant or prolonged decline in fair value (market value) below its carrying amount. The determination of significant or prolonged decline in fair value requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the Investee Company, industry and sector performance, changes in technology and operational and financing cash flows.

### **3.3 Impairment of Property and Equipment /Other Assets**

Assets are reviewed and tested whenever there is indication of impairment at least annually. Impairment of assets requires estimates and judgments through the use of certain tools/devices/factors/market data/existing conditions.

Management determines the estimated useful lives and related depreciation charges for its property and equipment. The Bank will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or items that have been sold.

## **4. Fair Value Hierarchy**

These levels are based on the inputs that are used to determine the fair value and can be summarized in:

- Level 1 : quoted prices in active markets for identical assets or liabilities
- Level 2 : inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: inputs that are not based on observable market data or unobservable inputs

## 5. Cash and Cash Equivalents

This is broken as follows:

	Note	2019	2018 As restated
Cash and other cash items		265,041	101,977,551
Due from Bangko Sentral ng Pilipinas	6	1,834,723,024	3,601,334,772
Due from other banks	7	60,518,088	39,970,422
Loans and receivables arising from RA/CA/PR/SLB	8	247,549,214	529,000,000
		2,143,055,367	4,272,282,745

Cash and other cash items consists of the following:

	2019	2018
Cash on hand	265,041	101,866,846
Checks and other cash items	0	98,705
Petty cash fund	0	12,000
	265,041	101,977,551

## 6. Due from Bangko Sentral ng Pilipinas

This account represents the following: a) demand deposits which the bank utilizes in its clearing operations, b) Special Deposit Account for liquidity requirement purposes, and c) Reserve Deposit Account for the Circular 10 compliance of the bank with the Bangko Sentral ng Pilipinas.

	2019	2018
Reserve deposit account	1,500,000,000	2,900,000,000
Demand deposit account	162,723,024	691,334,772
Overnight deposit account	172,000,000	10,000,000
	1,834,723,024	3,601,334,772

## 7. Due from Other Banks

This account represents demand deposit account, short-term investments in special savings deposits and premium savings account deposited with the following banks:

	2019	2018 As restated
Landbank of the Philippines	60,518,088	33,675,496
United Coconut Planters Bank	0	6,175,883
Banco de Oro Unibank, Inc.	0	64,638
Rizal Commercial Banking Corporation	0	54,405
	60,518,088	39,970,422



**8. Loans and Receivables Arising from Repurchase Agreements (RA)/  
Certificates of Assignment (CA)/Participation with Recourse (PR)/  
Securities Lending and Borrowing (SLB)**

This pertains to loans arising from repurchase agreement with Bangko Sentral ng Pilipinas.

**9. Fair Value thru Profit or Loss**

This comprises securities purchased from Rizal Commercial Banking Corporation which are issued by the Bureau of the Treasury.

**10. Fair Value thru Other Comprehensive Income**

This account is composed of investments in government treasury bills and fixed treasury notes purchased from the following:

	<b>2019</b>	<b>2018</b>
Rizal Commercial Banking Corporation	0	267,792,935
East West Banking Corporation	0	84,861,171
Security Bank Corp.	48,087,121	81,757,833
Chinabank	0	42,475,585
	<b>48,087,121</b>	<b>476,887,524</b>

**11. Loans and Receivables - net**

This account consists of:

	<b>2019</b>	<b>2018</b>
Loans to Private Corporation	1,564,712,484	1,824,108,048
Small & Medium Enterprises	530,657,960	659,107,033
Consumption loans	287,403,673	437,818,532
Contract to Sell	402,861,900	406,500,605
Agrarian Reform & other Agricultural Loan	345,004,230	380,614,849
Loans to Government	173,715,986	218,640,188
Loans to Individuals for Housing Purposes	44,343,072	56,145,749
Loans to Individuals for Other Purposes	38,078,608	48,711,267
Microfinance Loans	8,931,734	12,377,920
	<b>3,395,709,647</b>	<b>4,044,024,191</b>
Allowance for Losses	978,152,526	667,176,222
Net of Allowance	<b>2,417,557,121</b>	<b>3,376,847,969</b>

