Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

OVERSEAS FILIPINO BANK, INC.
(A Digital Bank of Land Bank of the Philippines)

For the Years ended December 31, 2024 and 2023

PART I

AUDITED FINANCIAL STATEMENTS

OVERSEAS FILIPINO BANK, INC.
A Digital Bank of LANDBANK.
CERTIFIED TRUE COPY.

ATTY. KARL D. ANTONIO
CORPORATE SECRETARY

EXECUTIVE SUMMARY

INTRODUCTION

Overseas Filipino Bank, Inc. (OFB or the Bank), Savings Bank of the Land Bank of the Philippines (LBP or the Parent Bank or LANDBANK), formerly known as Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of LANDBANK. Executive Order (EO) No. 44 was issued on September 28, 2017, mandating the Philippine Postal Corporation and the Bureau of Treasury to transfer their PPSBI shares to LANDBANK at zero value. The EO further stated that PPSBI will be converted into the Overseas Filipino Bank.

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

The Monetary Board of the BSP, in its Resolution No. 358 dated March 25, 2021, approved the application of the Bank to convert its banking license from a thrift bank to a digital bank, subject to the fulfillment of certain conditions.

As stated in its Vision/Mission, OFB is the first digital bank in the country and the official digital bank of the Philippine government committed to provide convenient, reliable and secure banking solutions responsive to the needs of the global Filipinos, focused on developing long-term relationship with customers and other stakeholders through strategic alliances and partnerships. By 2024, OFB shall be the country's leading OFW-centric Branchless Digital Bank committed to provide competitive and innovative products and services through convenient, reliable and secure banking platforms.

As of December 31, 2024, the Bank has 10 organic employees, 8 seconded employees from the Parent Bank and 8 contractual employees. Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

SCOPE OF AUDIT

The audit covered the examination, on a test basis, of OFB transactions and accounts for the period January 1 to December 31, 2024 to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2024 and 2023 in accordance with the International Standards of Supreme Audit Institutions. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2024	2023	Increase
Assets	4,981,753,755	4,748,674,492	233,079,263
Liabilities	3,614,998,508	3,470,614,581	144,383,927
Equity	1,366,755,247	1,278,059,911	88,695,336

II. Comparative Results of Operations

Particulars	2024	2023	Increase/ (Decrease)
Income	302,692,283	288,341,400	14,350,883
Personnel services	10,906,248	8,669,637	2,236,611
Maintenance and other operating expenses	104,069,207	149,890,130	(45,820,923)
Financial expenses	101,431,368	79,443,449	21,987,919
Total expenses	216,406,823	238,003,216	(21,596,393)
Net income (loss)	86,285,460	50,338,184	35,947,276
Other comprehensive income(loss)	2,409,876	2,272,374	137,502
Total comprehensive income	88,695,336	52,610,558	36,084,778

III. Comparative Budget and Actual Expenditures

	2024		2023	
	Approved Budget	Expenditures	Approved Budget	Expenditures
Personnel services	11,500,000	10,906,248	31,770,000	8,669,637
Maintenance & other operating expenses	180,470,000	104,069,207	223,300,000	149,890,130
Financial expenses	103,800,000	101,431,368	146,330,000	79,443,449
Capital outlay	73,110,000	0	28,000,000	8,731,836
Total	368,880,000	216,406,823	429,400,000	246,735,052

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the OFB financial statements for the years ended December 31, 2024 and 2023.

SIGNIFICANT AUDIT OBSERVATION AND RECOMMENDATION

An assessment for impairment was not conducted and the recoverable amount of the OFB Head Office Building was not estimated even though there were indications of potential impairment based on the Structural Investigation and Analysis, which is contrary to Philippine Accounting Standard 36 thus, affecting the faithful representation of the carrying value of the Bank Premises – Buildings amounting to P13.456 million in the financial statements as at December 31, 2024.

We recommended and Management agreed to conduct an impairment assessment and estimate the building's recoverable amount to recognize impairment loss to the Bank Premises – Building account in the financial statements.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Total disallowances amounted to P26.790 million as of December 31, 2024. There were no outstanding audit suspensions and charges as at year end.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the six audit recommendations embodied in the Calendar Year (CY) 2023 Annual Audit Report (AAR), two were implemented, and four were not implemented.

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ATTY. KARL D. ANTONIO
CORPORATE SECRETARY.

REPUBLIC OF THE PHILIPPINES
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

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 accompanying financial statements of Overseas Filipino Bank, Inc. (OFB), a wholly owned subsidiary of Land Bank of the Philippines, which comprise the statements of financial position as at December 31, 2024 and 2023, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OFB as at December 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits 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 Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. 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 charged 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 than 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 Company'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 accordance with PFRSs.

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 required under the Revenue Regulations 15-2010 in Note 25, and the BSP Circular No. 1074 in Note 29 to the 2024 financial statements is presented for purposes of filing with the Bureau of Internal Revenue, and the BSP, respectively, and is not a required part of the basic financial statements. Such supplementary 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

MARIE FRANCES HAZEL S. ACEBEDO
Supervising Auditor

May 20, 2025

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ATTY. KARL D. ANTONIO
CORPORATE SECRETARY.

Overseas Filipino Bank
A Digital Bank of LANDBANK

BAGONG PILIPINAS

May 19, 2025

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of OVERSEAS FILIPINO BANK, INC., A Digital Bank of LANDBANK (OFBI), 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, 2024 and 2023, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls as management determines 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 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.

MA. LYNETTE V. ORTIZ
Chairman of the Board

ELOID C. PANGILINAN
Officer-In-Charge
Office of the President and Chief Executive Officer

PATRIA P. MADRIO
Head, Financial Management Unit

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ATTY KARL D. ANTONIO
CORPORATE SECRETARY.

OVERSEAS FILIPINO BANK
Overseas Filipino Bank Center, Liwasang Bonifacio 1000 Manila
Telephone Nos.: (02) 8522-3400/8527-0098 E-mail: ofb_biz@ofbank.com.ph

OVERSEAS FILIPINO BANK, INC.
(A DIGITAL BANK OF LANDBANK)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(In Philippine Peso)

	NOTE	2024	2023
INTEREST INCOME			
Loans & discounts		144,683,915	145,882,022
Investments		76,943,861	71,766,585
Loans and receivables arising from RA/CA/PR/SLB		5,206,440	8,181,311
Due from Bangko Sentral ng Pilipinas		42,231,862	28,748,343
Deposits with banks		63,015	29,272
		269,129,093	254,607,533
INTEREST EXPENSE			
Deposit liabilities		101,431,368	79,443,449
NET INTEREST INCOME		167,697,725	175,164,084
Provision for credit losses	12	3,800,000	11,371,427
NET INTEREST INCOME AFTER PROVISION FOR LOSSES		163,897,725	163,792,657
OTHER OPERATING INCOME			
Fees and commission		30,490,424	32,836,250
Foreign exchange gains from revaluation		17	(4)
Miscellaneous income	22	3,072,749	897,621
		33,563,190	33,733,867
OTHER OPERATING EXPENSES			
Compensation and fringe benefits	23a	10,906,248	8,669,637
Provision for probable losses	23b	0	2,770,259
Depreciation and amortization	23c	7,646,437	8,948,617
Rent	3.9	0	700,000
Taxes and licenses		10,783,831	10,588,271
Miscellaneous expenses	24	81,838,939	115,511,556
		111,175,455	147,188,340
NET INCOME FOR THE PERIOD		86,285,460	50,338,184
INCOME TAX EXPENSE	25	0	0
NET INCOME AFTER TAX		**86,285,460**	**50,338,184**
OTHER COMPREHENSIVE INCOME		2,409,876	2,272,374
TOTAL COMPREHENSIVE INCOME		**88,695,336**	**52,610,558**

The notes on pages 9 to 36 form part of these statements.

