OVERSEAS FILIPINO BANK, INC.
(A Savings Bank of LANDBANK)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(All amounts in Philippine Peso unless otherwise stated)

1. Corporate Information

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

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

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

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

On January 5, 2018, the PPSBI registered with the Securities and Exchange Commission the Amended Articles of Incorporation bearing the new corporate name.

The Bangko Sentral ng Pilipinas through its Circular Letter no. CL-2018-007 dated 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.

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

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

As of December 31, 2020, the Bank had seven organic employees and seven seconded employees from the Parent Bank.

The accompanying comparative financial statements were authorized for issue by the Board of Directors per Secretary's Certificate issued on June 25, 2021.

2. Statement of Compliance and Basis of Financial Statements Preparation

2.1 Statement of Compliance

The Bank's financial statements have been prepared in accordance with the applicable accounting principles generally accepted in the Philippines and as set forth in the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRSs/PASs).

2.2 Basis of Financial Statements Preparation

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

Fair Value through Other Comprehensive Income (FVOCI), Fair Value through Profit or Loss (FVTPL), and Non-Current Asset Held for Sale (NCAHS) are measured at fair value while Loans and Receivables are measured at amortized cost.

The accompanying financial statements 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, FDCU 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.

Summary of Significant Accounting Policies

2.3 Adoption of New and Amended PAS/PFRS

The Bank adopted for the first time the following new PFRS, amendments to PAS or PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2020.

a. Amendments to PAS 1, 'Presentation of financial statements', and PAS 8, Accounting policies, changes in accounting estimates and errors' – Definition of material

   The amendments clarify that obscuring information could reasonably expected to influence decisions of primary users of general purpose financial statements, which in effect is similar to omission or misstatement of those information. The reporting entity assesses materiality in the context of financial statements as a whole. The "primary users" also define as "existing and potential investors, lender and other creditors", all of whom rely on general purpose financial statements in deriving at decisions.

   The adoption of foregoing amendments had no significant impact on the financial statements.

b. Amendments to PFRS 9, PAS 39 and PFRS 7 – Interest Rate Benchmark Reform

   The amendments provide for relief on hedging relationships on interest rate-based contracts that are directly affected by the interest rate benchmark reform. The reliefs have the effect that the reform should not generally cause hedge accounting to terminate. Further, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

   The Bank assumed that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are bases will not be materially impacted as a result of interest rate benchmark reform.

c. Amendments to the Conceptual framework

   The revised Conceptual Framework introduces the following new/main improvements:

   - definitions of an asset and a liability; criteria for including assets and liabilities in financial statements
   - revised recognition criteria refer explicitly to the qualitative characteristics of useful information
   - consideration of the factors and the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities, income and expenses

- guidance on when assets and liabilities are removed from financial statements
- coherent set of concepts, not to increase or decrease the range of assets and liabilities recognized
- describes what information measurement bases provide and explains the factors to consider when selecting a measurement basis.
- concepts on presentation and disclosure, including when to classify income and expenses in other comprehensive income

The adoption of foregoing amendments had no significant impact on the financial statements.

Standards Issued but not yet Effective

Below consists of standards and interpretations 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 and interpretations to have significant impact on its financial statements.

a. Amendments to PAS 1, 'Presentation of financial statements', on classification of liabilities beginning on or after January 1, 2022 deferred to January 1, 2023.

   The amendments clarify the following to specify the requirements for classifying liabilities as current or non-current:

   - What is meant by a right to defer settlement;
   - That a right to defer must exist at the end of the reporting period;
   - That classification is unaffected by the likelihood that an entity will exercise its deferral right;
   - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

b. Amendments to PAS 16, Plant and Equipment - Proceeds before Intended Use, effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

   The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

c. Amendments to PAS 37, Onerous Contract - Costs of Fulfilling a Contract, effective for annual reporting periods beginning on or after January 1, 2022.

   The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

2.4 Foreign currency translation

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

2.5 Fair Value Measurement

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

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

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

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

2.6 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) investments, and (3) financial assets at amortized cost.

