c. Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

Tax on compensation and benefits	3,616,087
Creditable withholding taxes	1,404,573
Final withholding taxes	
Final income taxes	21,481,108
Final withholding VAT	2,070,778
	28,572,546

28. Related Party Transactions

In the ordinary course of business, the bank has deposits and other transactions in 2019 with its parent, Land Bank of the Philippines (LBP), as follows:

	Transaction Amount
Due from other banks	60,518,088
Accrued interest income	13,762
Deposit liability	2,000,000,000
Accrued expenses*	70,586,973
Accounts payable-others	1,268,104
Withholding tax payable	3,750,000
PICS-common stock	428,992,000
Deposits for Stock Subscription	1,272,008,000
Interest income	15,662,103
Interest expense	57,465,278
	3,910,264,308

*Breakdown of Accrued Expenses	
Information technology	15,375,368
Management and other professional fees	54,291,155
Fees and Commission	920,450
	70,586,973

29. Employee Benefits

Retirement/Separation Benefits

The Bank's Separation Plan per Board Resolution No. 2010-199 dated September 23, 2010, entitles all permanent and regular employees hired as of August 31, 2010 to the separation benefits as follows:

Length of Service	Amount to be received
5-10 years	75% of basic salary per year of service
More than 10 years-15 years	100% of basic salary per year of service
More than 15 years-20 years	125% of basic salary per year of service
More than 20 years	150% of basic salary per year of service

A fraction of six months will be considered as one year.

Payment of retirement/separation benefits is charged to CY 2018 operations.

Sick Leave Credits

Per existing policy, the cash value of the accumulated sick leave credits of the employees can be monetized at a maximum of 15 days in excess of 90 days accumulated sick leave credits within the year.

Employees Benefits, Plan Amendment, Curtailment or Settlement

As of December 31, 2019, the Bank retired most of its employees pursuant to EO No. 44 series of 2017. Payments shall be made in 2020 pursuant to the Bank's retirement plan and afore cited EO.

Effective February 17, 2020, the Bank shall adopt a lean and mean organizational structure where employees shall be new hires.

30. Commitments and Contingent Liabilities

The bank is contingently liable for lawsuits or claims filed by third parties, which are either pending decision by the courts or under negotiations, the outcomes of which are not determinable at balance sheet date.

31. Basic Quantitative Indicators of Financial Performance

	2019	2018 As restated
	(In percentage)	(In percentage)
Return on average equity	-110.24	-158.07
Return on average assets	-8.52	-8.75
Net interest margin	1.39	3.05
Risk Based Capital Adequacy Ratio	19.59	3.94

32. Capital Management

The overall capital management objective of the Bank is to create a more efficient capital structure while ensuring compliance with externally imposed capital requirements.

The Bank manages its capital by maintaining strong credit ratings and healthy risk-based Capital Adequacy Ratio to support its business and sustain its mandate. Adjustments to the Bank's capital structure are made in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

33. Reclassification of Accounts

Certain accounts in the financial statements were reclassified to conform with the current year's presentation.

34. Management of Risks Related to Financial Instruments

Credit risk management

Credit risk is a possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Traditionally, it refers to the risk that a lender may not receive the owed principal and interest, which results in an interruption of cash flows and increased costs for collection.

The Bank is exposed to credit risk as lender, holder of securities and as counterparty in trading activity.

Management of Credit Risk

Credit risk management aims to maintain its risk exposure within proper and acceptable parameters set out in contractual agreement.

The process involves the identification, measurement, and monitoring of actual or potential losses and implementation of appropriate measures by setting-up limits to credit exposures.

The Bank also manages the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions and the correlation of credit risk with other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of the Bank.

The Bank manages credit risk through a structured risk management system and structure, to wit:

Risk Management System and Structure

The risk management framework at OFB is a top-down process where all risk policies and procedures are approved by the Board of Directors (BOD). The Board sets the overall risk tolerance of the Bank that is consistent with its business plan, financial strength and organizational capability.

BOD has created the Corporate Governance and Risk Management Committee (CGRMC), composed of five members of the Board, to oversee the implementation of risk management process that includes development of various risk strategies and principles, implementation of risk measurement tools, monitoring risk indicators and approval of risk limits.

