EXECUTIVE SUMMARY

INTRODUCTION

Overseas Filipino Bank, Inc. (OFB or the Bank), 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 or the Parent Bank or LANDBANK). On September 26, 2017, President Rodrigo Duterte issued Executive Order (EO) 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 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 (MB) 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. 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, 2023, the Bank has eight organic employees, eight seconded employees from the Parent Bank, and six contractual employees. 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 OFB for the period January 1 to December 31, 2023 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2023 and 2022. 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	2023	2022 As restated	Increase
Assets	4,748,674,492	4,487,527,793	261,146,701
Liabilities	3,470,614,581	3,262,078,440	208,536,143
Equity	1,278,059,911	1,225,449,353	52,610,558

II. Comparative Results of Operations

Particulars	2023	2022 As restated	Increase/ (Decrease)
Income	288,341,400	194,119,859	94,221,541
Personal services	8,669,637	7,189,973	1,479,664
Maintenance and other operating expenses	149,890,130	193,783,928	(43,893,798)
Financial expenses	79,443,449	26,778,866	52,664,583
Total expenses	238,003,216	227,752,767	10,250,449
Net income (loss)	50,338,184	(33,632,908)	83,971,092
Other comprehensive income(loss)	2,272,374	(2,489,404)	4,761,778
Total comprehensive income	52,610,558	(36,122,312)	88,732,870

III. Comparative Budget and Actual Expenditures

	2023		2022	
	Approved Budget	Expenditures	Approved Budget	Expenditures
Personal services	31,770,000	8,669,637	7,880,000	7,189,973
Maintenance & other operating expenses	223,300,000	149,890,130	144,360,000	174,009,677
Financial expenses	146,330,000	79,443,449	26,780,000	26,778,866
Capital outlay	28,000,000	8,731,836	26,500,000	6,158,106
Total	429,400,000	246,735,052	205,520,000	214,136,622

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, 2023 and 2022.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The assessment of impairment and estimation of the recoverable amount of the OFB Head Office building with carrying value of P16.077 million was not conducted, despite observable indications that the asset's value has declined during the period, hence the building was not presented at its estimated recoverable amount contrary to paragraphs 9 and 12 of the Philippine Accounting Standard 36. This affected the faithful representation of the balance of Property and Equipment account amounting to P148.834 million as at December 31, 2023.

We recommended and Management agreed to:

a. Conduct assessment for impairment and estimation of the recoverable amount of the building to account for any resulting impairment loss; and

b. Prepare the necessary adjustments and present the asset at its estimated recoverable amount as at reporting date.

2. Pertinent information on the forty-six dormant government accounts amounting to P12.928 million were not kept up-to-date contrary to BSP Circular No. 1022 series of 2018, preventing the Bank from sending the required notices prior to dormancy of accounts.

We recommended and Management agreed to:

a. Update the Bank depositor's information pursuant to BSP Circular No. 1022 series of 2018 dated November 26, 2018, to facilitate the issuance of notices; and

b. Coordinate with the respective Government Agencies or the respective LBP branches for the closure of their dormant deposit account with OFB and the possible transfer to LBP.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Total disallowances amounted to P26.790 million as at December 31, 2023. There were no outstanding audit suspensions and charges as at year end.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 11 audit recommendations embodied in the CY 2022 Annual Audit Report, five were implemented, and six were not implemented of which two are reiterated in Part II of this report and four were closed.

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PART I

AUDITED FINANCIAL STATEMENTS

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
Corporate Government Audit Sector
Cluster 1 – Banking and Credit

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Overseas Filipino Bank, Inc.
Liwasang Bonifacio, Manila

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2023 and 2022, 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, 2023 and 2022, 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 charges with governance are responsible for overseeing the OFB's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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 Bangko Sentral ng Pilipinas (BSP) Circular No. 1075 in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue, and complying with 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 23, 2024

Overseas Filipino Bank
A Digital Bank of LANDBANK

BAGONG PILIPINAS

May 23, 2024

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, 2023 and 2022, 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

ATTY. REO S. ANDARINO
Officer-In-Charge
Office of the President and Chief Executive Officer

PATRIA P. MADRIO
Head, Financial Management Unit

OVERSEAS FILIPINO BANK, INC.
(A DIGITAL BANK OF LANDBANK)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2021
(In Philippine Peso)

	NOTE	2023	2022 As restated
ASSETS			
Cash and Cash Equivalents	6	1,105,214,513	880,630,272
Fair value thru other comprehensive income	10	152,087,888	46,240,669
Held to Maturity Financial Assets, net	11	1,413,563,681	1,412,715,648
Loans and Receivables, net	12	1,746,260,949	1,834,813,361
Property and Equipment, net	13	148,834,288	152,169,448
Other Intangible Assets, net	14	21,643,876	19,615,816
Other Assets, net	15	161,069,297	141,342,579
TOTAL ASSETS		**4,748,674,492**	**4,487,527,793**
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities	16	3,253,545,227	3,056,725,993
Accrued Expenses	17	139,212,060	133,546,363
Other liabilities	18	77,857,294	71,806,084
Total Liabilities		**3,470,614,581**	**3,262,078,440**
Equity			
Capital Stock	19	2,680,000,000	2,680,000,000
Retained Earnings (Deficit)	20	(1,400,670,077)	(1,451,008,261)
Other Comprehensive Loss		(1,270,012)	(3,542,386)
Total Equity		**1,278,059,911**	**1,225,449,353**
TOTAL LIABILITIES AND EQUITY		**4,748,674,492**	**4,487,527,793**