OVERSEAS FILIPINO BANK, INC.
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OVERSEAS FILIPINO BANK, INC.
(A DIGITAL BANK OF LANDBANK)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(In Philippine Peso)

	Capital Stock Note 19	Other Comprehensive Income (Loss) Note 21	Retained Earnings (Deficit) Note 20	Total Equity
Balance as of January 1, 2023	**2,680,000,000**	**(3,542,386)**	**(1,431,231,408)**	**1,245,226,206**
Prior Period Adjustments			(19,776,853)	
Balance as of January 1, 2023, as restated	**2,680,000,000**	**(3,542,386)**	**(1,451,008,261)**	**1,225,449,353**
Unrealized gain on available for sale financial assets		2,272,374		2,272,374
Net Income for CY 2023			50,338,184	50,338,184
Balance as of December 31, 2023	**2,680,000,000**	**(1,270,012)**	**(1,400,670,077)**	**1,278,059,911**
Other Comprehensive Income		2,409,876		2,409,876
Net Income December 31, 2024			86,285,460	86,285,460
Balance as of December 31, 2024	**2,680,000,000**	**1,139,864**	**(1,314,384,617)**	**1,366,755,247**

The notes on pages 9 to 36 form part of these statements.

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OVERSEAS FILIPINO BANK, INC.
(A DIGITAL BANK OF LANDBANK)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023
(In Philippine Peso)

	Note	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		265,960,734	254,993,649
Interest paid		(141,867,132)	(55,415,671)
Fees and Commissions		30,490,424	19,095,332
Miscellaneous Income	22	3,072,749	897,621
General and Administrative Expenses		(97,022,570)	(156,354,545)
Operating income before changes in operating assets and liabilities		60,634,205	63,216,386
Changes in operating assets and liabilities			
(Increase) / Decrease in operating assets			
Loans and Receivables		47,840,870	77,444,518
Other Resources		35,257,854	(13,881,506)
Increase / (Decrease) in operating liabilities:			
Deposit Liabilities		170,389,201	196,819,234
Other Liabilities		8,686,962	6,125,628
Net Cash Provided by Operating Activities		322,809,092	329,724,260
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment(net)	13	0	(717,138)
Investments in Bonds		(101,672,016)	(848,033)
Placement in investment management account		(132,009,292)	(103,554,015)
Net Cash Used in Investing activities		(233,681,308)	(105,119,186)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS		133,176	(20,833)
NET INCREASE IN CASH AND CASH EQUIVALENTS		89,260,960	224,584,241
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		1,105,214,513	880,630,272
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	1,194,475,473	1,105,214,513

The notes on pages 9 to 36 form part of these statements.

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OVERSEAS FILIPINO BANK, INC.
(A Digital Bank of LANDBANK)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023
(All amounts in Philippine Peso unless otherwise stated)

1. Corporate Information

Overseas Filipino Bank, Inc., a Digital 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 or the Parent Bank or LANDBANK) acquired by the latter at zero value as stated on Executive Order (EO) 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 (BSP) 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 was mandated to 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 EO No. 44, which mandates the PPC and the Bureau of Treasury (BTr) to transfer their PPSBI shares to LBP at zero value.

PPSBI registered with the Securities and Exchange Commission the Amended Articles of Incorporation bearing the new corporate name on January 05, 2018. The BSP through its Circular Letter no. CL-2018-007 dated January 18, 2018, approved the change of corporate name of the PPSBI to "Overseas Filipino Bank, Inc., a Savings Bank of LANDBANK". 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.

The Monetary Board of the BSP, in its Resolution No. 358 dated 25 March 2021, approved the application of the Bank to convert its banking license from a thrift bank to a digital bank license, subject to the fulfillment of certain conditions. As stated in its Vision/Mission: "OFB is the first digital bank in the country and the official digital bank of the Philippine government committed to provide convenient, reliable and secure banking solutions responsive to the needs of the global Filipinos, focused on developing long-term relationship with customers and other stakeholders through strategic alliances and partnerships."

As of December 31, 2024, the Bank has 10 organic employees, 8 seconded employees from the Parent Bank and 8 contractual employees. Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

2. Statement of Compliance Philippine Financial Reporting Standards/Philippine Accounting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRSs/PASs).

The accompanying comparative financial statements were authorized for issue by the Board of Directors per Secretary's Certificate issued on May 20, 2025.

3. Summary of Material Accounting Policies

3.1 Basis of Financial Statements Preparation

The financial statements were prepared on historical cost basis unless otherwise stated.

Fair Value through Other Comprehensive Income (FVOCI) are measured at fair value while Loans and Receivables are measured at amortized cost. Held to Maturity Financial Assets are carried at cost less/add premium/discount amortizations. Discount amortization uses the effective interest rate method.

The accompanying financial statements include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements prepared for these units are combined after eliminating inter-unit accounts. The functional currency of RBU and FCDU is Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated assets and liabilities in the RBU are translated in Philippine Peso based on the Bankers Association of the Philippines (BAP) closing rate prevailing at the end the year.

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.

The financial statements are presented in Philippine Peso and all values are rounded to the nearest peso except when otherwise indicated.

3.2 New and Amended Standards

Adoption of New and Amended PAS/PFRS

The following new and amended standards which are mandatorily effective for annual periods beginning on or after January 1, 2024.

a. Amendments to PAS 1 – Presentation of Financial Statements – Classification of Liabilities as Current or Non-current. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially

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CORPORATE SECRETARY

OVERSEAS FILIPINO BANK, INC.
(A DIGITAL BANK OF LANDBANK)
STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2024 AND 2023
(In Philippine Peso)

	NOTE	2024	2023
ASSETS			
Cash and Cash Equivalents	6	1,194,475,473	1,105,214,513
Fair value through other comprehensive income	10	286,373,897	152,087,888
Held to Maturity Financial Assets, net	11	1,515,235,697	1,413,563,681
Loans and Receivables, net	12	1,694,620,079	1,746,260,949
Property and Equipment, net	13	146,163,765	148,834,288
Other Intangible Assets, net	14	18,168,981	21,643,876
Other Assets, net	15	126,715,863	161,069,297
TOTAL ASSETS		**4,981,753,755**	**4,748,674,492**
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities	16	3,423,934,429	3,253,545,227
Accrued Expenses	17	104,407,798	139,212,060
Other liabilities	18	86,656,281	77,857,294
Total Liabilities		**3,614,998,508**	**3,470,614,581**
Equity			
Capital Stock	19	2,680,000,000	2,680,000,000
Retained Earnings (Deficit)	20	(1,314,384,617)	(1,400,670,077)
Other Comprehensive Income (Loss)		1,139,864	(1,270,012)
Total Equity		**1,366,755,247**	**1,278,059,911**
TOTAL LIABILITIES AND EQUITY		**4,981,753,755**	**4,748,674,492**

The notes on pages 9 to 36 form part of these statements.

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CORPORATE SECRETARY

due to be settled within one year) or non-current. Effective date on annual periods beginning on or after January 1, 2024.

b. Amendments to PAS 1- Non-current liabilities with covenants. These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions. Effective date on annual periods beginning on or after January 1, 2024.

The adoption of these amendments have no impact in the amounts and disclosures reported in the financial statements of the Bank.

Standards Issued but not yet Effective

Below consists of new and amended standards issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended standards to have significant impact on its financial statements.

a. Amendments to PAS 21 – Lack of Exchangeability. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency of a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency. (with normal administrative delay) and the transaction would take place through a market or exchange mechanisms that creates enforceable rights and obligations. Effective on annual periods beginning on or after January 1, 2025.

b. PFRS 18 Presentation and Disclosures in Financial Statements. This includes requirements for all entities applying PFRS for the presentation and disclosure of information in financial statements. Applicable to annual reporting period beginning on or after 1 January 2027.

c. Amendments to PFRS 9 and PFRS 7 regarding classification and measurement of financial instruments. The amendments address matters identified during the post-implementation review of the classification and measurement requirements of PFRS 9 Financial Instruments.

3.3 <u>Foreign currency translation</u>

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.

3.4 <u>Fair Value Measurement</u>

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.

3.5 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 it financial assets in the following measurement categories as: (1) financial assets at FVTPL, (2) financial assets at Fair Value through Other Comprehensive Income (FVOCI) 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.

These includes loans and receivables, due from BSP, due from other banks, and securities under agreement to resell.