The Risk Management Office (RMO) is the direct support of the CGRMC in the day-to-day identification, measurement, monitoring and control of risks. As an independent unit reporting directly to the Board, RMO consults with business units in identifying, measuring, and implementing risk management methodologies and controls. It assists business and operating units in measuring risk/return to better manage their risk profile.

Senior Management of OFB is also actively involved in the planning, reviewing and assessing different risks being managed by the Bank through the various committees. The Management Committee (ManCom) ensures that all business objectives are align with the risk tolerance set by the Board. The Assets and Liabilities Management Committee (ALMC) is responsible for ensuring that market and liquidity risks are adequately addressed on long-term and daily basis.

The Lending Committee (LendCom) which has been delegated with credit authority limits, reviews, approves / recommends loan proposals and credit policies to the Board.

Internal Audit provides another layer for independent check and balance to further strengthen risk controls and compliance. Internal Audit ensures that risk-takers comply with standards and established policies. It also evaluates the effectiveness and adequacy of the Bank's risk management framework particularly on its control processes.

Legal Office has the primary responsibility of reviewing all Banks' documents for completeness and enforceability under respecting legal jurisdiction.

Compliance Office oversees that the Bank is effectively managing compliance of regulatory risk as prescribed by the Compliance Manual. The same unit is also responsible for the implementation of the Anti-Money Laundering Program.

To effectively monitor and maintain the quality of its loan portfolio, the Bank conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves.

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. For the same period, the Bank's Non-Performing Loan (NPL) stood at P2.36 billion or 69 per cent of the total loan portfolio of P3.40 billion.

Credit Risk Rating

The Bank adopts the industry-specific and borrower-specific credit risk scorings with consideration on Single Borrower's Limit (SBL) rule.

In addition, the Bank shall also continue to use the expert-based credit rating system for banks and financial institutions.

Credit Risk Monitoring

Credit exposures are constantly monitored and a credit evaluation process is conducted to assess the credit-worthiness of each borrower.

Credit exposures follow the staging assessment:

Factor	Stage	Criteria
Age	Stage 1	• Current • One (1) to thirty (30) days past due
	Stage 2	Thirty one (31) to ninety (90) days past due
	Stage 3	• More than ninety (90) days past due (monthly installments) • More than thirty (30) days past due (lump sum payment, and quarterly, semi-annual and annual installments)
Observable Impairment Indicators	Stage 1	General economic and market conditions
	Stage 2	• Economic and market conditions adverse to the borrower • Industry specific issues
	Stage 3	Company-specific business, operational and financial (PFRS 9 loss events)
BSP Classification/ Internal Rating	Stage 1	• 1 (Prime) • 2 (High Grade) • 3 (Good) • 4 (Very Satisfactory) • 5 (Satisfactory) • 6 (Watchlist)
	Stage 2	• 7 (EM) • 8 (Substandard)
	Stage 3	• 9 (Doutbful) • 10 (Loss)

The result of the credit evaluation is used as basis in adjusting credit lines periodically. To efficiently manage credit exposures, collateral and other applicable agreements are executed with counterparties whenever possible.

The Bank monitors and reviews from time to time the credit practices and reporting, and if appropriate, approve credit policy changes and procedures to ensure that credit policies are appropriate and are being complied with.

The Bank has continuously monitors credit risk thru periodic reporting system for the BOD and Senior Management on the asset quality indicators such as past due ratio, NPL ratio, level of non-performing assets, coverage ratio and concentration risk. Accounts for write-off shall also approved by the BOD.

The Bank prepares a monthly report on credit quality as summarized below (in million Pesos):

	2019	2018
Neither past due nor impaired	578	1,677
Past Due but not impaired	462	128
Impaired	2,356	2,239
	3,396	4,044
Less: Specific allowance for credit losses	969	638
	2,427	3,406

For the year 2019, a total of P5.01 million fully provided consumption loans were written-off.

Collateral and Other Credit Enhancements

The Bank adopts a cash flow lending principles and collateral is not the primary factor in granting credit. The required amount and type of collateral and other credit enhancements to mitigate credit exposures depend primarily on the results of the holistic and prudent credit assessment. When needed, the Bank diligently evaluates the enforceability, realizable value and marketability of offered collaterals. The Bank's Manual of Lending Operations and issued policies provide the guidelines on the acceptability of loan collateral and maximum valuation for each type of collateral.