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

OVERSEAS FILIPINO BANK, INC.
(A DIGITAL BANK OF LANDBANK)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Philippine Peso)

	NOTE	2023	2022 As restated
INTEREST INCOME			
Loans & discounts		145,882,022	100,958,201
Investments		71,766,585	22,379,966
Loans and receivables arising from RA/CA/PR/SLB		8,181,311	3,483,243
Due from Bangko Sentral ng Pilipinas		28,748,343	36,593,259
Deposits with banks		29,272	17,821
		254,607,533	163,432,490
INTEREST EXPENSE			
Deposit liabilities		79,443,449	26,778,866
NET INTEREST INCOME		175,164,084	136,653,624
Provision for credit losses	12	11,371,427	29,180,295
NET INTEREST INCOME AFTER PROVISION FOR LOSSES		163,792,657	107,473,329
OTHER OPERATING INCOME			
Fees and commission		32,836,250	29,239,284
Foreign exchange gains from revaluation		(4)	(323)
Miscellaneous income	22	897,621	1,448,408
		33,733,867	30,687,369
OTHER OPERATING EXPENSES			
Compensation and fringe benefits	23a	8,669,637	7,189,973
Provision for probable losses	23b	2,770,259	38,105,328
Depreciation and amortization	23c	8,948,617	9,616,349
Rent	3.9	700,000	1,893,341
Taxes and licenses	25b	10,588,271	9,646,116
Miscellaneous expenses	24	115,511,556	105,342,499
		147,188,340	171,793,606
NET INCOME (LOSS) FOR THE PERIOD		50,338,184	(33,632,908)
INCOME TAX EXPENSE	25	0	0
NET INCOME (LOSS) AFTER TAX		**50,338,184**	**(33,632,908)**
OTHER COMPREHENSIVE GAIN (LOSS)		2,272,374	(2,489,404)
TOTAL COMPREHENSIVE INCOME (LOSS)		**52,610,558**	**(36,122,312)**

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

OVERSEAS FILIPINO BANK, INC.
(A DIGITAL BANK OF LANDBANK)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(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, 2022	**2,272,008,000**	**(1,052,982)**	**(1,417,372,752)**	**853,582,266**
Prior period adjustment			(2,601)	(2,601)
Balance as of January 1. 2022, as restated	**2,272,008,000**	**(1,052,982)**	**(1,417,375,353)**	**853,579,665**
Additional capital infusion	407,992,000			407,992,000
Unrealized gain on available for sale financial assets		(2,489,404)		(2,489,404)
Net loss for CY 2022, as restated			(33,632,908)	(33,632,908)
Balance as of December 31, 2022, as restated	**2,680,000,000**	**(3,542,386)**	**(1,451,008,261)**	**1,225,449,353**
Unrealized loss on available for sale financial assets		2,272,374		2,272,374
Net Income December 31, 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**

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

OVERSEAS FILIPINO BANK, INC.
(A DIGITAL BANK OF LANDBANK)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(In Philippine Peso)

	Note	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		254,993,649	154,053,650
Interest paid		(55,415,671)	(7,775,494)
Fees and Commissions		19,095,332	22,229,179
Miscellaneous Income	22	897,621	1,448,408
General and Administrative Expenses		(156,354,545)	(95,426,157)
Operating loss before changes in operating assets and liabilities		63,216,386	74,529,586
Changes in operating assets and liabilities			
(Increase) / Decrease in operating assets			
Loans and Receivables		77,444,518	(1,863,961,568)
Other Resources		(13,881,506)	(36,082,946)
Increase / (Decrease) in operating liabilities:			
Deposit Liabilities		196,819,234	130,001,844
Other Liabilities		6,125,628	16,985,400
Net Cash Provided by/ (Used) in Operating Activities		329,724,260	(1,678,527,684)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment(net)	13	(717,138)	(693,949)
Investments in Bonds		(848,033)	(1,412,715,648)
Placement in investment management account		(103,554,015)	0
Net Cash Provided by/ (Used) in Investing activities		(105,119,186)	(1,413,409,597)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Common Shares		0	407,992,000
Net Cash Provided by in Financing Activities		0	407,992,000
EFFECTS OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS		(20,833)	264,205
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		224,584,241	(2,683,681,076)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		880,630,272	3,564,311,348
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6	1,105,214,513	880,630,272

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

OVERSEAS FILIPINO BANK, INC.
(A Digital Bank of LANDBANK)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(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 (MB) 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."

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

As of December 31, 2023, the Bank had nine organic employees and eight seconded employees from the Parent Bank.

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 23, 2024.

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, 2023.

a. PAS 1 (Amendments), Presentation of Financial Statements – Disclosure of Accounting Policies. The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy.

b. PAS 8 (Amendments), Accounting Estimates – Definition of Accounting Estimates. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

c. PAS 12 (Amendments), Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction. The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

d. PFRS 17 Insurance Contracts – requires liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. PFRS 17 supersedes PFRS 4 Insurance Contracts as of January 1, 2023.