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost.

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 been 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.

3.6 Impairment of 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 statement of comprehensive income.

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.

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.

3.7 <u>Property and Equipment</u>

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 5 per cent 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.

3.8 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.

This account includes digital license fees to be amortized within the remaining life of the corporation.

3.9 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.

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.

3.10 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.

4. 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:

4.1 Operating lease commitments

The Bank assesses at contract inception whether a contract is, or contains a lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for considerations. It applies a single recognition and measurement approach for all leases, except for short term leases and leases of low value assets. The Bank has no lease liabilities and Right of Use Assets recognized.

4.2 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 P3.8 million additional credit losses as of December 31, 2024 computed using Expected Credit Losses Model of the Parent Bank. The net carrying value of loans from customers stood at P1,694.62 million, net of allowance for credit losses amounting to P46.74 million.

4.3 Impairment of financial assets at FVOCI

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.

4.4 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.

5. 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

6. Cash and Cash Equivalents

This is broken as follows:

	Note	2024	2023
Due from Bangko Sentral ng Pilipinas	7	1,130,768,437	946,625,933
Due from Other Banks	8	63,707,036	71,717,394
Loans and Receivables arising from RA/CA/PR/SLB	9	0	86,871,186
		1,194,475,473	1,105,214,513

7. Due from Bangko Sentral ng Pilipinas

This account consists of the following deposits/placement accounts which the Bank utilizes in its clearing operations and reserve requirements of the BSP:

	2024	2023
Term deposit account	900,000,000	750,000,000
Demand deposit account	137,768,437	196,625,933
Overnight deposit account	93,000,000	0
	1,130,768,437	946,625,933

8. Due from Other Banks

This account represents demand deposit account, short-term investments in special savings deposits and premium savings account deposited with the Parent Bank, LBP amounting to P63,707,036 and P71,717,394 in CY 2024 and 2023, respectively.

9. 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 BSP amounting to P0 and P86,871,186 in CY 2024 and 2023, respectively.

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10. Fair Value through Other Comprehensive Income

This account is composed of:

	2024	2023
Investment in Treasury Bills/Fixed Treasury Notes purchased from Security Bank Corp.	48,332,320	47,540,142
Investment Management Account with Land Bank of the Philippines (52401-26777-13-01)	238,041,577	104,547,746
Investment in QUEDANCOR Bonds	30,000,000	30,000,000
Allowance for credit losses	(30,000,000)	(30,000,000)
	286,373,897	152,087,888

The Investment in Treasury Bills/Fixed Treasury Notes has a Face Value of P50 million and a stated quarterly coupon rate of 3.5 per cent which will mature on September 20, 2026.

The Investment Management Account (IMA) with the LBP consists of various placements in government securities and corporate bonds. This is covered by an agency agreement between OFB and LBP-Trust Banking Group for financial return and appreciation of assets of the account. The agreement does not guaranty a yield, return or income by the investment manager, as such, past performance of the account is not a guaranty of future performance and the income from investments may rise or fall depending on prevailing market conditions.

The investment in QUEDANCOR bonds amounting to P30 million with allowance for probable losses of the same amount was recorded initially under Unquoted Debt Securities Classified as Loans and subsequently reclassified to Miscellaneous Assets account in 2018 in accordance with BSP Circular No. 1011 dated August 14, 2018 and to FVOCI account in 2020. This investment was made for the Bank's Agri-Agra compliance which is now under negotiation for the replacement of QUENDANCOR Restructured Notes.

11. Held to Maturity Financial Assets, net

	2024	2023
BTR-Retail Treasury Bonds (05-16)	1,400,000,000	1,300,000,000
San Miquel Corporation GP Bonds	59,830,000	59,830,000
Robinson Land Corporation Bonds	62,200,000	62,200,000
Total	1,522,030,000	1,422,030,000
Less: Unamortized Discount/Premium	6,794,303	8,466,319
	1,515,235,697	1,413,563,681

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12. Loans and Receivables, net

This account consists of:

	2024	2023
Loans to Individuals for Other Purposes	1,741,362,255	1,789,202,618
Allowance for Losses	(46,742,176)	(42,941,669)
	1,694,620,079	1,746,260,949

On November 26, 2021 and December 15, 2021, OFB and LANDBANK had secured their respective Board of Directors' approval for the assignment of Landbank's Electronic Salary Loans to OFB with total outstanding principal amount of up to Two Billion Pesos.

On May 11, 2022 and June 15, 2022, Landbank assigned its Salary Loan portfolio composed of 13,065 and 1,662 eligible borrowers' accounts to OFB and pursuant to said assignments, LANDBANK executed a Deed of Assignment in favor of OFB covering the Salary Loan accounts assigned. There were 15 accounts returned to the Parent Bank due to ineligibility.

After the assignment, OFB shall outsource from the concerned LANDBANK branches various operational support and administrative services relative to the loans assigned to further enhance OFB's business efficiency, aligned with its new structure, in providing digital banking services to its clients.

A service fee of 1.5 per cent based on total interest collected per month per covered LANDBANK Branch shall be paid by OFB to LANDBANK. The Cash Agency Arrangement executed by both parties shall supplement the Memorandum of Agreement.

Allowance for Losses

The details of specific allowances on loans are:

	2024	2023
Balance, January 1	23,420,672	11,785,712
Provisions	3,800,000	11,371,427
Transfers and other adjustments	507	263,533
Balance, December 31	27,221,179	23,420,672

The movement of the general loan loss provisions are:

	2024	2023
Balance, January 01	19,520,997	19,520,997
Adjustments	0	0
Balance, December 31	19,520,997	19,520,997

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As to Status:

	2024	2023
Current Loans	1,714,056,247	1,763,142,972
Non-Performing Loans	27,306,008	26,059,646
	1,741,362,255	1,789,202,618

As to Security:

	2024	2023
Secured Loans	0	0
Unsecured Loans	1,741,362,255	1,789,202,618
	1,741,362,255	1,789,202,618

13. Property and Equipment, net

This account consists of:

	Land	Buildings	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Total
Cost						
January 1, 2024	131,008,000	48,686,618	7,761,857	3,976,723	91,789,656	283,222,854
December 31, 2024	131,008,000	48,686,618	7,761,857	3,976,723	91,789,656	283,222,854
Accumulated Depreciation/Allowance for Impairment						
January 1, 2024	0	32,609,784	7,410,300	3,812,169	90,556,313	134,388,566
Provisions	0	2,620,136	0	0	50,387	2,670,523
December 31, 2024	0	35,229,920	7,410,300	3,812,169	90,606,700	137,059,089
Carrying amount December 31, 2024	131,008,000	13,456,698	351,557	164,554	1,182,956	146,163,765

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Total
Cost						
January 1, 2023	131,008,000	48,199,841	7,761,859	4,298,798	90,983,678	282,252,176
Additions	0	486,777	(2)	0	230,363	717,138
Reclassifications	0	0	0	759,599	341,922	1,101,521
Disposal	0	0	0	(1,081,674)	233,693	(847,981)
December 31, 2023	131,008,000	48,686,618	7,761,857	3,976,723	91,789,656	283,222,854
Accumulated Depreciation/Allowance for Impairment						
January 1, 2023	0	28,923,717	7,358,951	4,134,243	89,665,817	130,082,728
Provisions	0	2,583,720	48,464	0	301,584	2,933,768
Reclassifications	0	1,102,347	2,885	759,599	355,219	2,220,050
Disposal	0	0	0	(1,081,673)	233,693	(847,980)
December 31, 2023	0	32,609,784	7,410,300	3,812,169	90,556,313	134,388,566
Carrying amount December 31, 2023	131,008,000	16,076,834	351,557	164,554	1,233,343	148,834,288

The OFB (formerly PPSBI) building was acquired through Dacion En Pago from the Philippine Postal Corporation on November 02, 2012 with booked value amounting to P37.567 million. The Net Book Value of the Building is P13.46 million as of December 31, 2024.