### Allowance for Losses

The details of specific allowances on loans are:

	2019	2018
Balance, January 01	637,847,724	337,194,554
Provisions	324,725,668	358,045,831
Write-Offs	(5,012,863)	(14,548,600)
Transfers and other adjustments	11,968,998	(42,844,061)
Balance, December 31	969,529,527	637,847,724

The movement of the general loan loss provisions are:

	2019	2018
Balance, January 01	29,328,497	22,502,083
Transfers and other adjustments	(20,705,498)	6,826,415
Balance, December 31	8,622,999	29,328,498

### As to Status:

	2019	2018
Current Loans	1,040,170,953	1,804,538,991
Non-Performing Loans	2,355,538,694	2,239,485,200
	3,395,709,647	4,044,024,191

### As to Security:

	2019	2018
Secured Loans	2,482,160,676	2,848,349,817
Unsecured Loans	913,548,971	1,195,674,374
	3,395,709,647	4,044,024,191

### As to Type of Security:

	2019	2018
Real Estate Mortgage	1,407,647,322	1,554,456,761
Other Collaterals	1,074,513,354	1,293,893,056
	2,482,160,676	2,848,349,817

Consumption loans include financial assistance given to eligible employees of the PPC and OFB, for personal consumption such as educational, hospital or medical, appliance purchase and/or working capital for business/ livelihood purposes in the form of salary loans in a maximum amount of P150,000 and P250,000, respectively.

In October 2017, pursuant to ManCom Resolution no. 299-2017, the Committee directed all Lending Groups/ Branches to be guided by the following on the grant of loans:

- No new and additional loans shall be granted. Increase in exposures in terms of aggregate amount on a per borrower/ group basis shall be considered a willful violation;
- Renewal of the existing exposures, particularly if the renewal per se is nothing but normal considering its nature, is acceptable.

On April 6, 2018, the approval of the request for staggered booking of the unbooked valuation reserves in the amount of P1.646 billion was ratified by the Board of Directors per Board Resolution No. 2018-56.

The BSP Monetary Board approved per Resolution no. 993, dated June 14, 2018, the request of OFB to book the allowance for credit losses (ACL) on a staggered basis over a five-year period to be implemented through monthly recording of P27.4 million ACL in OFB's books, with the initial booking to commence within 30 calendar days from date of receipt of BSP's notice and every month thereafter, until the entire P1.646 billion is fully booked.

## 12. Sales Contract Receivable

This account represents the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. For the year 2019 and 2018, this account amounts to P18,159,959 and P12,340,648, respectively.

## 13. Investment Property - net

Investment property represents properties acquired by the Bank judicially in settlement of outstanding loans of delinquent borrowers. These are maintained by the Bank pending sale through public auction after a one-year redemption period as mandated by Bangko Sentral ng Pilipinas regulations.

	2019	2018
Land	0	126,731,457
Building	0	186,656,132
Others	0	19,393,890
Cost	0	332,781,479
Accumulated depreciation	0	47,682,695
	0	285,098,784
Allowance for probable losses	0	17,888,293
Net of allowance	0	267,210,491

On November 27, 2019, the OFB Board of Directors under Board Resolution No. 2019-142 approved the transfer of the Real and Other Properties Acquired (ROPAs) to LBP as of December 31, 2019. The consideration for the sale shall be the net carrying value as of December 31, 2019. Thus, balances were accordingly reclassified to Non-Current Assets Held for Sale as of December 31, 2019.

#### 14. Property and Equipment - net

This account consists of:

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Lease, Right And Improvements	Totals
<b>Cost</b>							
January 1, 2019, As restated	131,008,000	41,501,900	52,617,855	13,822,648	135,430,150	26,245,745	400,628,298
Additions	0	2,290,174	775,488	0	211,801	0	3,277,263
Disposals	0	0	(24,732,720)	(4,537,151)	(1,909,503)	(26,245,745)	(57,425,119)
Reclassifications	0	0	0	0	(5,264,353)	0	(5,264,353)
31-Dec-19	131,008,000	43,792,074	28,660,623	9,285,497	128,467,895	0	341,214,089
<b>Accumulated Depreciation</b>							
January 1, 2019	0	16,572,421	47,732,812	12,836,560	125,293,503	21,936,015	224,371,311
Provisions	0	2,181,849	1,234,768	83,413	3,378,263	743,698	7,622,021
Disposals	0	0	(22,055,004)	(4,232,461)	(7,765,254)	(22,679,713)	(56,732,432)
Reclassifications	0	0	0	0	0	0	0
31-Dec-19	0	18,754,270	26,912,606	8,687,512	120,906,512	0	175,260,900
Carrying amount							
31-Dec-19	131,008,000	25,037,804	1,748,017	597,985	7,561,383	0	165,953,189
Carrying amount							
31-Dec-18, As restated	131,008,000	24,929,479	4,885,043	986,088	10,136,647	4,309,730	176,254,987

OFB (formerly PPSBI) building was acquired thru Dacion En Pago from Philippine Postal Corporation on November 02, 2012 with booked value amounting to P37,567,000.

#### 15. Non-Current Assets Held for Sale

These are real and other properties acquired that are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the sale must be highly probable.

	2019	2018 As restated
Cost	389,313,657	151,104,691
Accumulated depreciation	0	10,263,064
	389,313,657	140,841,627
Allowance for losses	34,849,940	44,956,836
Net of allowance	354,463,717	95,884,791

On November 27, 2019, the OFB Board of Directors under Board Resolution No. 2019-142 approved the transfer of ROPAs to LBP as of December 31, 2019. The consideration for the sale shall be the net carrying value as of December 31, 2019.

#### 16. Other Intangible Assets - net

This account is composed of the following:

	2019	2018
Other intangible assets	87,321,798	89,201,779
Accumulated amortization	(70,266,264)	(69,074,852)
	17,055,534	20,126,927
Allowance for losses	(10,000,000)	(10,000,000)
	7,055,534	10,126,927

## 17. Other Assets - net

This account is composed of the following:

	2019	2018 As restated
Accounts receivables	199,156,080	202,893,700
Accrued interest income from financial assets	37,878,383	58,084,083
Miscellaneous assets	38,632,627	38,722,818
Documentary stamps on checks	429,593	5,281,231
Stationery and supplies on hand	2,024,870	3,750,574
Prepaid expenses	1,115,556	3,202,503
Deferred tax asset	2,549,904	2,549,904
Returned checks and other cash items	21,597	291,043
Other investments	153,333	153,333
Sundry debits	305,473	54,801
Inter-office float items	2,946,379	0
	285,213,795	314,983,990
Other Assets - Allowance for Losses	113,954,522	66,376,050
	171,259,273	248,607,940

### Accounts receivable

The Accounts receivable account includes the amount of P4 million and P7.3 million misappropriated by the former Cashiers of Sorsogon and Tacloban Branches for which cases were already filed in court.

In addition, outstanding accounts receivable from Naga branch amounts to P179.37 million as of December 2018 as restitution for losses expropriated by a former employee. On the last quarter of 2018, the Bank requested for staggered booking of the estimated P237.9 million provision for losses arising from Naga branch fraud.

### Miscellaneous assets

In 2017, total payments amounting to P52.16 million for the Bank's ongoing Loans Management System/GL Accounting System and Deposit System computerization projects, were temporarily lodge to Miscellaneous Assets account.

In October 2018, the impairment of the above cited system (ConnectCore) was approved per I.T. Steering Committee Resolution no. 2018-05, dated August 20, 2018 amounting to P46.97 million net of retention payable. All payments concerning the system was removed from Miscellaneous Assets.

The investment in Quedancor bonds recorded under Unquoted Debt Securities Classified as Loans (UDSCL) amounting to P30 million and its Allowance for credit losses of the same amount are reported under Miscellaneous Assets account in accordance with BSP Circular No. 1011 dated August 14, 2018. This investment was made for the Bank's Agri-Agra compliance which is now under negotiation for the replacement of Quedancor Restructured Notes.