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

Standards Issued but not yet Effective

Below consists of 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 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 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 PFRS 16 - Lease Liability in a Sale and leaseback requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. Effective date on annual periods beginning on or after January 1, 2024.

c. 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.

d. Amendments to PAS 7 and PFRS 7- Supplier finance. These amendments require disclosures to enhance the transparency for supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis. Effective on annual periods beginning on or after January 1, 2024 (with transitional reliefs in the first year).

e. 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.

3.3 Foreign currency translation

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

3.4 Fair Value Measurement

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

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

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

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

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.

In 2023 and 2022, rent expenses were included in the statement of comprehensive income, amounting to P0.7 million and P1.89 million, respectively.

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

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 P11.63 million additional credit losses as of December 31, 2023 computed using Expected Credit Losses Model of the Parent Bank. Net carrying value of loans from customers stood at P1,746.26 million, net of allowance for credit losses amounting to P42.94 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	2023	2022
Due from Bangko Sentral ng Pilipinas	7	946,625,933	760,024,312
Due from Other Banks	8	71,717,394	31,662,362
Loans and Receivables arising from RA/CA/PR/SLB	9	86,871,186	88,943,598
		1,105,214,513	880,630,272

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 Bangko Sentral ng Pilipinas:

	2023	2022
Term deposit account	750,000,000	397,000,000
Demand deposit account	196,625,933	244,024,312
Overnight deposit account	0	119,000,000
	946,625,933	760,024,312

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:

	2023	2022
Land Bank of the Philippines	71,717,394	31,662,362

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 Bangko Sentral ng Pilipinas amounting to P86,871,186 and P88,943,598 in 2023 and 2022, respectively.

10. Fair Value thru Other Comprehensive Income

This account is composed of:

	2023	2022
Investment in Treasury Bills/Fixed Treasury Notes purchased from Security Bank Corp.	47,540,142	46,240,669

	2023	2022
Investment Management Account with Land Bank of the Philippines (52401-26777-13-01)	104,547,746	0
Investment in QUEDANCOR Bonds	30,000,000	30,000,000
Allowance for credit losses	(30,000,000)	(30,000,000)
	152,087,888	46,240,669

The Investment in Treasury Bills/Fixed Treasury Notes has a Face Value of P50.0 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 consist 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 P30.0 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

	2023	2022
BTR-Retail Treasury Bonds (05-16)	1,300,000,000	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	1,422,030,000	1,422,030,000
Less: Unamortized Discount/Premium	8,466,319	9,314,352
	1,413,563,681	1,412,715,648

12. Loans and Receivables, net

This account consists of:

	2023	2022
Loans to Individuals for Other Purposes	1,789,202,617	1,866,120,069
Allowance for Losses	(42,941,668)	(31,306,708)
	1,746,260,949	1,834,813,361

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:

	2023	2022
Balance, January 01	11,785,712	2,097,613
Provisions	11,371,427	9,688,099
Transfers and other adjustments	263,533	0
Balance, December 31	23,420,672	11,785,712

The movement of the general loan loss provisions are:

	2023	2022
Balance, January 01	19,520,997	28,800
Provisions	0	19,492,196
Balance, December 31	19,520,997	19,520,996

As to Status:

	2023	2022
Current Loans	1,763,142,972	1,854,869,013
Non-Performing Loans	26,059,646	11,251,056
	1,789,202,618	1,866,120,069

As to Security:

	2023	2022
Secured Loans	0	0
Unsecured Loans	1,789,202,618	1,866,120,069
	1,789,202,618	1,866,120,069

13. Property and Equipment, net

This account consists of:

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Total
Cost						
January 01, 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 01, 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

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Total
Cost						
January 1, 2022	131,008,000	48,199,841	7,892,359	6,152,198	97,487,591	290,739,989
Additions	0	0	0	0	693,939	693,939
Reclassifications	0	0	0	2,000	(752,276)	(750,276)
Disposal	0	0	(130,500)	(1,855,400)	(6,445,576)	(8,431,476)
December 31, 2022, as restated	131,008,000	48,199,841	7,761,859	4,298,798	90,983,678	282,252,176
Accumulated Depreciation/Allowance for Impairment						
January 1, 2022	0	23,931,429	7,325,776	5,901,640	95,713,447	132,872,292
Provisions	0	2,583,717	149,609	0	370,953	3,104,279
Reclassification	0	2,408,571	14,065	2,000	(188,691)	2,235,945
Disposal	0	0	(130,499)	(1,769,397)	(6,229,892)	(8,129,788)
December 31, 2022, as restated	0	28,923,717	7,358,951	4,134,243	89,665,817	130,082,728
Carrying amount December 31, 2022, as restated	131,008,000	19,276,124	402,908	164,555	1,317,861	152,169,448

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

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:

	2023	2022
Other intangible assets	32,277,665	25,353,287
Accumulated amortization	(10,633,789)	(5,737,471)
	21,643,876	19,615,816

15. Other Assets, net

This account is composed of the following:

	2023	2022 As restated
Accounts receivables	333,689,657	257,207,028
Accrued interest income from financial assets	9,948,588	10,299,444
Deferred Charges	4,161,991	16,647,965
Stationery and supplies on hand	870,042	870,041
Documentary stamps on checks	694,118	1,015,794
Prepaid expenses	302,671	556,683
Other investments	153,333	153,333
Sundry debits	150,510	44,274,138
Miscellaneous assets	13,032,677	10,196,924
	363,003,587	341,221,350
Other Assets - Allowance for Losses	(201,934,290)	(199,878,771)
	161,069,297	141,342,579

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.