The Bank classifies its financial assets under the following categories:

a. Financial assets at Fair Value through Other Comprehensive Income

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

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

b. Financial assets at Fair Value through Profit or Loss

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

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

c. Financial assets at amortized cost

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

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

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

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

Determination of fair value

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

2.7 Impairment of Financial Assets

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

Financial assets at FVOCI

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

Financial assets at amortized cost

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

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

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

Investment Property, Property and Equipment and Other Assets

Where an indicator of impairment exists, the Bank makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of its fair market value less cost to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. The impairment loss on non-revalued asset is recognized in the profit or loss and an allowance account is set up to reduce the carrying amount of the asset.

2.8 Investment Property

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

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

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

2.9 Property and Equipment

Property and equipment including leasehold improvements are stated at cost less accumulated depreciation and amortization and any impairment in value. Depreciation is computed based on a straight-line method net of 10 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.

2.10 Non-Current Assets Held for Sale

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

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

2.11 Sales Contract Receivable (SCR)

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

2.12 Intangible Assets

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

Direct costs include software licenses, software development, employee costs and the related overheads.

2.13 Leases

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

The Bank leases the premises occupied by its provincial branches. The terms of these contracts are renewable at the mutual agreement of both lessee and lessor. Various lease contracts contain escalation clauses. In 2020 and 2019, rent expenses were included in the statement of comprehensive income, amounting to P3.67 million and P16.82 million, respectively.

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

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

Within one year	1,573,264
After one year but not more than five years	263,648
	1,836,912

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

2.14 Recognition of Income and Accounting for Expenses

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

3. Significant Accounting Judgments and Estimates

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

3.1 Operating lease commitments

The Bank 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. Also, the Bank applies the short term and low value assets lease recognition exemptions to its lease of branch premises with remaining lease term which are non-cancellable when they ceased operations. The Bank has no lease liabilities and Right of Use Assets recognized.

3.2 Impairment losses of loans and receivables

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

The Bank estimated a total of P0.25 million additional credit losses as of December 31, 2020 computed using Expected Credit Losses Model of Parent Bank. Net carrying value of loans from customers stood at P2.357 million, net of allowance for credit losses amounting to P0.97 million.

3.3 Impairment of FVOCI investments

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

3.4 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.

4. Fair Value Hierarchy

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

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

5. Cash and Cash Equivalents

This is broken as follows:

	Note	2020	2019
Cash and other cash items		0	265,041
Due from Bangko Sentral ng Pilipinas	6	2,475,820,036	1,834,723,024
Due from other banks	7	32,364,961	60,518,088
Loans and receivables arising from RA/CA/PR/SLB	8	835,828,167	247,549,214
		3,344,013,164	2,143,055,367

6. 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:

	2020	2019
Term deposit account	0	1,500,000,000
Demand deposit account	78,820,036	162,723,024
Overnight deposit account	2,397,000,000	172,000,000
	2,475,820,036	1,834,723,024

7. Due from Other Banks

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

	2020	2019
Land Bank of the Philippines	32,364,961	60,518,088

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

This pertains to loans arising from repurchase agreement with Bangko Sentral ng Pilipinas amounting to P835.828 million and P247.549 million in 2020 and 2019, respectively.

9. Fair Value thru Other Comprehensive Income

This account is composed of:

	2020	2019 As restated
Investment in Treasury Bills/Fixed Treasury Notes purchased from Security Bank Corp.	51,506,986	48,087,121
Investment in QUEDANCOR Bonds	30,000,000	30,000,000
Allowance for credit losses	(30,000,000)	(30,000,000)
	51,506,986	48,087,121

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 (UDSCL) 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 with restatement in 2019. This investment was made for the Bank's Agri-Agra compliance which is now under negotiation for the replacement of QUENDANCOR Restructured Notes.