## 18. Deposit Liabilities

This account is composed of the following:

	2019	2018
Domestic:		
Demand deposits	0	330,580,970
Savings deposits	3,944,711,618	7,946,350,831
Time certificate of deposits	17,732,502	34,635,318
Foreign:		
Savings deposits	816,540	1,504,135
Time certificate of deposits	255,627	3,171,763
	3,963,516,287	8,316,243,017

Domestic deposit liabilities earns annual fixed interest rates ranging from 0.10 to 5.25 per cent and 0.25 to 4.25 per cent in 2019 and 2018, respectively. Foreign deposits range from 0.15 to 0.5 per cent and 0.25 to 0.875 per cent in 2019 and 2018, respectively.

## 19. Accrued Expenses

This account represents:

	2019	2018
		As restated
Fringe benefits	140,472,633	176,086,413
Litigation/assets acquired	66,703,977	65,692,756
Management and other professional fees	63,744,685	40,817,304
Accrued interest expense in financial liabilities	14,801,626	16,048,238
Rent	845,467	7,886,176
Security, clerical, messengerial and janitorial	13,601,077	5,431,425
Other taxes and licenses	1,829,364	3,419,696
Salaries and wages	1,170,252	1,654,686
Postage, telephone, cables and telegrams	1,473,126	842,799
Power, light and water	831,439	725,983
Repairs and maintenance	227,836	356,525
Fuel and lubricants	82,961	54,957
Fines, penalties and other charges	0	4,223
Others*	27,640,654	32,070,312
	333,425,097	351,091,493

\*Others include accruals for internet connection and subscriptions, PDIC Insurance, offsite storage services, disaster recovery collocation site services, preventive maintenance services for data center's UPS, air conditioning units and ATM units, card embossing services, travelling expenses, rental of PCSO with PPC Baguio, photocopy charges, advertising expenses, membership fees and representation expenses.

The accrual as of December 31, 2019 and 2018 includes the P137.16 million and P173.03 million, respectively, employee benefits representing the Early Retirement Incentive Plan (ERIP) per E.O. 44, dated 28 September 2017.

## 20. Other Liabilities

This account comprises of:

	2019	2018
Unearned income and other deferred credits	68,898,924	69,011,835
Due to the Treasurer of the Phil.	851,205	0
Accounts payable – others	16,276,210	42,197,307
Inter-office float items	0	7,518,289
Withholding tax payable	250,490	3,142,521
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	416,077	905,135
Unclaimed balances	3,368,861	889,307
Overages	0	7,596
Miscellaneous liabilities	1,169,820	1,153,765
	<b>91,231,587</b>	<b>124,825,755</b>

The Accounts Payable – others account represents overpayment on loans pending refund, loans payment pending posting, contributions payable to BIR, SSS, PHIC, Bancnet, delivered items of supplies and equipment not yet paid and others.

Unearned income relates to loans and receivable accounts.

## 21. Capital Stock

The Bank is authorized to issue 10,000,000 shares at P100 par value of which 10,000,000 shares amounting to P1 billion were fully paid and issued.

Four million four hundred thousand (4,400,000) shares were issued and were fully paid by Philippine Postal Corporation (PPC) amounting to P440 million. Additional issuance of 1,310,080 common shares of stock for the National Government was made by Philippine Postal Savings Bank, Inc. (PPBSI) corresponding to the latest appraised value of parcel of land where Head Office is situated per Board Resolution No. 2014-142 dated June 10, 2014. These shares were then approved for transfer to Land Bank of the Philippines (LBP) on October 10, 2017 per PPC Board Resolution no. 2017-147 in compliance with Executive Order no. 44, dated September 28, 2017.

The Board of Directors of the Bank, through Board Resolution No. 2011-274, approved the issuance to the Republic of the Philippines of common shares of stock with par value equal to the cash balance of the Project Dagdag Regular Income Via Entrepreneurship (DRIVE) Fund, a microfinance program for the transport sector, amounting to P249.24 million or equivalent to 2,492,348 shares last 2011. The National Government consented to the treatment of the Fund as capital in the books of PPSBI per memorandum from the

Executive Secretary of the Office of the President of the Philippines dated December 16, 2011.

On September 28, 2017, the President of the Philippines, through Executive Order (EO) No. 44, directed the Bank to return to the National Treasury (NT) the balance amounting to P249.23 million from the previously released P500 million to fund the Project DRIVE Fund.