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.

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.

Miscellaneous assets

The account consists of various security deposits and advance rentals of building and utilities transferred from the closed branches. This account also includes the amount of

P5.91 million resulting from the payments of quarterly income tax of prior years which was reversed at the end of the year. The prepayments of P2.57 million came from CY 2019 and P3.34 million from CY 2023. Said amount shall be applied in the future payments of income tax in the succeeding taxable year, while the amount utilized for the payment of MCIT for 2022, which was treated also as miscellaneous asset-prepaid tax, will expire and will be chargeable to expense on the third year.

16. Deposit Liabilities

This account is composed of the following:

	2023	2022
Domestic:		
Savings deposits	3,253,545,227	3,056,725,993
	3,253,545,227	3,056,725,993

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.05 to 5 per cent in 2023 and 2022.

17. Accrued Expenses

This account represents:

	2023	2022 As restated
Accrued interest expense in financial liabilities	48,055,556	24,027,778
Management and other professional fees	32,748,778	63,606,820
Postage, telephone, cables and telegrams	25,052,644	2,582,622
Information technology	8,118,843	24,704,332
Fees and commissions	4,769,440	2,149,508
Insurance	3,124,550	3,004,092
Other taxes and licenses	2,780,409	3,923,597
Stationeries and supplies	2,008,425	830,732
Security, clerical, messengerial and janitorial	1,809,025	890,045
Salaries and wages	1,717,832	646,961
Fringe benefits	1,406,437	2,049,400
Repairs and maintenance	1,105,103	0
Power, light and water	360,000	731,788
Advertising and publicity	311,652	1,343,545
Fuel and lubricants	198,238	151,978
Rent	0	1,354,955
Travelling	0	1,223,200
Others	5,645,128	325,010
	139,212,060	133,546,363

As of December 31, 2023, the remaining accrual on Early Retirement Incentive Plan is P1.16 million included under Fringe benefits. Others includes provision for fraud losses in compliance with BSP Memorandum 2017-019, membership dues to Digital Bank Association of the Philippines and accrual for litigation of two legal cases.

18. Other Liabilities

This account comprises of:

	2023	2022 As restated
Accounts payable – others	65,631,747	28,205,165
Due to the Treasurer of the Philippines	8,987,480	3,083,920
Unclaimed balances	2,696,424	5,907,843
Sundry credits	248,351	34,241,445
Withholding tax payable	111,304	165,462
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	80,489	100,750
Miscellaneous liabilities	101,499	101,499
	77,857,294	71,806,084

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.

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.

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.

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

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

On September 28, 2017, the President of the Philippines, through 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 billion capitalization of a digital bank.

20. Retained Earnings (Deficit)

In consonance with PAS 8, the balance of this account as of December 31, 2022 was restated for prior period adjustments. The adjustments principally relate to reclassification of various accounts, recognition of expenses and the reversal of income.

Details of the restatement of Retained earnings/(Deficit) of the Bank as December 31, 2022 are as follows:

Particulars	Debit	Credit	Balance
Retained Earnings/(Deficit), as of January 1, 2022			(1,417,372,752)
Prior period adjustments	9,601	7,000	(2,601)
Retained Earnings/(Deficit), as of January 1, 2022, as restated			(1,417,375,353)
Net Loss for CY 2022 before restatement			(13,858,656)
Adjustments:			
Unutilized tax prepayments (MCIT)	954,331	0	
Accrual on outsourced services	547,059	0	
Depreciation/amortizations	2,505,300	0	
Manpower outsourced services	11,176,705	0	
Power, Light and Water	131,940	0	
Information Technology	4,463,042	0	
Reversal of accrual on Supplies		4,125	
	19,778,377	4,125	(19,774,252)
Net loss for CY 2022, as restated			(33,632,908)
Retained earnings/(Deficit) as of December 31, 2022, as restated			(1,451,008,261)

The effects of these restatements in the financial statements as of and for the year ended December 31, 2022 are summarized below:

December 31, 2022	As Previously Reported	Effects of Restatement	As Restated
Changes in the Statement of Financial Position			
Assets			
Bank Premises, Furniture, Fixtures & Equipment,	154,674,748	(2,505,300)	152,169,448
Other Assets	141,352,180	(9,601)	141,342,579
		(2,514,901)	
Liabilities			
Accrued Expenses	116,277,411	17,268,952	133,546,363
Other Liabilities	71,813,084	(7,000)	71,806,084
		17,261,952	
Equity			
Retained earnings (Deficit)	(1,431,231,410)	(19,776,853)	(1,451,008,261)
Changes in the Statement of Comprehensive Income			
Depreciation and Amortization	7,111,049	2,505,300	9,616,349
Taxes and Licenses	8,691,785	954,331	9,646,116
Miscellaneous Expenses	89,027,878	16,314,621	105,342,499
Net		19,774,252	