10. Loans and Receivables - net

This account consists of:

	2020	2019 As restated
Loans to Private Corporation	0	1,564,712,484
Small & Medium Enterprises	0	530,657,960
Consumption loans	0	287,403,673
Contract to Sell	0	402,861,900
Agrarian Reform & other Agricultural Loan	0	345,004,230
Loans to Government	0	173,715,986
Loans to Individuals for Housing Purposes	0	44,343,072
Loans to Individuals for Other Purposes	3,327,244	38,078,608
Microfinance Loans	0	8,931,734
	3,327,244	3,395,709,647
Allowance for Losses	(970,134)	(977,957,672)
Net of Allowance	2,357,110	2,417,751,975

In January 10, 2020, the Bank transferred the loans and related accrued interest receivable to the Parent Bank amounting to P3.376 billion and P37.671 million respectively. The remaining loans represent salary loans.

Allowance for Losses

The details of specific allowances on loans are:

	2020	2019 As restated
Balance, January 01	969,334,673	637,847,724
Provisions	250,192	324,725,668
Write-Offs	0	(5,012,863)
Transfers and other adjustments	(968,846,182)	11,774,144
Balance, December 31	738,683	969,334,673

The movement of the general loan loss provisions are:

	2020	2019
Balance, January 01	8,622,999	29,328,497
Transfers and other adjustments	(8,391,548)	(20,705,498)
Balance, December 31	231,451	8,622,999

As to Status:

	2020	2019
Current Loans	3,291,339	1,040,170,953
Non-Performing Loans	35,905	2,355,538,694
	3,327,244	3,395,709,647

As to Security:

	2020	2019
Secured Loans	0	2,482,160,676
Unsecured Loans	3,327,244	913,548,971
	3,327,244	3,395,709,647

As to Type of Security:

	2020	2019
Real Estate Mortgage	0	1,407,647,322
Other Collaterals	0	1,074,513,354
	0	2,482,160,676

11. Sales Contract Receivable

This account represents the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price. In CY 2020, the SCR was transferred and paid by the Parent Bank amounting to P18.160 million

12. Property and Equipment - net

This account consists of:

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Lease, Right And Improvements	Totals
Cost							
January 1, 2020	131,008,000	44,116,201	28,660,623	9,285,497	128,467,895	0	341,538,216
Additions	0	0	0	0	145,960	0	145,960
Disposals	0	0	(15,822,487)	(2,999,440)	(5,579,481)	0	(24,401,408)
Reclassifications	0	0	(190,643)	0	0	0	(190,643)
31-Dec-20	131,008,000	44,116,201	12,647,493	6,286,057	123,034,374	0	317,092,125
Accumulated Depreciation							
January 1, 2020	0	18,763,994	26,912,606	8,687,512	120,906,512	0	175,270,624
Provisions	0	2,583,718	482,985	0	1,835,069	0	4,901,772
Disposals	0	0	(16,090,736)	(2,589,438)	(4,683,423)	0	(23,363,597)
Reclassifications	0	0	0	0	0	0	0
31-Dec-20	0	21,347,712	11,304,855	6,098,074	118,058,158	0	156,808,799
Carrying amount 31-Dec-20	131,008,000	22,768,490	1,342,638	187,983	4,976,215	0	160,283,326

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Leasehold Rights and Improvements	Totals
Cost							
January 1, 2019, As restated	131,008,000	41,501,900	52,617,855	13,822,648	135,430,150	26,245,745	400,626,298
Additions	-	2,614,301	775,488	-	211,601	-	3,601,390
Disposals	-	-	(24,732,720)	(4,537,151)	(1,909,503)	(26,245,745)	(57,425,119)
Reclassifications	-	-	-	-	(5,264,353)	-	(5,264,353)
31-Dec-2019.	131,008,000	44,116,201	28,660,623	9,285,497	128,467,895	-	341,538,216
Accumulated Depreciation							
January 1, 2019	-	16,572,421	47,732,812	12,836,560	125,293,503	21,936,015	224,371,311
Provisions	-	2,191,573	1,234,798	83,413	3,378,263	743,698	7,631,745
Disposals	-	-	(22,055,004)	(4,232,461)	(7,765,254)	(22,679,713)	(56,732,432)
Reclassifications	-	-	-	-	-	-	-
31-Dec-2019	-	18,763,994	26,912,606	8,687,512	120,906,512	-	175,270,624
Carrying amount 31-Dec-2019 As restated	131,008,000	25,352,207	1,748,017	597,985	7,561,383	-	166,267,592

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

13. Non-Current Assets Held for Sale

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

	2020	2019
Cost	0	389,313,657
Accumulated depreciation	0	0
	0	389,313,657
Allowance for losses	0	(34,849,940)
Net of allowance	0	354,463,717

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

The Non-Current Assets Held for Sale amounting to P354.463 million were transferred to the Parent Bank on January 10, 2020.