The primary collaterals accepted are Holdout on Deposits, Government Securities (GS), Real Estate Mortgage, Chattel Mortgage and eligible guarantees. In the case of agricultural and agriculture-related loans that are vulnerable to the effects of climate and weather disturbances, borrowers are encouraged to avail of crop insurance guarantees and other insurance mechanisms to protect them from these risks.

The Bank further classifies its non-performing loans into secured and unsecured (in million Pesos):

	2019	Per cent	2018	Per cent
Secured	868	37	1,431	64
Unsecured	1,488	63	808	36
	2,356	100	2,239	100

Credit Stress Test

The Bank conducts mandatory credit stress testing on large exposure portfolio, exposures by economic activity and consumer finance portfolio. Stress tests are performed to determine the severity of impact on the overall loan portfolio, credit risk-weighted asset and capital adequacy ratio. Results of stress testing, together with contingency plans, are reported to LendCom and CGRMC.

Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Bank provides for guidelines and procedures relative to managing, monitoring and reporting large exposures and credit risk concentrations in accordance with the rules and regulations issued by the BSP.

As of December 31, 2019, the Bank's qualifying capital covering credit risk is P907 million. On the other hand, the SBL is pegged at P226 million for direct lending.

The following shows the concentration of credit risk by industry at the reporting date (in million Pesos):

	2019	2018
Real Estate Activities	1,171	1,222
Wholesale and Retail Trade	744	872
Salary-Based General–Purpose Consumption Loans	269	404
Public Adm. and Defense/Compulsary Social Sec.	259	308
Agriculture, Hunting and Forestry	250	279
Financial and Insurance Activities	98	260
Administrative and Support Service Activities	177	177
Education	115	115
Construction	70	114
Mining and Quarrying	74	75
*Others	169	218
	3,396	4,044
Allowance for Credit Losses	969	638
	2,427	3,406

**Others include the following Sector: Other Service Activities, Arts, Entertainment and Recreation, Manufacturing, Transportation and Storage, Accommodation and Food Service Activities, Water Supply, Sewerage and Waste Management, Motor Vehicle Loans, Professional, Scientific and Technical Activities, Human Health and Social Work Activities, Information and Communication, Electricity, Gas, Steam and Air conditioning Supply and Activities of Extra-Territorial Org. and Bodies.*

Market Risk

The Bank's exposure to market risks originates primarily from its risk-taking activities on fixed income investments in securities and foreign exchange effects. Transaction limits are used to operationally manage market risks.

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices, commodity prices and other market indicators which may affect the Bank's income or values of its financial assets. The Bank uses mark-to-market and factor sensitivity to manage risk on its securities portfolios.

Treasury market risks originate from its holdings of debt securities mainly as compliance to liquidity reserves for government deposits. Further, it classifies its debt securities exposures under trading and non-trading portfolios.

The Bank also adopts the following staging assessment for its treasury exposures based on external rating:

Stage 1 - investment grade
Stage 2 - downgrade to speculative/non-investment grade; risk ratings downgraded by at least two rating grades
Stage 3 - default

In 2019, the Bank sold certain GS and booked P28.7 million as realized loss. As of December 31, 2019, remaining GS classified under FVOCI with average yield to maturity of 3.5 per cent registered an unrealized loss/mark-to-market loss of P1.9 million for a P50 million portfolio.

Liquidity Risk

Liquidity risk pertains to potential losses to the Bank arising from either its inability to meet its obligations or to fund maturing liabilities as they fall due. Senior Management through the ALMC is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank.

Liquidity risk is the risk of loss to earnings or capital due to inability to meet funding requirements or payment of obligations as they fall due. OFB's liquidity policy is to maintain sufficient liquidity level not only to service deposit withdrawals and other contractual obligations but also to provide ample buffer to meet any unplanned changes in funding sources or changes in market conditions. Part of liquidity management strategy is to keep a sizeable amount of liquid assets like marketable government securities, and Deposit Balances with BSP such as Special Deposit accounts.