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 the following:

	2023	2022 As restated
Other Income	897,621	1,448,408

23. Other Operating Expenses

a. Compensation and fringe benefits

	2023	2022
Salaries and Wages	4,062,094	3,676,422
Fringe Benefits	1,220,667	1,421,370
Government Contribution	343,804	253,531
Other compensation and benefits	3,043,072	1,838,650
	8,669,637	7,189,973

b. Provision for probable losses

	2023	2022
Other Assets	2,770,259	38,105,328
	2,770,259	38,105,328

c. Depreciation and amortization

	2023	2022 As restated
Bank Premises, Furniture, Fixtures and Equipment	4,052,299	5,764,495
Other Intangible Assets	4,896,318	3,851,854
	8,948,617	9,616,349

24. Miscellaneous Expenses

This account is composed of:

	2023	2022 As restated
Documentary stamps used	40,763,794	15,946,926
Management and other professional fees	32,544,893	52,516,713
Information technology	10,163,007	11,848,900
Insurance	6,520,650	6,581,771
Security, clerical, messengerial and janitorial	5,249,635	4,913,773
Fees and commission	4,387,356	3,342,911
Postage, telephone, cable and telegram	3,936,804	2,914,474
Stationeries and supplies used	1,318,704	1,561,668
Power, light and water	1,293,219	2,007,423
Membership fees and dues	1,237,661	244,234
Repairs and maintenance	1,137,247	132,931
Advertising and publicity	912,463	1,406,585
Travelling expense	797,438	732,112
Representation & entertainment	561,677	454,835
Fuel and lubricants	406,306	324,686
Impairment loss	0	147,083
Other expenses	4,280,702	265,474
	115,511,556	105,342,499

Other expenses include litigation expense P4.26 million, and notarial fees of P20,719.00.

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 2023, there was no income tax requirement computed as follows:

Revenue			179,615,893
Less:	Cost of Services		
	Interest on deposit liabilities	57,698,347	
	Insurance	6,409,243	
	Others	25,204,104	89,311,694
Gross Income			90,304,199
Less:	Operating Expenses		
	Compensation and Fringe Benefits	8,669,637	

Taxes and Licenses	10,588,271	
Fees and Commissions	4,387,356	
Rent	700,000	
Insurance	111,406	
Management and Other Professional Fees	32,544,893	
Representation and Entertainment	561,677	
Travelling	797,438	
Power, Light and Water	1,293,219	
Postage, Telephone, Cable and Telegram	3,936,804	
Repairs and Maintenance	1,137,247	
Security, Clerical, Mess. and Janitorial Services	5,249,635	
Fuels and Lubricants	406,306	
Advertising and Publicity	912,464	
Membership Fees and Dues	1,237,661	
Documentary Stamps Used	25,722,697	
Stationery and Supplies Used	1,318,704	
Litigation Expenses	4,259,983	
Others	20,719	
Depreciation/Amortization	8,948,617	
Provisions for losses	14,141,686	
Foreign Exchange Loss	4	126,946,424
Net Loss		**(36,642,225)**

Net Loss			(36,642,225)
Add (Less):	Revenue subject to final tax	108,725,511	0
	Tax arbitrage	(21,745,102)	86,980,409
Net Income per books			**50,338,184**

Summary of taxes paid during the year:

	2023	2022
Documentary stamp taxes	40,763,794	15,946,926
Final income taxes (1602)	11,083,127	1,553,410
Income taxes on compensation (1601C)	280,726	387,880
Percentage taxes (2551M)	9,664,708	6,538,116
VAT & other percentage taxes (1600)	319,528	347,247
Expanded Withholding taxes (1601E)	337,332	349,467
Annual registration	500	500
	62,449,715	**25,123,546**

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 2023 are as follows:

Documents/Transactions	DST Paid
Issuance of shares of stock	25,722,697
Certificate of time deposits/Other deposits	15,041,097
	40,763,794

b. Other taxes and licenses

In 2023, Taxes and licenses presented as part of "Other Operating Expense" accounts in the statement of comprehensive income includes the following:

Local taxes	1,491,656
National	
BIR annual registration	500
Percentage taxes (2551)	9,096,115
	10,588,271

c. Withholding Taxes

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

Tax on compensation and benefits	280,726
Expanded (Creditable) withholding taxes	337,332
Final withholding taxes	
Final income taxes	11,083,127
Final withholding VAT	319,528
	12,020,713

26. Related Party Transactions

In the ordinary course of business, the Bank has deposits and other transactions in 2023 with its parent bank, LBP, as follows:

	Amount
Due from Other Banks	71,717,394
FVOCI (IMA Account)	104,547,746
Accounts Receivable-Others	133,505,908
Deposit liability	2,000,000,000
Accrued expenses	123,766,203
Accounts payable-others	57,253,919
Paid In Capital Stock-common stock	2,680,000,000
Interest income	29,272
Fees and Commission Expense	4,387,356

	Amount
Deferred Charges	4,161,991
Interest expense	78,888,889
	5,258,258,678

Breakdown of Accrued Expenses	
Information technology	8,096,343
Management and other professional fees	32,748,778
Stationeries and Supplies	2,008,425
Fees and Commissions	4,769,440
Security Services	1,484,025
Advertising and Publicity	311,652
Postage, cables, telephone and telegraph	24,988,644
Fuel and Lubricants	198,238
Repairs and Maintenance	1,105,103
Interest expense	48,055,555
	123,766,203

27. Employee Benefits

Sick Leave Credits

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

Employees Benefits, Plan Amendment, Curtailment or Settlement

As of December 31, 2023, 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

	2023	2022
	(In percentage)	(In percentage)
Return on average equity	4.0	-3.2
Return on average assets	1.1	-0.8
Net interest margin	4.1	3.5
Risk Based Capital Adequacy Ratio	52.0	52.2

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.

