

EXECUTIVE SUMMARY

INTRODUCTION

Overseas Filipino Bank, Inc., A Savings Bank of LANDBANK, formerly known as Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of the Land Bank of the Philippines (LBP). On September 26, 2017, President Rodrigo Duterte issued Executive Order No. 44, which mandates the Philippine Postal Corporation and the Bureau of Treasury to transfer their PPSBI shares to Landbank at zero value. The EO further stated that Postbank 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 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”.

As stated in its Vision, OFBI is a Digital Bank servicing Overseas Filipinos and their Beneficiaries through state-of-the-art Electronic Banking Channels such as Mobile Phone, ATM and Internet which are more convenient, faster (real-time), cheaper and secure, eliminating the need for over-the-counter services.

As of December 31, 2018, the Bank had 248 employees and operated 25 branches and six Micro Banking Offices (MBOs). Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts of OFBI for the period January 1 to December 31, 2018 in accordance with the International Standards of Supreme Audit Institutions (ISSAI) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2018 and 2017. 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	2018	2017 As Restated	Increase/ (Decrease)
Resources	9,017,235,136	9,134,645,708	(117,410,572)
Liabilities	8,794,240,658	8,303,121,772	491,118,886
Equity	222,994,478	831,523,936	(608,529,458)

II. Comparative Results of Operations

Particulars	2018	2017 As Restated	Increase/ (Decrease)
Income	468,627,740	528,992,973	(60,365,233)
Personal services	371,350,023	205,492,179	165,857,844
Maintenance and other operating expenses	732,021,486	306,602,217	425,419,269
Financial expenses	105,784,501	127,478,623	(21,694,122)
Total expenses	1,209,156,010	639,573,019	569,582,991
Net income	(740,528,270)	(110,580,046)	(629,948,224)
Other comprehensive income(loss)	(47,758,305)	(18,025,621)	(29,732,684)
Total comprehensive income	(788,286,575)	(128,605,667)	(659,680,908)

III. Comparative Budget and Actual Expenditures

	2018		2017	
	Approved Budget	Expenditures	Approved Budget	Expenditures
Personal services	350,340,897	371,350,023	228,736,098	205,492,179
Maintenance & other operating expenses	353,550,234	732,021,486	321,009,694	306,602,217
Financial expenses	94,580,087	105,784,501	110,956,903	127,478,623
Capital outlay	2,105,757	1,544,231	91,412,808	1,486,894
Total	800,576,975	1,210,700,241	752,115,503	641,059,913

AUDITOR'S OPINION

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements because the disclosure requirements of Philippine Financial Reporting Standards (PFRS) 7 and Philippine Accounting Standards (PAS) 8 due to adoption of PFRS 9 were not sufficiently provided in the Notes to Financial Statements, contrary to BSP Circular No. 1011 series of 2018 and Management's representation that the financial statements have been prepared in accordance with the PFRS/PAS.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above audit observation which caused the issuance of a qualified opinion, we recommended that Management comply with all the requirements of BSP Circular No. 1011, series of 2018, and the disclosure requirements of PFRS 7 and PAS 8 on full adoption of PFRS 9 – Financial Instruments.

The following are the other significant audit observations and recommendations:

1. Unadjusted/unresponded items in the Due to/from Head Office/Branches account amounting to P36.322 million, of which P16.654 million were over 30 days, were not verified by Accounting Department contrary to OFBI's Accounting and Budget System Manual and exposes the Bank to possible undetected errors, irregularities or anomalies.

We recommended that Management perform timely reconciliation and verification of float items as provided in Section 6 of the OFBI's Accounting and Budget Systems Manual in order to faithfully represent balances of affected accounts in the financial statements as at December 31, 2018.

2. Past due loans of P2.246 billion as of December 31, 2018 or 57.35 per cent of the total Loans and receivable account remained uncollected, thereby reducing the amount of resources for the lending and investment operations that could have generated additional income for the Bank.

We reiterated our recommendations that Management pursue other legal remedies to collect outstanding loans from borrowers.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Total disallowances amounted to P30.807 million as at December 31, 2018. There were no outstanding audit suspensions and charges as at year end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 31 audit recommendations embodied in the prior years' Annual Audit Reports, 20 were fully implemented, seven were partially implemented and four were not implemented, of which four were reiterated in Part II of this Report. Details are presented in Part III of this report.