The ALMC and Treasury Group supervise the liquidity planning of the Bank both for the day-to-day funding requirements and for balance sheet management purposes. Daily cash flow projection and analysis of liquidity position are prepared with any excess funds temporarily park on interbank placements or deposit balances with BSP.

PART II

OBSERVATIONS AND RECOMMENDATIONS

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 reçognized, 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/MORNBFI, 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 Controllership) 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:

Account	Balance as at December 31, 2019	Allowance for Credit Losses	Net balance
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)
Total	**3,395,709,647.09**	**978,152,526.39**	**2,417,557,120.70**

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:

Classification	Percentage
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 of	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:

Account	Amount
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)
Balance	**966,030,270**

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 9th 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. Xxx*
>
> ***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:

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

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

7. 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^{th} day of January of the following year.

7.1 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

8. 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

9. 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.

9.1 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

10. 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.

Particulars	Amount	Status
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.
Total	**30,806,824.65**	

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

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

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. The other audit observations with the corresponding partially implemented recommendations are presented below:

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
2018	
1. Past due loans of P2.246 billion as of December 31, 2018 or 57.35 per cent of the total Loans and receivable account remained uncollected, thereby reducing the amount of resources for the lending and investment operations that could have generated additional income for the Bank.	
Pursue other legal remedies to collect outstanding loans from borrowers.	Partially implemented. As of September 30, 2019, of the ninety-five (95) cases filed in the Small Claims Court in eight branches with outstanding balance of P10.7 million, OFB has collected a total amount of P3.43 million. Twenty-eight (28) accounts with total amount of P2.4 million were fully paid and twenty-three (23) accounts amounting to P1.03 million were partially collected. In compliance with Executive Order No. 44, OFB has transferred all past due account folders and documents to Landbank on September 23, 2019. The Deed of Assignment was executed by OFB and Landbank on 14 January 2020.
2. Accounts Receivable amounting to P55.130 million remained outstanding for more than one year, contrary to Philippine Accounting Standards (PAS) 1, which cast doubt to its collectability, thus depriving the Bank of much needed funds for its operation.	
a. Collect from depositors the outstanding receivables for over a year pertaining to deposits and ATM transactions	Partially implemented. As of December 31, 2019, the outstanding

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
made through the Bank amounting to P278,517.57; and	receivables from depositors was reduced to P274,017.57, due to adjustment in the books.
b. Collect from loan borrowers the outstanding receivable arising from fees and other expenses advanced by the Bank amounting to P359,930.29.	Partially implemented. As of December 31, 2019, the outstanding receivables from loan borrowers was reduced to P357,254.83 due to written-off amounting to P2,675.46.
3. The Bank's Hanap-Buhay (HB) Loans with an outstanding balance of P2.724 million as of December 31, 2018 has become past due, thus depriving the bank of additional funds that could be used for its operation.	
Pursue collection and remedial action on the borrowers of HB Loan Product with past due status.	Partially implemented. In compliance with Executive Order No. 44, OFB has transferred all past due account folders and documents to Landbank on September 23, 2019. The Deed of Assignment was executed by OFB and Landbank on 14 January 2020.
<u>2016</u>	
4. Sixteen acquired assets with an aggregate carrying amount of P24.213 million and total appraised value of P41.644 million were held for more than five years and were not disposed of contrary to the provisions of the General Banking Act of 2000 and deprived the Bank of generating additional funds for its operations.	
Intensify efforts to resolve the problems on the disposal of the properties.	Partially implemented. OFB has sold four acquired properties in CY 2019. Further, ROPA account folders were already transferred to Landbank's Special Asset Department (SPAD) on September 16, 2019 in line with Executive Order No. 44.