31. Reclassification of Accounts

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

32. 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.

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 P11.37 million additional credit losses as of December 31, 2023 computed using Expected Credit Losses (ECL) Model of parent bank, LBP, with total booked allowance for credit losses of P42.94 million. For the same period, the Bank's Non-Performing Loan (NPL) stood at P26.06 million or 1.45 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)

Factor	Stage	Criteria
	Stage 3	• 9 (Doutbful) • 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):

	2023	2022
Neither past due nor impaired	1,753.40	1,848.59
Past Due but not impaired	9.74	6.28
Impaired	26.06	11.25
	1,789.20	1,866.12
Less: Specific allowance for credit losses	23.42	11.79
	1,765.78	1,854.33

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

	2023	Per cent	2022	Per cent
Secured	0	0	0	0
Unsecured	26.06	100	11.25	100
	26.06	100	11.25	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, 2023, the Bank's qualifying capital covering credit risk is P1.28 billion. On the other hand, the SBL is pegged at P319 million for direct lending.

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

	2023	**2022**
Salary-Based General–Purpose Consumption Loans	1,789.20	1,866.12
	1,789.20	1,866.12
Allowance for Credit Losses	(23.42)	(11.79)
	1,765.78	1,854.33

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, 2023, 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 P2.46 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, 2023.

Liquid Assets (Cash and Due From BSP/ Local Bank, Government Securities)	P2,666,318,336
Financial Ratios:	
Liquid Assets to Total Assets	56.0%
Liquid Assets to Total Deposits	82.0%

PART II

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUES

1. The assessment of impairment and estimation of the recoverable amount of the OFB Head Office building with carrying value of P16.077 million was not conducted, despite observable indications that the asset's value has declined during the period, hence the building was not presented at its estimated recoverable amount contrary to paragraphs 9 and 12 of the Philippine Accounting Standard 36. This affected the faithful representation of the balance of Property and Equipment account amounting to P148.834 million as at December 31, 2023.

1.1 Paragraphs 2.12 and 2.13 of the Conceptual Framework for Financial Reporting state that:

> *2.12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. X x x.*
>
> *2.13 To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximize those qualities to the extent possible.*

1.2 Paragraphs 9 and 12 of the Philippine Accounting Standard (PAS) 36, Impairment of Assets, state that :

> *9. 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.*
>
> *X x x*
>
> *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.*
>
> *X x x*

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.*

X x x

1.3 As at December 31, 2023, the Property and Equipment account with a carrying value of P148.834 million consist of the following:

Classification	Acquisition Cost	Accumulated Depreciation and Allowance for Losses	Carrying Value
Land	131,008,000.00	-	131,008,000.00
Building	48,686,618.67	(32,609,784.35)	16,076,834.32
Furniture and Fixtures	2,539.811.75	(2,393,670.75)	146,141.00
Computer and Peripherals	91,789,655.95	(90,556,312.98)	1,233,342.97
Other Office Equipment	5,222,045.69	(5,016,629.28)	205,416.41
Motor Vehicles	3,976,722.25	(3,812,168.23)	164,554.02
TOTAL	**283,222,854.31**	**(134,388,565.59)**	**148,834,288.72**

1.4 In August 2023, a structural investigation of the Overseas Filipino Bank (OFB) Head Office Building, recognized under the above Building account, was performed with the following objectives: a) to assess and perform thorough structural evaluation of the existing office building and check if the structure is compliant with the National Structural Code of the Philippines (NSCP) series 2015; b) to evaluate and improve, if necessary, the resistance/performance/seismic capacity of the building against strong earthquakes; and c) to determine the building's structural system layouts and recommend the necessary additional structural design for the said structure, if applicable, for reference and renovation purposes.

1.5 The Final Report of the Structural Investigation and Retrofitting Design of the Existing Four (4) Storey OFB Head Office Building stated that most members of the structure failed the requirement of demand capacity ratio, which can be inferred that the structure is not safe and cannot withstand the expected loads and forces that the building will be subjected to. The report recommended, among others, that the structure should be vacated until it is fully retrofitted. Notably, Item 8 of the recommendations stated that retrofitting, although possible, is costly; hence, further recommended looking for a possible replacement of the structure because, based on its material strength evaluation, it failed to meet the minimum concrete strength. It is anticipated that the concrete strength will continue to degrade due to the age of the building and the type of usage of the end user.

1.6 Verification of the account disclosed that despite indications from the Structural Investigation and Analysis of the OFB Building suggesting potential impairment, there has been no assessment for impairment and estimation of the recoverable amount of the building as at December 31, 2023.