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14. Other Intangible Assets, net

This account represents cost of the Digital license fee, creation of the OFB microsite in LBP, various enhancements of the Digital On Boarding System Mobile Banking Application (DOBS MBA) and the Livelihood Loan System (LLS) to support OFB operations. Details as follows:

	2024	2023
Other intangible assets	33,778,682	32,277,665
Accumulated amortization	(15,609,701)	(10,633,789)
	18,168,981	21,643,876

15. Other Assets, net

This account is composed of the following:

	2024	2023
Accounts receivable	298,694,722	333,689,657
Accrued interest income from financial assets	12,484,614	9,948,588
Prepaid expenses	1,258,470	302,671
Documentary stamps on checks	730,814	694,118
Other investments	538,792	153,333
Stationery and supplies on hand	70,424	870,042
Sundry debits	32,898	150,510
Deferred Charges	0	4,161,991
Miscellaneous assets	14,838,912	13,032,677
	328,649,646	363,003,587
Other Assets - Allowance for Losses	(201,933,783)	(201,934,290)
	126,715,863	161,069,297

Accounts receivable

The Accounts Receivable account includes the amounts relative to cases involving former officers of the then PPSBI branches, to wit: Sorsogon Branch in the amount of P4.10 million and Tacloban Branch of P8.64 million. Appropriate charges were filed in court. In addition, outstanding accounts receivable from Naga branch amounted to P179.37 million as of December 2019 as restitution for losses appropriated 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. On March 2019, the BSP approved the staggered booking of allowance at P11.90 million quarterly starting March 31, 2019 for five years ending in December 2023. As of October 2022, accounts receivable from Naga branch fraud were 100 per cent provided with allowance amounting to P179.37 million.

This account also includes temporary partner clearing accounts on collections of loans under the Purchase of Receivable Program (PRP) which will result to inflow of funds on the Due Other Banks account with LBP Intramuros Branch.

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Sundry Debits

This is a temporary account used for unmatched salary loan proceeds which are cleared the next day and discrepancies of online transactions with corresponding System Feedback Form (SFF) for resolution.

Prepaid Expenses

This account consists of prepayment on documentary stamp tax for the high-yield savings account renewal and mobile banking application maintenance.

Miscellaneous assets

The account is composed of various security deposits and advance rentals of building and utilities transferred from the closed branches, prepayment of taxes from CY 2020 to 2023 and creditable withholding taxes from payments of service recipients. Prepayment of taxes has a cumulative balance of P6.26 million and shall be applied in the future payments of income tax requirements of the Bank.

16. Deposit Liabilities

This account is composed of domestic individual savings account with outstanding balance of P3,423,934,429 and P3,253,545,227 in CY 2024 and 2023, respectively, which earn annual fixed interest rates ranging from 0.05 to 5.25 per cent.

17. Accrued Expenses

This account represents:

	2024	2023
Management and other professional fees	39,438,092	32,748,778
Postage, telephone, cables and telegrams	25,565,151	25,052,644
Information technology	12,341,746	8,118,843
Accrued interest expense in financial liabilities	7,619,792	48,055,556
Rent	4,249,326	0
Fringe benefits	3,397,083	1,406,437
Insurance	3,270,048	3,124,550
Other taxes and licenses	2,280,000	2,780,409
Security, clerical, messengerial and janitorial	2,040,955	1,809,025
Stationeries and supplies	1,320,169	2,008,425
Fees and commissions	1,065,414	4,769,440
Advertising and publicity	310,335	311,652
Fuel and lubricants	101,433	198,238
Power, light and water	100,000	360,000
Salaries and wages	40,693	1,717,832
Repairs and maintenance	6,383	1,105,103
Others	1,261,178	5,645,128
	104,407,798	139,212,060

As of December 31, 2024, the remaining accrual on Early Retirement Incentive Plan is P1.16 million included under Fringe benefits. Others include provision for fraud losses in compliance with BSP Memorandum 2017-019, and membership dues to Digital Bank Association of the Philippines.

18. Other Liabilities

This account comprises of:

	2024	2023
Accounts payable – others	68,854,211	65,631,747
Due to the Treasurer of the Philippines	8,987,480	8,987,480
Unclaimed balances	8,388,256	2,696,424
Withholding tax payable	203,132	111,304
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	100,686	80,489
Sundry credits	21,017	248,351
Miscellaneous liabilities	101,499	101,499
	86,656,281	77,857,294

The Accounts Payable – others account is composed of unpaid obligation to LBP, overpayment on loans pending refund, loans payment pending posting, delivered items of supplies and equipment not yet paid, obligations deducted from employees last salary and others.

Due to the Treasurer of the Philippines refers to all credits and deposits including interest thereon, held by the bank in favor of person known to be dead or who have not made further deposits or withdrawals during the preceding 10 years or more, which have been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act (Act No. 3936, as amended). These credits and deposits, including interest thereon, shall remain in this account up to the time the proceeds thereof have been remitted under court order to the Treasurer of the Philippines or other parties.

Unclaimed Balances refers to the other credits held by the Bank in favor or persons known to be dead or unheard from during the preceding 10 years or more which have not been reported to the Treasurer of the Philippines pursuant to the provisions of the Unclaimed Balances Act.

The Sundry Credits account is a temporary account used as partner clearing account on transactions resulting to outflow of funds on the Due Other Banks account which are cleared the next day.

19. 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.

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Four million four hundred thousand (4,400,000) shares were issued and were fully paid by PPC amounting to P440 million. Additional issuance of 1,310,080 common shares of stock for the National Government was made by PPSBI 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 LBP on October 10, 2017 per PPC Board Resolution no. 2017-147 in compliance with EO No. 44, dated September 28, 2017.

In CY 2011, 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 P249.23 million or equivalent to 2,492,348 shares. 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 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 No. 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 P1.0 billion to P3.5 billion divided into 30.0 million common shares with a par value of P100 per share and 5.0 million preferred 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 received the endorsement by the Government Commission on GOCCs on the proposed increase in capital stock which was also filed and approved by the Securities and Exchange Commission through issuance of Certificate of Approval of Increase of Capital Stock from P1.0 billion divided into 10.0 million shares of the par value of P100 each, to P3.5 billion divided into 30.0 million common shares of the par value of P100 each and 5.0 million preferred shares of the par value of P100 each, and Certificate of Filing of Amended Articles of Incorporation dated March 18, 2021.

On May 26, 2022, the Parent Bank infused additional capital amounting to P407.992 million to meet the requirement of the P1.0 billion capitalization of a digital bank.

20. Retained Earnings (Deficit)

As of December 31, 2024, the Bank is reporting a Retained Earnings Deficit of P1,314.38 billion. This deficit indicates the cumulative losses incurred by the then Philippine Postal Savings Bank, Inc. which was carried in the books of OFB to date.

21. Other Comprehensive Income (Loss)

This account consists of Unrealized Gains/Losses on FVOCI Financial Assets representing the gains and losses from mark to market valuation of FVOCI securities which is booked on a daily basis and the Cumulative Foreign Currency Translation representing the foreign exchange differences arising from the revaluation of the foreign currency assets every end of the month using the month-end closing rate published by the Banker's Association of the Philippines.

22. Miscellaneous Income

This account includes reversal of long outstanding accounts payable, loan pre-termination fees and loan penalties on delayed payments with outstanding balances of P3,072,749 and P897,621 in CY 2024 and 2023, respectively.

23. Other Operating Expenses

a. Compensation and fringe benefits

	2024	2023
Salaries and Wages	4,975,002	4,062,094
Fringe Benefits	1,699,171	1,220,667
Government Contribution	420,652	343,804
Other compensation and benefits	3,811,423	3,043,072
	10,906,248	8,669,637

b. Provision for probable losses

	2024	2023
Other Assets	0	2,770,259
	0	2,770,259

c. Depreciation and amortization

	2024	2023
Bank Premises, Furniture, Fixtures and Equipment	2,670,523	4,052,299
Other Intangible Assets	4,975,914	4,896,318
	7,646,437	8,948,617

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24. Miscellaneous Expenses

This account is composed of:

	2024	2023
Management and other professional fees	29,359,811	32,544,893
Documentary stamps used	14,427,803	40,763,794
Information technology	13,348,615	10,163,007
Insurance	6,963,425	6,520,650
Security, clerical, messengerial and janitorial	5,744,940	5,249,635
Postage, telephone, cable and telegram	3,939,150	3,936,804
Fees and commission	2,203,014	4,387,356
Power, light and water	1,696,738	1,293,219
Stationeries and supplies used	1,571,166	1,318,704
Travelling expense	618,718	797,438
Repairs and maintenance	551,209	1,137,247
Representation & entertainment	512,675	561,677
Advertising and publicity	437,987	912,463
Membership fees and dues	244,706	1,237,661
Fuel and lubricants	143,452	406,306
Other expenses	75,530	4,280,702
	81,838,939	115,511,556

Other expenses include litigation expense, notarial fees, fines, penalties and other charges.