OBSERVATIONS AND RECOMMENDATIONS	ACTIONS TAKEN
2013	
5. The loan balance of P241.883 million of the Project D.R.I.V.E. (Dagdag Regular Income Via Entrepreneurship) Fund (released as loans in 2009 and 2010) remained past due as at December 31, 2013 and of doubtful collectability.	
Exhaust all the necessary means to collect from the borrowers.	Partially implemented. As of December 31, 2019, the bank has collected a total amount of P304.874.91 that made eleven accounts totaling P2,145,000.00 fully paid.
2010	
6. Remunerations amounting to P1.118 million was received by the Postmaster General while serving as one of the Board of Directors of the PPSBI, constitute double compensation, thus contrary to existing laws, rules and regulations.	
Cause the refund of all the remunerations, allowances, per diems, business development expense granted to the Postmaster General.	Partially implemented. OFB has sent final demand letters to concerned Board of Directors but no response was received.
2009	
7. Separation benefits totaling P4.575 million were paid to outgoing members of the Board of Directors contrary to existing laws, rules and regulations.	
Comply with DBM Circular No. 2002-2 dated January 2, 2002 re: Grant of Personnel Benefits to Members and Ex-Officio Members of the Board.	Partially implemented. OFB has sent final demand letters to concerned Board of Directors but no response was received.

PART IV

ANNEXES

OVERSEAS FILIPINO BANK, INC.
Matrix of Required Disclosures not Complied

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
b. PAS 8		
28. When initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose: (a) The title of the IFRS; (b) When applicable, that the change in accounting policy is made in accordance with its transitional provision; (c) The nature of the change in accounting policy; (d) When applicable, a description of the transitional provisions; (e) When applicable, the transitional provisions that might have an effect on future periods; (f) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment: (i) For each financial statement line item affected; and (ii) If IAS 33 Earning per Share applies to the entity, for basic and diluted earnings per share; (g) The amount of the adjustment relating to periods before those	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. Future minimum rentals payable under non-cancellable operating leases as at December 31, 2019 are as follows: Within one year — P3,862,531.00 After one year but not more than five years — 3,014,448.00 P6,876,979.00 Due to the closure of branches in 2019, the Bank assessed that the impact of adopting PFRS 16 was insignificant.	There are other IFRSs and amendments to IFRSs which applications took effect in 2019 and 2018 but they are not disclosed in the Notes to FS of OFBI, namely: **2019** • IFRIC 23 Uncertainty over Income Tax Treatments • Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) • Prepayment Features with Negative Compensation (Amendments to IFRS 9) • Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) • Annual Improvements to IFRS Standards 2015–2017 Cycle • Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) **2018** • IFRS 9 Financial Instruments • IFRS 15 Revenue from Contracts with Customers • IFRIC 22 Foreign Currency Transactions and Advance Consideration • Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
presented, to the extent practicable; and (h) If retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.		• Disclosure Initiative (Amendments to IAS 7) • Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12 • Clarifications to IFRS 15 'Revenue from Contracts with Customers' Classification and Measurement of • Share-based Payment Transactions (Amendments to IFRS 2) • Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) • Transfers of Investment Property (Amendments to IAS 40) • Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)
30. When entity has not applied a new IFRS that has been issued but is not effective, the entity shall disclose: (a) This fact; and (b) Known or reasonable estimate information relevant to assessing the possible impact that application of the new IFRS will have on the entity's finanicial statements in the period of initial application. 31. In complying with paragraph 30, entity considers disclosing:		Below are issued IFRSs but nor yet effective as of December 31, 2019 and OFBI has no disclosures in its Notes to FS: • IFRS 17 Insurance Contracts, issued on 18 May 2017, applicable to annual reporting periods beginning on or after 1 January 2021 • Amendments to References to the Conceptual Framework in IFRS Standards, issued on 29 March 2018, applicable to annual periods beginning on or after 1 January 2020

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
(a) the title of the new IFRS; (b) the nature of the impending change or changes in accounting policy; (c) the date by which application of the IFRS is required; (d) the date as at which it plans to apply the IFRS initially; and (e) either: (i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or (ii) if that impact is not known or reasonable estimable, a statement to that effect.		• Definition of a Business (Amendments to IFRS 3), issued on 22 October 2018, business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 • Definition of Material (Amendments to IAS 1 and IAS 8), issued on 31 October 2018, applicable to annual reporting periods beginning on or after 1 January 2020 • Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), issued on 26 September 2019, applicable to annual reporting periods beginning on or after 1 January 2020
The credit risk management practices 35F. An entity shall explain its credit risk management practices and how they relate to the recognition and measurement of expected credit losses. To meet this objective an entity shall disclose information that enables users of financial statements to understand and evaluate: (a) how an entity determined whether the credit risk of financial instruments has increased	**Note 34. Management of Risks Related to Financial Instruments** *Management of Credit Risk* To effectively monitor and maintain the quality of its loan portfolio, the Bank conducts annual qualitative and impairment review to assure proper loan classification and setting-up of valuation reserves. The Bank estimated a total of P702.4 million additional credit losses as of 31 December 2019 computed using Expected Credit Losses Model	Required disclosures under these standards are not adequately provided.