1.7 Management explained that the structural analysis only showed that most of the structure failed the demand capacity ratio requirement which refers to the use of the building by a huge number of occupants at the time of evaluation. At present, the building is only occupied by the Bank, and several tenants vacated the building, hence, Management believes that the provision for impairment on the said building may not be necessary.

1.8 The Audit Team, however, emphasized that the conduct of assessment at the end of the reporting period for purposes of determining any indication of impairment and the estimation of the recoverable value if there is such indication is required under PAS 36. The result of the Structural Investigation and Analysis of the OFB Head Office Building warrants an assessment and formal estimation of its recoverable amount.

1.9 Due to the absence of assessment of any impairment on the building, despite the presence of observable indications that the asset's value has declined during the period, the asset was not presented at its estimated recoverable amount as at reporting date contrary to PAS 36.

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

a. **Conduct assessment for impairment and estimation of the recoverable amount of the building to account for any resulting impairment loss; and**

b. **Prepare the necessary adjustments and present the asset at its estimated recoverable amount as at reporting date.**

1.11 The Bank committed to request the LBP for the reassessment and appraisal of the building, and the results and recommendations thereof shall be the basis for the booking of impairment in CY 2024.

B. NON- FINANCIAL ISSUES

2. Pertinent information on the forty-six dormant government accounts amounting to P12.928 million were not kept up-to-date contrary to BSP Circular No. 1022 series of 2018, preventing the Bank from sending the required notices prior to dormancy of accounts.

2.1 BSP Circular No. 1022 series of 2018 dated November 26, 2018 provides:

Section 9. Subsections X806.3/4806e.3 shall be amended to read, as follows:

"Subsection X806.3/4806e.3 On-going monitoring of customers, accounts and transactions.

a. Covered persons shall, on the basis of materiality and risk, ensure that pertinent identification information and documents collected under the CDD process are kept up-to-date and relevant, by undertaking reviews of existing records, particularly for higher risk categories of customers. The covered person shall document the actions taken in connection with updating of customer's records/information, and accordingly update customer's risk profile.

X x x."

2.2 Paragraph 7.b of the Appendix 112, Examples of Minimum Internal Control Measures, and Appendix to Subsection X185.3 of the BSP Manual of Regulations for Banks provides internal control procedures/measures for dormant accounts, to wit:

(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

2.3 To ascertain the existence and accuracy of the Deposit Liabilities account, the Audit Team requested assistance on the preparation and sending out of confirmation letters for government deposit accounts. It was noted that the E-Business Unit (EBU) was having difficulty in the preparation of the confirmation letters because the Bank has no available updated information on the current addresses and contact persons of the 46 government accounts, which were found to have been dormant for a number of years.

2.4 Inquiry with the Head, Bank's E-Business Unit (EBU), revealed that the dormant government deposit accounts were transferred from the old deposit system to the new deposit system in 2019. Notices of dormancy were sent to depositors with dormant accounts prior to the conversion. However, no updates were made to the depositor's records or information after 2019.

2.5 The Head of EBU explained that notices of dormancy were sent only to accounts opened via Digital On-Boarding System with Artificial Intelligence (DOBSAI) in Mobile Banking Application (MBA) in 2023, as the accounts converted to the new system had already been sent notices. Further, these dormant government accounts are not included as target market of the Bank. Once the government agencies update their bank account information, their account with OFB will be closed, and transferred/reopened with LBP.

2.6 The absence of updated information on the accounts of the 46 government accounts is not consistent with BSP Circular No. 1022 series of 2018, and prevented the Bank from sending notices within sixty days prior to the commencement of the dormancy period, as stipulated in Paragraph 7.b of the Appendix 112 on the Minimum Internal Control Measures, and Appendix to Subsection X185.3 of the BSP Manual of Regulations for Banks.

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

a. Update the Bank depositor's information pursuant to BSP Circular No. 1022 series of 2018 dated November 26, 2018, to facilitate the issuance of notices; and

b. Coordinate with the respective Government Agencies or the respective Land Bank of the Philippines (LBP) branches for the closure of their dormant deposit account with OFB and the possible transfer to LBP.

GENDER AND DEVELOPMENT

3. OFB has not updated its user account in the Gender Mainstreaming and Monitoring System (GMMS), hence, its GAD Plan and Budget (GPB) for FY 2023 was not submitted through PCW's online system for managing GPBs, contrary to PCW Memorandum Circular (MC) No. 2022-03 dated August 31, 2022

3.1 PCW MC 2022-03 dated August 31, 2022, on the Preparation and Online Submission of Fiscal Year (FY) 2023 GPB provides:

> *2.1. Except for the pilot agencies enumerated under Section 3 of this Circular, the submission, review and endorsement of* ***GPBs shall be coursed through the GMMS Version 2*** *(https://gmms.pcw.gov.ph), PCW's online system for managing GPBs and GAD ARs, as well as for generating GAD-related reports*
>
> *2.2 For the online submission of FY 2023 GPB,* ***agencies shall register and/or update their user account/s in the GMMS*** *using the GMMS Registration Forms and following the instructions provided in the PCW website Xxx.*
>
> *2.3 Agencies shall assign (a) member/s of their GFPS who is/are familiar with the GAD planning and budgeting process to serve as their GMMS focal person/s (FP). The GMMS focal person/s will be responsible for: (1) maintaining the agency GAD profile in the GMMS*

and (2) encoding and submitting the GPB of the agency through the GMMS."
(emphasis ours)

3.2 On October 22, 2022, the Bank has submitted to PCW via e-mail its GAD Agenda covering years 2022-2027, approved by the then President and CEO. Yearly GPBs are to be prepared based on the GAD Agenda.