25. 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 and documentary stamp tax.

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 20 per cent of interest income subject to final tax.

For CY 2024, there was no income tax requirement computed as follows:

Revenue			178,247,105
Less:	Cost of Services		
	Interest on deposit liabilities	76,542,332	
	Insurance	6,818,025	
	Others	27,776,418	111,136,775
Gross Income			67,110,330
Less:	Operating Expenses		
	Compensation and Fringe Benefits	10,906,248	
	Taxes and Licenses	10,783,831	

Fees and Commissions	2,203,014	
Insurance	145,400	
Management and Other Professional Fees	29,359,811	
Representation and Entertainment	512,675	
Travelling	618,718	
Power, Light and Water	1,696,738	
Postage, Telephone, Cable and Telegram	3,939,150	
Repairs and Maintenance	551,209	
Security, Clerical, Mess. and Janitorial Services	5,744,940	
Fuels and Lubricants	143,452	
Advertising and Publicity	437,987	
Membership Fees and Dues	244,706	
Stationery and Supplies Used	1,571,166	
Litigation Expenses	57,549	
Others	17,981	
Depreciation/Amortization	7,646,437	76,581,012
Net Loss		**(9,470,682)**

Net Loss			(9,470,682)
Add (Less):	Revenue subject to final tax	124,445,178	
	Provision for Probable losses	(3,800,000)	
	Tax arbitrage	(24,889,036)	95,756,142
Net Income per books			**86,285,460**

Summary of taxes paid during the year:

	2024	2023
Documentary stamp taxes	14,427,803	40,763,794
Final income taxes (1602)	28,373,417	11,083,127
Income taxes on compensation (1601C)	421,796	280,726
Percentage taxes (2551M)	9,255,430	9,664,708
VAT & other percentage taxes (1600)	748,323	319,528
Expanded Withholding taxes (1601E)	315,589	337,332
Annual registration	500	500
	53,542,858	**62,449,715**

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 on loan instruments and other transactions subject thereto for the tax period 2024 are as follows:

Documents/Transactions	DST Paid
Certificate of time deposits/Other deposits	14,427,803

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b. Other taxes and licenses

In 2024, Taxes and licenses presented as part of "Other Operating Expense" accounts in the statement of comprehensive income includes the following:

Local taxes	1,766,961
National	
BIR annual registration	500
Percentage taxes (2551)	9,255,430
	11,022,891

c. Withholding Taxes

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

Tax on compensation and benefits	421,796
Expanded (Creditable) withholding taxes	315,589
Final withholding taxes	
Final income taxes	28,373,417
Final withholding VAT	748,323
	29,859,125

26. Related Party Transactions

In the ordinary course of business, the Bank has deposits and other transactions in CY 2024 with its parent bank, LBP, as follows:

	Amount
Due from Other Banks	63,707,036
FVOCI (IMA Account)	238,041,577
Accounts Receivable-Others	99,286,364
Deposit liability	1,750,000,000
Accrued expenses	89,576,469
Accounts payable-others	62,811,947
Paid In Capital Stock-common stock	2,680,000,000
Interest income	63,015
Fees and Commission Expense	2,203,014
Interest expense	94,251,042
	5,079,940,464

Breakdown of Accrued Expenses	
Information technology	12,341,746
Management and other professional fees	39,438,092
Stationeries and Supplies	1,320,169
Fees and Commissions	1,065,414
Security Services	1,810,955
Advertising and Publicity	310,335
Postage, cables, telephone and telegraph	25,562,150
Fuel and Lubricants	101,433

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	Amount
Repairs and Maintenance	6,383
Interest expense	7,619,792
	89,576,469

27. Employee Benefits

Sick Leave Credits

Per existing policy, the cash value of the accumulated sick leave credits of the employees can be monetized excess of 40 days accumulated sick leave credits within the year.

Employees Benefits, Plan Amendment, Curtailment or Settlement

As of December 31, 2024, the Bank outstanding accrual for retired employees pursuant to EO No. 44 series of 2017 is P1.16 million.

28. 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.

29. Basic Quantitative Indicators of Financial Performance

	2024	2023
	(In percentage)	(In percentage)
Return on average equity	6.4	4.0
Return on average assets	1.7	1.1
Net interest margin	3.4	4.1
Risk Based Capital Adequacy Ratio	53.4	52.0

30. 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.

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31. 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 two 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 Parent Bank's Risk Management Group (RMG) under the group-wide structure supports the CGRMC in the identification, measurement, monitoring and control of risks. As an independent unit reporting directly to the Board of LBP, the RMG consults with OFB's business units through the Bank's Central Point of Contact Unit (CPCU) 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.

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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 ensures that all business objectives are align with the risk tolerance set by the Board. Due to the lean manpower of the Bank, its Management Committee functions as the Assets and Liabilities Committee (ALMC). This Committee is responsible for ensuring that market and liquidity risks are adequately addressed on long-term and daily basis.

The Parent Bank's Internal Audit Group (IAG) under the group-wide structure, provides another layer for independent check and balance to further strengthen risk controls and compliance. The IAG 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.

The Bank outsources its Legal Office to its Parent Bank. The unit responsible for this is the Legal Services Group of LBP. It has the primary responsibility of reviewing all Banks' documents for completeness and enforceability under respective legal jurisdiction provided for the Service Level Agreement signed by the Bank.

The Credit Risk Management Department (CRMD) of the RMG reviews the Bank's effective impairment to assure proper loan classification and setting up of valuation reserves.

The Bank estimated a total of P3.8 million additional credit losses as of December 31, 2024 computed using Expected Credit Losses (ECL) Model of parent bank, LBP, with total booked allowance for credit losses of P46.74 million. For the same period, the Bank's Non-Performing Loan (NPL) stood at P27.31 million or 1.6 per cent of the total loan portfolio.

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

The Bank has continuously adopted a formal reporting system for the BOD and Senior Management to be able to monitor the credit quality of individual and loan portfolio using asset quality indicators such as past due ratio, NPL ratio, level of non-performing assets, coverage ratio and concentration risk. Large exposures, breaches in regulatory and internal limits, potential credit risk, Directors, Officers, Stockholder and their Related Interests loans, Related Party Transactions and compliance with Real Estate Stress Test (REST) are intensively monitored by the CGRMC. The recovery of written-off accounts is also within the radar of the OFB Board, CGRMC and Management.