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
significantly since initial recognition, including, if and how: (i) financial instruments are considered to have low credit risk in accordance with paragraph 5.5.10 of IFRS 9, including the classes of financial instruments to which it applies; and (ii) the presumption in paragraph 5.5.11 of IFRS 9, that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has been rebutted; (b) an entity's definitions of default, including the reasons for selecting those definitions; (c) how the instruments were grouped if expected credit losses were measured on a collective basis; (d) how an entity determined that financial assets are credit-impaired financial assets; (e) an entity's write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity; and (f) how the requirements in paragraph	of parent bank. For the same period, the Bank's Non-Performing Loan (NPL) stood at P2.36 billion or 69% of the total loan portfolio of P3.40 billion.	

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
5.5.12 of IFRS 9 for the modification of contractual cash flows of financial assets have been applied, including how an entity: (i) determines whether the credit risk on a financial asset that has been modified while the loss allowance was measured at an amount equal to lifetime expected credit losses, has improved to the extent that the loss allowance reverts to being measured at an amount equal to 12-month expected credit losses in accordance with paragraph 5.5.5 of IFRS 9; and (ii) monitors the extent to which the loss allowance on financial assets meeting the criteria in (i) is subsequently remeasured at an amount equal to lifetime expected credit losses in accordance with paragraph 5.5.3 of IFRS 9. 35G. An entity shall explain the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of IFRS 9. For this purpose an entity shall disclose: (a) the basis of inputs and assumptions and the estimation techniques used to: (i) measure the 12-month and lifetime expected credit losses;		

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
(ii) determine whether the credit risk of financial instruments has increased significantly since initial recognition; and (iii) determine whether a financial asset is a credit-impaired financial asset. (b) how forward-looking information has been incorporated into the determination of expected credit losses, including the use of macroeconomic information; and (c) changes in the estimation techniques or significant assumptions made during the reporting period and the reasons for those changes. Quantitative and qualitative information about amounts arising from expected credit losses		
35H. To explain the changes in the loss allowance and the reasons for those changes, an entity shall provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period for: (a) the loss allowance measured at an amount equal to 12-month expected credit losses; (b) the loss allowance		OFBI has only disclosure on the balance of allowance for credit losses for 2019 and 2018, thus, not compliant to the requirements under this standard.

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
measured at an amount equal to lifetime expected credit losses for: (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets; (ii) X x x; and (iii) X x x. (c) X x x. 35I. To enable users of financial statements to understand the changes in the loss allowance disclosed in accordance with paragraph 35H, an entity shall provide an explanation of how significant changes in the gross carrying amount of financial instruments during the period contributed to changes in the loss allowance. The information shall be provided separately for financial instruments that represent the loss allowance as listed in paragraph 35H(a)–(c) and shall include relevant qualitative and quantitative information. Examples of changes in the gross carrying amount of financial instruments that contributed to the changes in the loss allowance may include: (a) changes because of financial instruments originated or acquired during the reporting period;		

<table>
<tr><th>REQUIRED DISCLOSURES IN PAS/PFRS</th><th>DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS</th><th>OBSERVATIONS</th></tr>
<tr><td>(b) the modification of contractual cash flows on financial assets that do not result in a derecognition of those financial assets in accordance with IFRS 9;
(c) changes because of financial instruments that were derecognised (including those that were written-off) during the reporting period; and
(d) changes arising from whether the loss allowance is measured at an amount equal to 12-month or lifetime expected credit losses.</td><td></td><td></td></tr>
<tr><td>Credit risk exposure

35M. To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses;
(b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:</td><td>Exposure to Credit Risk

The following shows the concentration of credit risk by industry at the reporting date (amounts in Millions):