3.3 The Administrative Services Unit (ASU) Head informed that the GPB for FY 2023 was prepared by the previous Administrative Head, who was assigned to OFB as a seconded officer and was transferred back to LBP on February 16, 2023.

3.4 A copy of the FY 2023 GPB was provided to the Audit Team on December 13, 2023. However, Management was not able to provide proof of their submission to PCW through the GMMS. The GPB submitted was also not signed by the OFB President and CEO.

3.5 The ASU Head added that they are yet to recover the Bank's existing GMMS from the previous ASU Head. Also, the Bank was not able to update its user account in the GMMS to replace the GMMS focal person who already returned to LBP. Hence, there is no person responsible for maintaining the agency GAD profile in the GMMS and encoding and submitting the GPB.

3.6 The non-submission of the FY 2023 GPB through the GMMS is contrary to PCW MC No. 2022-03 dated August 31, 2022, on the Preparation and Online Submission of FY 2023 GPB. As a result, OFB was not able to obtain the PCW-endorsed GPB for FY 2023 for dissemination to concerned units.

3.7 **We recommended and Management agreed to update the user accounts of OFB in the PCW Gender Mainstreaming and Monitoring System and comply with the required online submission of GAD Plan and Budgets and GAD Accomplishment Reports.**

4. The GAD Focal Point System (GFPS) created by OFB is inactive due to the limited manpower of the Bank, hence , GAD-related activities to implement the GAD Agenda and the GPB were not conducted in CY 2023.

4.1 Item 2.1 of PCW Memorandum Circular No. 2011-01 Guidelines for the Creation, Strengthening, and Institutionalization of the GAD Focal Point System provides:

> *"2.1 X x x; Section 37-C of the Implementing Rules and Regulations (IRR) of the MCW provides that **all concerned government agencies and instrumentalities x x x shall establish or strengthen their GFPS or a similar GAD mechanism** to catalyze and accelerate gender mainstreaming within the agency."*

4.2 In 2020, the Bank has constituted its GFPS per OFB Board Resolution No. 2020-55 and OFB Executive Order (EO) No. 22 dated September 3, 2020, and OFB EO No. 22 s. 2020 dated August 29, 2020, in accordance with the PCW. It is composed of the President and CEO as the Chairperson, Management Committee as the Executive

Committee, the Administrative Services Unit as the Technical Working Group and the Technical /Executive Assistant as the Secretariat.

4.3 The GFPS was, however, not able to lead the implementation of the GAD-related activities for the year. Management explained that given the Bank's very lean number of personnel totaling to only 22 (10 organic employees, six LBP seconded, two contractual and four utility personnel), it was not able to conduct GAD activities.

4.4 The absence of a functioning GFPS to spearhead the preparation of the GPB and the conduct of GAD-related activities in response to gender issues in the context of the Bank's mandate, is not consistent with the requirements on gender mainstreaming as a strategy for implementing the Magna Carta for Women.

4.5 **We recommended and management agreed to strengthen the GFPS or a similar GAD mechanism to execute the OFB's GAD Agenda and lead in the implementation of PCW regulations, particularly on the preparation and submission of GAD Plan and Budget, utilization of GAD funds through the conduct of yearly identified GAD-related activities, and reporting of accomplishments.**

Compliance with Tax Laws

5. Information on taxes and licenses paid or accrued during the taxable year 2023 was disclosed in Note 25 to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P12.021 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 2023, the Bank complied with Republic Act (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.

Philhealth and Pag-IBIG Premiums

7. In 2023, the Bank complied with Section 18, Rule III, Title III, of the implementing Rules and Regulations of RA No. 7875, as amended, in the payment of national health insurance premium contributions to the Philhealth.

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

Status of Disallowances, Suspensions and Charges

8. The total disallowances as of December 31, 2023 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. A Notice of Finality of Decision No. 2019-190 dated May 21, 2019 was issued approving the 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. No collection was received as at year end.
b. Payment of basic pay/salary, RATA and other benefits to paid to Officers who are 65 years of age or above under Officers' Employment Contract	13,608,309.47	With CGS Cluster 1 Decision No. 2015-11 October 30, 2015 for automatic review by the Commission Proper.

Particulars	Amount	Status
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)**		
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 ND. A supplemental ND No. OFB-2022-001-000 (2015) dated was issued. Additional persons determined to be included as solitarily liable to the full amount of the Disallowance.
d. Payment of Representation Allowance for the period covered January 2016 to February 2017. **(ND. No. 17-001-000-(16-17) dated December 19, 2017)**	1,260,000.00	Notice of Finality dated March 4, 2024 of the 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**	

There are no balances of suspensions and charges as at December 31, 2023.

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 11 audit recommendations embodied in the CY 2022 Annual Audit Report, five were implemented, and six were not implemented of which two are reiterated in Part II of this report and four were closed.