ECL assessment shall be applied to the following exposures:

1. Loans and receivables measured at amortized cost;

2. Investments in debt instruments that are measured at amortized cost;
3. Investments in debt instruments that are measured at FVOCI; and
4. Due from Bangko Sentral ng Pilipinas and Due from Other Banks

Credit exposures follow the staging assessment:

Factor	Stage	Criteria
Age	Stage 1	• Current • One to 30 days past due
	Stage 2	31 to 90 days past due
	Stage 3	• More than 90 days past due (monthly installments) • More than 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 (Doubtful) • 10 (Loss)

The Bank's exposures shall be further classified into the following stages:

Stage	Characteristics	ECL Assessment
1	credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	12 month
2	credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	Lifetime
3	credit exposures with objective evidence of impairment, these are considered as "non-performing"	Lifetime

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. 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):

	2024	2023
Neither past due nor impaired	1,707.65	1,753.40
Past Due but not impaired	6.40	9.74
Impaired	27.31	26.06
	1,741.36	1,789.20
Less: Specific allowance for credit losses	27.22	23.42
	1,714.14	1,765.78

The Bank further classifies its NPL into secured and unsecured (in million Pesos):

	2024	Per cent	2023	Per cent
Secured	0	0	0	0
Unsecured	27.31	100	26.06	100
	27.31	100	26.06	100

Credit Stress Test

The Bank regularly conducts stress testing of individual large exposure and its loan portfolio taking into account plausible risk events with high probability of occurrence. Utilizing such scenarios with documented assumptions, tests are done to determine the magnitude of impact on the loan portfolio, on the Credit Risk Weighted Assets, and finally on the Common Equity Tier 1 (CET1) Ratio. The stress testing also includes prescribed regulatory tests such as uniform stress test and REST. Likewise, various loan portfolio assessment and review are conducted to determine impact of a certain event and government regulation to the Parent's loan portfolio, past due ratio and CET 1. Results of the stress testing, together with the contingency plans, are validated by the CRMD and escalated to 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 has established concrete 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.

Overall credit risk management oversight is a function of the BOD level CGRMC. In general, mitigation measures on credit risks are implemented at various levels.

As of December 31, 2024, the Bank's qualifying capital covering credit risk is P1.37 billion. On the other hand, the SBL is pegged at P341 million for direct lending.

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

	2024	2023
Salary-Based General–Purpose Consumption Loans	1,741.36	1,789.20
	1,741.36	1,789.20
Allowance for Credit Losses	(27.22)	(23.42)
	1,714.14	1,765.78

Market Risk

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.

The Bank is exposed to market risk that 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.

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 uses a combination of stress testing, CET 1 ratio and capital metrics to manage market risks and establish limits. The OFB BOD and CGRMC define and set the various market risk limits for each treasury portfolio. The Electronic Business Unit manages the liquidity and reserve positions, conducts risk-taking activities and seeks approval from President and CEO.

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

As of December 31, 2024, remaining Government Securities classified under Fair Value thru Other Comprehensive Income with average yield to maturity of 3.5 per cent registered an unrealized gain/mark-to-market loss of P1.67 million for a P50 million portfolio.

Market Risk Measurement

Treasury portfolio is measured at mark-to-market to measure market risk in the books under normal conditions.

Liquidity Risk Management

The Bank's liquidity Risk Management (RM) process is consistent with its general RM framework covering risk identification, measurement and analysis, monitoring and control. The Treasurer through the Management Committee is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank. The basic liquidity policy of the Bank is to maintain fund availability at all times and hence, to be in a position to meet all of its obligations, in the normal course of business.

The Bank considers liquidity risk based on market and funding liquidity risk perspectives. Market liquidity risk refers to inability to unwind positions created from market, exchanges and counterparties due to temporary or permanent factors. It is the risk that the Bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or through market disruption.

Market liquidity risk is also associated with the probability that large transactions may have a significant effect on market prices in markets that lack sufficient depth. This liquidity risk perspective is captured through stress testing or scenario analysis.

Funding liquidity risk is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Bank. It occurs from the mismatch of asset, liability, exchange contract and contingent commitment maturities. Funding liquidity risk is being monitored and controlled through the classification of maturities of assets and liabilities over time bands and across functional currencies as reflected in the Liquidity Position Matrix (LPM) and the Intraday Liquidity Reports.

The Bank's Board exercises oversight through CGRMC and has delegated the responsibility of managing overall liquidity to the Treasurer and the Management Committee. They are responsible for the daily implementation and monitoring of relevant variables affecting liquidity position. The Treasurer presents to the Management Committee the assets and liabilities position on a regular basis where the Management Committee recommends measures to promote diversification of its liabilities according to source, instrument and currency to minimize liquidity risks resulting from concentration in funding sources. The Bank performs a comprehensive liquidity risk measurement and control using LPM.

Liquidity Risk Measurement Models

The Bank conducts liquidity gap analysis using the LPM. This risk measurement tool is used in identifying the current liquidity position and the Bank's ability to meet future funding needs. It categorizes balance sheet items according to estimated maturities of assets and liabilities in order to determine any future mismatch such as long-term assets growing faster than long term liabilities.

Financial ratio analysis is another liquidity risk measurement tool that calculates and compares liquidity leverage ratios derived from information on financial statements against set liquidity/ leverage limits.

The following table sets out the liquidity ratios as of December 31, 2024.

Liquid Assets (Cash and Due From BSP/ Local Bank, Government Securities)	P2,996,085,067
Financial Ratios:	
Liquid Assets to Total Assets	60.1%
Liquid Assets to Total Deposits	87.5%

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PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUES

1. **An assessment for impairment was not conducted and the recoverable amount of the OFB Head Office Building was not estimated even though there were indications of potential impairment based on the Structural Investigation and Analysis, which is contrary to Philippine Accounting Standard 36 thus, affecting the faithful representation of the carrying value of the Bank Premises – Buildings amounting to P13.456 million in the financial statements as at December 31, 2024.**

1.1 Paragraph 15 of PAS 1 – Presentation of Financial Statements states:

> Financial statements shall 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 expense set out in the Framework.

1.2 Moreover, Paragraph 9 of PAS 36 – Impairment of Assets, requires:

> An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

1.3 According to Paragraph 8 of PAS 36, "an asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs 12–14 outlines certain indicators that an impairment loss may have occurred. When any of those indicators are present, the entity is required to formally estimate the recoverable amount."

1.4 Specifically, Paragraphs 12-13 of PAS 36 identify both external and internal sources of information that may signal impairment:

> 12. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:
>
> External sources of information
>
> (a) there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
>
> Internal sources of information
>
> (e) evidence is available of obsolescence or physical damage of an asset.
>
> (f) significant changes with an adverse effect on the entity have taken place during the period or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue

or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

13. The list in paragraph 12 is not exhaustive. An entity may identify other indications that an asset may be impaired and these would also require the entity to determine the asset's recoverable amount.

1.5 As at December 31, 2024, the cost of the Bank Premises – Buildings, and its related Accumulated Depreciation, and Carrying Value, are as follows:

Account	Amount
Bank Premises - Buildings	P48,686,618
Accumulated Depreciation – Bank Premises - Buildings	(35,229,920)
Carrying Value	P13,456,698

1.6 In August 2023, a structural investigation was conducted on the OFB Head Office Building. The objectives of the assessment were: a) to thoroughly evaluate the structural integrity of the building and to determine its compliance with the National Structural Code of the Philippines (NSCP) series 2015; b) to evaluate and, if necessary, to improve the building resistance/performance/seismic capacity against strong earthquakes; and; c) to determine the structural layout and provide recommendations for any necessary additional structural design, especially for reference in renovation. The results were documented in the "Final Report for the Structural Investigation and Retrofitting Design of the Existing Four (4) Storey Overseas Filipino Bank (OFB) Head Office Building".

1.7 Based on the report, structural analysis showed that most of the building's components failed the required demand-capacity ratio, which implies that the building is structurally unsafe and unlikely to withstand the expected loads and forces. The report further recommended, among others, to vacate the building until a full retrofitting is completed. During the Regular Meeting of the OFB Board on November 8, 2023, the issues concerning the OFB Head Office Building were discussed as part of the OFB's Business Plan and the possibility of recognizing an impairment loss for the building.

1.8 The Head of the ASU, however, explained that appraising the value of the building did not proceed due to the high cost involved and the building would no longer be used after relocation. Hence, there is no basis for determining the building's recoverable amount or fair value, which is necessary for calculating any impairment loss.

1.9 In 2023, an audit observation was issued on the assessment of impairment and estimation of the recoverable amount of the OFB Office Head Building. On April 18, 2024, Management responded, stating that it had to request from LBP to conduct re-assessment and appraisal of the building to ascertain whether or not impairment should be recognized, given that the number of the occupants of the building has been significantly reduced.

1.10 However, on September 9, 2024, the LBP Property Valuation Services Department submitted an appraisal report covering only the land, excluding the building. As a result, any potential impairment loss was not determined due to the absence of appraisal value of the building which is one of the bases for determining the building's recoverable amount or fair value, for purposes of computing impairment loss.