On January 19, 2018, pursuant to EO 44, the Bank transferred to the NT the amount of P249.23 million which is the equivalent value of the Capital Stock issued for the remaining balance of the Project DRIVE Fund.

On July 6, 2018, the LBP subscribed and paid four million two hundred eighty-nine thousand nine hundred twenty (4,289,920) shares amounting to P428.99 million.

EO No. 44 series of 2017 provides that "In order to strengthen the 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".

Relatedly, at the respective meetings of the stockholders and Board of Directors held on May 18, 2018, approved the increase in the authorized capital stock from P1 billion to P3.5 billion divided into P30 million common shares (30,000,000 shares with a par value of P100 per share) and P5 million preferred shares (5,000,000 shares with a par value of P100 per share).

In January and December 2019, the parent bank, LBP contributed cash of P500 million and P772 million, respectively, and recognized as deposit for stock subscription.

The Bank is still awaiting for the endorsement by Government Commission on GOCCs on the proposed increase in capital stock which is a pre-requisite on filing the same to Securities and Exchange Commission.

## **22. Retained Earnings Deficit**

In consonance with PAS 8, the balance of this account as of December 31, 2018 was restated for prior period adjustments. The adjustments principally relate to reclassification of various accounts, recognition of expenses and the reversal of income.

Details of the restatement of Retained earnings of the Bank as December 31, 2018 are as follows:

<b>Particulars</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Retained earnings, as of January 1, 2018 before restatement			65,394,350
Adjustments on:			
Reversal of Repairs and Maintenance to Accounts Receivable PPC		395,320	395,320
Retained earnings as of January 1, 2018, as restated			65,789,670



Particulars	Debit	Credit	Balance
Net loss for CY 2018 before restatement			(740,528,270)
Adjustments:			
Reclassification/ adjustments of BPFEE to Supplies	57,681	127,797	
Unrecognized income from sale of NCAHS		1,700,000	
Reversal of penalties ( BIR)		90,224	
Overbooking of interest income	864,000		
Compensation and fringe benefits	79,460		
Management and Other Professional Fees	15,541,832		
Impairment Loss	37,442,118		
Foreign currency adjustments	330		
	53,985,421	1,918,021	(52,067,400)
Net loss for FY 2018, as restated			(792,595,670)
Retained earnings as of December 31, 2018, as restated			(726,806,000)

The effects of these restatements in the financial statements as of and for the year ended December 31, 2018 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
<b>Changes in the Statement of Financial Position</b>			
<b>Assets</b>			
Cash and cash equivalents	4,272,283,075	(330)	4,272,282,745
Non-Current Assets Held for Sale	133,326,909	(37,442,118)	95,884,791
Property and equipment - net	176,184,871	70,116	176,254,987
Sales contract receivable	10,640,648	1,700,000	12,340,648
Other assets	249,065,856	(457,916)	248,607,940
		(36,130,248)	
<b>Liabilities</b>			
Accrued Expenses	335,549,661	15,541,832	351,091,493
<b>Equity</b>			
Retained earnings deficit	(675,133,920)	(51,672,080)	(726,806,000)
		(36,130,248)	
<b>Changes in the Statement of Comprehensive Income</b>			
Interest income – loans	266,410,525	(864,000)	265,546,525
Miscellaneous income	72,038,630	1,700,000	73,738,630
Foreign exchange revaluation	138,409	(330)	138,079
		835,670	
Compensation and fringe benefits	371,350,023	79,460	371,429,483
Depreciation/amortization	35,076,510	(70,116)	35,006,394
Miscellaneous expense	305,428,246	52,893,726	358,321,972
		52,903,070	
Net		(52,067,400)	

### 23. Unrealized Gains/ Losses on FVOCI Financial Assets

This account refers to the gains and losses from mark to market valuation of FVOCI securities which is booked on a daily basis.