<table>
<tr><th></th><th>2019</th><th>2018</th></tr>
<tr><td>Real Estate Activities</td><td>1,171</td><td>1,222</td></tr>
<tr><td>Wholesale and Retail Trade</td><td>744</td><td>872</td></tr>
<tr><td>Salary-Based General-Purpose Consumption Loans</td><td>269</td><td>404</td></tr>
<tr><td>Public Adm. and Defense/Compulsary Social Sec.</td><td>259</td><td>308</td></tr>
<tr><td>Agriculture, Hunting and Forestry</td><td>250</td><td>279</td></tr>
<tr><td>Financial and Insurance Activities</td><td>98</td><td>260</td></tr>
<tr><td>Administrative and Support Service Activities</td><td>177</td><td>177</td></tr>
<tr><td>Education</td><td>115</td><td>115</td></tr>
<tr><td>Construction</td><td>70</td><td>114</td></tr>
<tr><td>Mining and Quarrying</td><td>74</td><td>75</td></tr>
<tr><td>*Others</td><td>169</td><td>218</td></tr>
<tr><td></td><td>3,396</td><td>4,044</td></tr>
<tr><td>Allowance for Credit Losses</td><td>969</td><td>638</td></tr>
<tr><td></td><td>2,427</td><td>3,406</td></tr>
</table>

* Others include the following</td><td>The disclosures are not sufficiently made vis a vis the requirements of this standard.</td></tr>
</table>

<table>
<tr><th>REQUIRED DISCLOSURES IN PAS/PFRS</th><th>DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS</th><th>OBSERVATIONS</th></tr>
<tr><td>(i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;
(ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and
(iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9.

(c) that are purchased or originated credit-impaired financial assets.</td><td>Sector – Other Service Activities, Arts, Entertainment and Recreation, Manufacturing, Transportation and Storage, Accommodation and Food Service Activities, Water Supply, Sewerage and Waste Management, Motor Vehicle Loans, Professional, Scientific and Technical Activities, Human Health and Social Work Activities, Information and Communication, Electricity, Gas, Steam and Air conditioning Supply and Activities of Extra-Territorial Org. and Bodies.

In terms of credit risk monitoring, the Bank prepares a monthly report on credit quality as summarized below (In million Pesos):

<table><tr><th></th><th>2019</th><th>2018</th></tr><tr><td>Neither past due nor impaired</td><td>578</td><td>1,677</td></tr><tr><td>Past Due but not impaired</td><td>462</td><td>128</td></tr><tr><td>Impaired</td><td>2,356</td><td>2,239</td></tr><tr><td></td><td>3,396</td><td>4,044</td></tr><tr><td>Less: Specific allowance for credit losses</td><td>969</td><td>638</td></tr><tr><td></td><td>2,427</td><td>3,406</td></tr></table></td><td></td></tr>
<tr><td>Market risk

Sensitivity analysis

40. Unless an entity complies with paragraph 41, it shall disclose:

(a) a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing</td><td>The Bank's exposure to market risks originates primarily from its risk-taking activities on fixed income investments in securities and foreign exchange effects. Transaction limits are used to operationally manage market risks.

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices, commodity prices and</td><td>The disclosures are not sufficiently made vis a vis the requirements of this standard.</td></tr>
</table>

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; (b) the methods and assumptions used in preparing the sensitivity analysis; and (c) changes from the previous period in the methods and assumptions used, and the reasons for such changes. 41. If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (eg interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in paragraph 40. The entity shall also disclose: (a) an explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and (b) an explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved. Other market risk disclosures	other market indicators which may affect the Bank's income or values of its financial assets. The Bank uses mark-to-market and factor sensitivity to manage risk on its securities portfolios. Treasury market risks originate from its holdings of debt securities mainly as compliance to liquidity reserves for government deposits. Further, it classifies its debt securities exposures under trading and non-trading portfolios. The Bank's government securities classified under Available for Sale Securities (AFSS) which have an average yield to maturity (YTM) of 3.5% registered an unrealized loss / marked to market loss of P1.9M for a P50M portfolio.	

REQUIRED DISCLOSURES IN PAS/PFRS	DISCLOSURES IN THE NOTES TO FINANCIAL STATEMENTS	OBSERVATIONS
42. When the sensitivity analyses disclosed in accordance with paragraph 40 or 41 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.		