1.11 Under paragraph 9 of PAS 36, assessment is not optional but required when there are indications of impairment, including estimating the recoverable amount if such indications exist. The unfavorable findings of the Structural Investigation and Analysis of the OFB Head Office Building constitute clear indicators that warrant both an impairment assessment and a formal estimation of recoverable amount.

1.12 Further, the absence of an appraisal does not preclude the need to determine the fair value or recoverable amount of the building. Paragraphs 12-13 of PAS 36 provide specific guidance for estimating recoverable amounts in impairment reviews. In addition, Paragraph 61 of PFRS 13 – Fair Value Measurement states that entities must apply valuation techniques appropriate in the circumstances and supported by sufficient data, prioritizing observable inputs over unobservable inputs when measuring fair value.

1.13 Therefore, the absence to conduct impairment testing and estimation of the recoverable amount of the building even though there are indications of potential impairment based on the unsatisfactory findings from the structural analysis of the OFB Head Office Building indicating that the asset may be impaired, is contrary to PAS 36, affecting the faithful representation of the carrying value of Bank Premises – Buildings amounting to P13.456 million and Impairment Loss/Allowance for Impairment at an undetermined amount, in the financial statements as at December 31, 2024.

1.14 **We recommended and Management agreed to conduct an impairment assessment and estimate the building's recoverable amount to recognize impairment loss to the Bank Premises – Building account in the financial statements.**

1.15 The ASU Head informed that a quotation for the appraisal and assessment of the OFB Head Office Building was verbally requested from LBRDC.

1.16 As a rejoinder, it is further recommended that the procurement of the services of LBRDC be properly conducted in accordance with Republic Act (RA) No.12009, otherwise known as the New Government Procurement Act.

2. **Deficiencies were noted in the audit of deposit liabilities account as follows:**

a) The existence and reliability of 33 dormant government deposit accounts totaling P9.353 million were not established due to returned, not responded and unsent confirmation letters, thereby casting doubt on the fair representation of the balance of deposit liabilities account as at December 31, 2024.

2.1 Paragraph 15 of PAS 1 – Presentation of Financial Statements states:

> Financial statements shall 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 expense set out in the Framework.

2.2 As at December 31, 2024, Deposit Liabilities account amounted to P3.423 billion. Verification of the account revealed that 46 government deposit accounts totaling P12.928

million were dormant for five years as of March 1, 2024. To verify the existence and accuracy of the 46 dormant accounts, the Audit Team requested the assistance of E-Business Unit (EBU) in sending confirmation letters to these 46 depositors. EBU informed however, that it faced challenges in providing the depositors' names of contact persons and current addresses because the deposit system containing the said depositors' information was not updated or incomplete. This deficiency is contrary to BSP Circular No. 1022, series of 2018 dated November 26, 2018, which requires the regular updating of customer's records/information.

2.3 ASU informed that as an alternative to updating the depositors' records, coordination of various LBP branches to which the subject government agencies may maintain deposit accounts, was requested, however, only 37 depositors' information were gathered. The remaining 9 were still under coordination with the respective LBP branches, hence, only 37 confirmation letters were sent to the depositors with current addresses and names of contact persons.

2.4 Results of confirmation showed that of the 37 confirmation letters sent, 13 accounts totaling P3.575 million responded, of which 10 were subsequently closed and transferred to the respective LBP accounts of the depositors, 21 were with no replies received, and 3 were returned. Deposit accounts not responded, returned or not sent confirmations amounted to P9.353 million.

2.5 The non-confirmation, return, and non-receipt of replies for the confirmation letters of the 33 dormant accounts totaling P9.353 million cast doubt on the reliability and accuracy of the balance of deposit liabilities as at December 31, 2024.

b) Required notifications within 60 days prior to the start of the dormancy period were not issued to the 46 government deposit accounts totaling P12.928 million, contrary to Appendix 112 on the Minimum Internal Control Measures, and the Appendix to Subsection X185.3 of the BSP Manual of Regulations for Banks.

2.6 Paragraph 7.b of the Appendix 112 on the Minimum Internal Control Measures, and the Appendix to Subsection X185.3 of the BSP Manual of Regulations for Banks (MORB), which state as follows:

> (1) As a matter of policy, banks shall exert all efforts to prevent deposit accounts from becoming dormant.
>
> (2) When an account is about to become dormant, the depositor shall be notified of its potential dormancy at least sixty (60) days prior to the commencement of the dormancy period.
>
> The notification shall contain the following information:
>
> (a) The effect of dormancy to transfer the account from active to dormant status, and advice on how to reactivate the account; and
>
> (b) Reminder that the dormant account will be included in the list of unclaimed balances to be submitted to the Treasurer of the Philippines (Treasurer) for escheat in accordance with the Unclaimed Balances Act, if said account has no activity for ten (10) years. X x x

2.7 As discussed in paragraph 2.2, deficiency was noted in updating the 46 depositors' current addresses and names of contact persons. Due to the incomplete/outdated addresses and contact persons, the required notifications were not issued within 60 days prior to the start of the dormancy period of the 46 government deposit accounts, contrary to afore-cited provision of MORB.

2.8 An inquiry with the EBU Head revealed that in 2019, the 46 dormant government deposit accounts totaling P12.928 million were migrated from the then PPSBI deposit system to the OFB deposit system. Prior to this system conversion, dormancy notices were issued by PPSBI to the affected depositors. However, no updates to the depositor's information were made by OFB after the conversion.

2.9 The EBU explained that the dormant government accounts are no longer part of the OFB's target market, and ultimately will be removed from its deposit base, hence, updating of the depositors' records was not pursued. It was further mentioned that for purposes of removing the government deposit accounts from the OFB's deposit base, notifications for closing and transfer of the dormant accounts to the respective LBP accounts of the depositors will be sent to these depositors, in coordination with LBP Branches to which the government depositors may maintain deposit accounts. As mentioned in paragraph 2.3, of the 46 dormant accounts, 37 depositors' information were gathered from LBP branches and were sent confirmation/notification letters to transfer the dormant accounts to the LBP branches. The remaining 9 are still under coordination with concerned LBP branches.

2.10 The deficiency in maintaining updated and complete contact information of the depositors prevented the OFB from issuing the required notifications within 60 days prior to the start of the dormancy period of the 46 government deposit accounts, contrary to Paragraph 7.b of the Appendix 112 on the Minimum Internal Control Measures, and the Appendix to Subsection X185.3 of the BSP Manual of Regulations for Banks.

2.11 **We recommended and Management agreed to:**

> **a) Fast-track its coordination with LBP branches in obtaining the names of contract persons and current addresses for the 9 unsent confirmation letters and thereafter, send notification letters to the depositors, for the transfer of the dormant accounts to the respective LBP accounts.**
>
> **b) For the 24 dormant deposit accounts which confirmation letters were returned and no-replies were received, send follow-up notification letters on the transfer of the dormant accounts to the depositors' respective LBP accounts.**
>
> **c) Henceforth, strictly comply with the sending of notification letters within the prescribed period to depositors whose accounts are about to become dormant.**

B. NON-FINANCIAL ISSUES

3. The OFB Head, Authorized Signatories to Disbursement Orders, Treasurer, and Property Custodian were not bonded, contrary to Section 101 of Presidential

Decree No. 1445 and the requirements set forth in Treasury Circular No. 02-2019, thus, exposes the OFB to the risk of not being reimbursed in the event of any losses.

3.1 Section 101 of PD No. 1445 mandates:

> Section 101. Accountable officers; bond requirements.
>
> (1) Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.
>
> (2) Every accountable officer shall be properly bonded in accordance with law.

3.2 Likewise, pertinent provisions of the Treasury Circular No. 02-2019 dated April 25, 2019 state:

> 4.1.1 Every officer, agent, and employee of the Government of the Republic Philippines, its agencies and instrumentalities, GOCCs, and SUCs, regardless of the status of their appointment, whenever the nature of the duties performed by such officer, agent or employee permits or requires the possession, custody or control of public funds or properties for which he/she is accountable, be deemed a bondable officer and shall be bonded or bondable and his/her fidelity insured.
>
> 4.1.5 Public officers designated as authorized signatories, counter or alternate signatories in government bank accounts of his/her Government Agency, issuance of checks or Authority to Debit Account (ADA), approval of disbursement vouchers, and, those in custody of accountable forms.
>
> 4.1.6 Head of any Government Agency who is immediately and primarily responsible for all government funds and property pertaining to his/her Agency.