### 24. Miscellaneous Income

This account is consists of:

	2019	2018 As restated
Penalties on past due loans/amortizations	28,584,019	38,138,801
Recovery on charged-off assets	923,152	14,513,195
Gain from sale/derecognition of non-financial assets	11,097,514	16,009,044
Rental income	427,135	77,220
Other income	3,564,772	5,000,370
	44,596,592	73,738,630

### 25. Other Operating Expenses

#### a. Compensation and fringe benefits

	2019	2018 As restated
Salaries and Wages	59,395,106	98,891,544
Fringe Benefits	24,615,516	262,468,677
Government Contribution	3,870,992	6,098,172
Other compensation and benefits	3,536,696	3,971,090
	91,418,310	371,429,483

#### b. Provision for probable losses

	2019	2018
Loans to Private Corporation	197,296,741	249,850,749
Contract to Sell	0	40,150,658
Small and Medium Enterprise Loans	76,899,999	32,138,521
General Loan Loss Provision	0	12,481,239
Loans to Individuals for Consumption Purposes	28,511,213	6,697,670
Agrarian Reform and Other Agricultural Loans	22,017,715	1,236,044
Microfinance Loans	0	116,934
Other Assets	35,685,000	0
	360,410,668	342,671,815

**c. Depreciation and amortization**

	2019	2018 As restated
Non-Current Assets Held for Sale	0	3,123,357
Investment Property	20,033,510	19,438,719
Bank Premises, Furniture, Fixtures and Equipment	7,622,021	9,383,636
Other Intangible Assets	3,535,414	3,060,682
	31,190,945	35,006,394

**26. Miscellaneous Expenses**

This account is composed of:

	2019	2018 As restated
Impairment loss	13,018,275	101,760,497
Litigation expense	5,587,860	59,696,523
Documentary stamps used	38,130,238	36,552,862
Information technology	27,797,477	36,379,882
Management and other professional fees	50,521,431	41,193,843
Security, clerical, messengerial and janitorial	27,426,241	19,040,610
Insurance	14,231,145	17,162,965
Power, light and water	9,398,639	10,725,236
Stationeries and supplies used	6,211,303	8,751,198
Representation & entertainment	4,730,768	7,052,750
Postage, telephone, cable and telegram	8,437,754	3,979,458
Repairs and maintenance	4,638,641	3,087,007
Travelling expense	1,619,084	2,956,790
Loss on financial assets held for trading	28,664,704	2,802,777
Supervision fees	2,054,750	2,374,823
Fees and commission	1,737,825	1,551,837
Fuel and lubricants	1,060,268	1,383,735
Fines, penalties and other charges	339,052	531,070
Membership fees and dues	640,053	447,930
Periodicals and magazines	73,543	91,546
Advertising and publicity	74,475	71,662
Donation and charitable contributions	5,220	27,757
Other expenses	2,342,529	699,214
	248,741,275	358,321,972

**27. Income and Other Taxes**

Under Philippine tax laws, the Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipt tax (GRT) and documentary stamp tax (DST).

Income taxes include the corporate income tax and final taxes paid at the rate of 20 per cent, which is a final withholding tax on gross interest income from government securities.

Interest allowed as a deductible expense is reduced to an amount equivalent to 33 per cent of interest income subject to final tax.

Summary of taxes paid during the year:

	2019	2018
Documentary stamp taxes	38,130,238	45,731,781
Final income taxes (1602)	21,481,108	15,825,718
Income taxes on compensation (1601C)	3,616,087	7,608,139
Percentage taxes (2551M)	5,835,506	6,151,770
VAT & other percentage taxes (1600)	2,070,778	3,954,859
Creditable income taxes (1601E)	1,404,573	2,282,976
Annual registration	500	12,500
	<b>72,538,790</b>	<b>81,567,743</b>

#### Supplemental Information Required under Revenue Regulation No. 15-2010

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulation to be disclosed as part of the notes to financial statements.

##### a. Documentary stamp tax

The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2019 are as follows:

Documents/Transactions	DST Paid
Certificate of time deposits/Other deposits	38,130,238
	<b>38,130,238</b>

##### b. Other taxes and licenses

In 2019, Taxes and licenses presented as part of "Operating Expense" accounts in the statement of comprehensive income includes the following:

Local taxes	5,499,866
National	
BIR annual registration	12,500
Percentage taxes (2551)	5,835,506
	<b>11,347,872</b>