3.3 Examination of the Disbursement Orders (DO) related to cash advance transactions revealed that the Head of OFB and Head of Financial Management Unit (FMU), the signatories of DO were not bonded. It was further noted that the Treasurer and Property Custodian were also not bonded.

3.4 Management confirmed that the accountable officers namely: OIC-President and CEO, FMU Head, Treasurer, and Property Custodian are not bonded with the Bureau of the Treasury. It further disclosed that the last renewal of the fidelity bonds of the accountable officers was during the period when OFB operated as the Philippine Postal Savings Bank, Inc. After its conversion into a subsidiary of the LBP through Executive Order No. 44 dated September 28, 2017, OFB's business model underwent significant changes. All financial transactions are now conducted electronically, and OFB no longer handles cash or check disbursements or collections directly. In instances where check payments are necessary, OFB secures a Manager's Check through the LBP Intramuros branch. For petty expenses, reimbursements are processed through the OFB's Disbursement Order System.

3.5 The Head of ASU explained that the fidelity bond application has not been completed due to several management transitions. It was further informed that the bonding of accountable officers was already initiated on April 21, 2025 through the Treasury's Online Fidelity Bonding System.

3.6 The absence of fidelity bonds for the accountable officers violates the provisions of Section 101 of PD No. 1445 and the requirements set forth in Treasury Circular No. 02-2019.

3.7 **We recommended and Management agreed to immediately initiate the bonding process for the OFB Head, Authorized Signatories to Disbursement Orders, Treasurer, and Property Custodian in compliance with Section 101 of PD No. 1445 and the requirements in Treasury Circular No. 02-2019.**

4. **The GAD Plan and Budget for CY 2024 was prepared but not submitted within the prescribed deadline, hence, the CY 2024 GPB of OFB was not endorsed by the Philippine Commission for Women, in violation of PCW-NEDA-DBM Joint Circular No. 2012-01 and PCW Memorandum Circular No. 2023-02. Consequently, the GAD activities not reviewed by the PCW may not align with the standards for gender mainstreaming as a strategy for implementing the Magna Carta for Women.**

4.1 The Magna Carta of Women mandates all government offices, including government-owned and controlled corporations and local government units, to implement gender mainstreaming as a strategy to promote women's human rights and eliminate gender discrimination. This strategy must be integrated into their systems, structures, policies, programs, processes, and procedures, particularly in areas such as planning, budgeting, monitoring, and evaluation for gender and development.

4.2 A GAD Plan and Budget (GPB) is a systematically designed set of programs, projects and activities, each with allocated budget, carried out by government agencies departments, including their attached agencies, offices, bureaus, state universities and colleges, government-owned and controlled corporations, local government units and other government instrumentalities within a specific timeframe. Its purpose is to address the gender-related issues and concerns within their respective sectors and communities. This plan systematizes an agency's approach to gender mainstreaming, promote women's empowerment and achieving gender equality.

4.3 PCW-NEDA-DBM Joint Circular (JC) No. 2012-01 provides that GAD planning and budgeting shall be conducted annually as part of all programming and budgeting exercises of agencies. The programs, activities and projects in the GPB shall be included in the agency budget proposal and reflected in the Annual Work and Financial Plan of concerned offices or units within the agency or department.

4.4 PCW Memorandum Circular (MC) No. 2023-02 dated September 11, 2023, had set November 6, 2023, as the deadline for encoding and submission of the FY 2024 GPBs of GOCCs to PCW through the Gender Mainstreaming Monitoring System (GMMS).

4.5 According to the Head of ASU, the GPB for CY 2024 was completed in January 2024. However, due to the late approval of the Corporate Operating Budget, it was not submitted to PCW until April 26, 2024. Verification of the system-generated report of GPB for FY 2024 showed that it lacked the necessary approval from the OIC-President and CEO and the signature of the person who prepared the GPB.

4.6 Further, the GPB template showed that the amount of P21.278 million which is the amount allocated as GAD Budget was erroneously indicated as the OFB's Total Corporate Operating Budget (COB) of P424.23 million. The ASU Head, however, reflected the correct amount of COB in the submitted GAD Accomplishment Report (AR).

4.7 On April 6, 2024, the OFB sent an email request to the PCW asking for permission to submit the OFB FY 2024 GPB beyond the deadline. However, PCW, replied that the request could no longer be accommodated. Despite this, OFB was allowed to encode the GPB in the GMMS, but only for record purposes, and the FY 2024 GPB of OFB would be considered unendorsed.

4.8 PCW also stated in its response that although the FY 2024 GPB is unendorsed, the OFB is still required to submit its FY 2024 GAD AR detailing the GAD-related PAPs that were implemented. As per PCW MC No. 2024-05 dated December 10, 2024, the deadline for submission of the GAD AR by GOCCs through PCW GMMS is February 18, 2025.

4.9 For FY 2024, the ASU reported in its GAD AR that OFB implemented activities and projects including those related to Women's Month, Violence Against Women and Children, in compliance with the PCW directives.

4.10 The late submission of the GPB for FY 2024 resulted in unendorsed FY 2024 GPB by the PCW, in violation of PCW-NEDA-DBM Joint Circular No. 2012-01 and PCW MC No. 2023-02. Thus, GAD activities not reviewed by the PCW may not align with the standards for gender mainstreaming as a strategy for implementing the Magna Carta for Women.

4.11 **We recommended and Management agreed to henceforth, ensure that the GAD Plan and Budget is submitted to the PCW within the prescribed deadline.**

Compliance with Tax Laws

5. Information on taxes and licenses paid or accrued during the taxable year 2024 was disclosed in Note 25 to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P29.860 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

6. In 2024, 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 employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

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CORPORATE SECRETARY

Philhealth and Pag-IBIG Fund Premiums

7. In 2024, the Bank complied with Section 18, Rule III, Title III, of the implementing Rules and Regulations (IRR) of RA No. 7875, as amended, in the payment of national health insurance premium contributions to the Philhealth.

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

Status of Disallowances, Suspensions and Charges

8. The total disallowances as of December 31, 2024 amounted to P26.790 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. (ND. Nos. 13-01 to -05 (2010) dated September 17, 2013 and ND. No. 16-001-000-(12-14) dated February 1, 2016)	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 COA 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 COA Decision No. 2019-021 dated January 18, 2019 approving COA 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
		No collection was received as at year end.
b. Payment of basic pay/salary, RATA and other benefits to Officers who are 65 years of age or above under Officers' Employment Contract exercising direct supervision and control over regular employee's 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. (ND No. 14-003 (12-14) dated December 18, 2014)	13,608,309.47	With Commission Proper Decision No. 2023-512 dated December 7, 2023 lifting the ND. The disallowance amounting to P13,608,309.47 was settled under NSSDC dated April 23, 2025.
c. 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. (ND No. 16-002-000(2015) dated December 20, 2016)	8,150,784.50	With Commission Proper Decision No.2021-295 dated November 5, 2021 affirming the ND. Supplemental ND No. OFB-2022-001-000 (2015) dated was issued. Additional persons determined to be included as solidarily liable to the full amount of the Disallowance.
d. Payment of Representation Allowance for the period January 2016 to February 2017. (ND. No. 17-001-000-(16-17) dated December 19, 2017)	1,260,000.00	Notice of Finality of Decision dated March 4, 2024 of CGS Cluster 1 Decision No. 2018-16 dated September 18, 2018 was issued denying the appeal of Mr. Cesar N. Sarino.
Total	**26,789,681.80**	

8.1 There are no balances of suspensions and charges as of December 31, 2024.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the six audit recommendations embodied in the CY 2023 AAR, two were implemented, and four were not implemented and are reiterated in Part II of this report.

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