14. Other Intangible Assets - net

This account is composed of the following:

	2020	2019
Other intangible assets	89,121,798	87,321,798
Accumulated amortization	(72,566,118)	(70,266,264)
	16,555,680	17,055,534
Allowance for losses	(10,000,000)	(10,000,000)
	6,555,680	7,055,534

15. Other Assets - net

This account is composed of the following:

	2020	2019 As restated
Accounts receivables	197,964,704	199,156,080
Accrued interest income from financial assets	829,984	37,878,383
Miscellaneous assets	10,838,880	8,632,627
Documentary stamps on checks	912,644	429,593
Stationery and supplies on hand	1,965,127	2,024,870
Prepaid expenses	267,910	1,115,556
Deferred tax asset	0	2,549,904
Returned checks and other cash items	0	21,597
Other investments	153,333	153,333
Sundry debits	6,367,839	305,473
Inter-office float items	0	2,946,379
	219,300,421	255,213,795
Other Assets - Allowance for Losses	(113,214,060)	(83,954,522)
	106,086,361	171,259, 273

Accounts receivable

The Accounts receivable account includes the amount of P4.105 million and P8.635 million misappropriated by the former Cashiers of Sorsogon and Tacloban Branches for which cases were already filed in court.

In addition, outstanding accounts receivable from Naga branch amounts to P179.37 million as of December 2019 as restitution for losses expropriated by a former employee. On the last quarter of 2018, the Bank requested for staggered booking of the estimated P237.9 million provision for losses arising from Naga branch fraud.

On March 2019, the BSP approved the staggered booking of allowance at P11.895 million quarterly starting March 31, 2019 for five years ending in December 2023.

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 P2.568 million resulting from the payments of quarterly income tax of prior years which was recorded under Deferred Tax Assets account in CY 2019. However, the year-end operations resulted in a loss. Said amounts shall be applied in the future payments of income tax.

16. Deposit Liabilities

This account is composed of the following:

	2020	2019
Domestic:		
Savings deposits	2,555,944,367	3,944,711,618
Time certificate of deposits	2,012	17,732,502
Foreign:		
Savings deposits	630,691	816,540
Time certificate of deposits	97,197	255,627
	2,556,674,267	3,963,516,287

Domestic deposit liabilities earns annual fixed interest rates ranging from 0.05 to 1.5 per cent and 0.25 to 4.25 per cent in 2020 and 2019, respectively. Foreign deposits range from 0.05 to 0.75 per cent and 0.15 to 0.5 per cent in 2020 and 2019, respectively.

17. Accrued Expenses

This account represents**:**

	2020	2019 As restated
Management and other professional fees	94,728,305	63,526,110
Information technology	61,335,130	0
Accrued interest expense in financial liabilities	5,588,928	14,801,626
Other taxes and licenses	3,476,791	1,829,364
Security, clerical, messengerial and janitorial	2,265,291	12,610,621
Fringe benefits	1,374,269	137,253,930
Rent	553,609	527,533
Power, light and water	476,717	728,273
Repairs and maintenance	426,815	30,989
Postage, telephone, cables and telegrams	176,118	670,621
Salaries and wages	121,599	311,053
Fuel and lubricants	35,239	82,961
Others	3,547,569	25,308,752
	174,106,380	257,681,833

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

The accrual as of December 31, 2019 includes the P137.16 million employee benefits representing the Early Retirement Incentive Plan (ERIP) per E.O. 44, dated 28 September 2017. As of December 31, 2020, the remaining accrual on ERIP is P1.24 million.

18. Other Liabilities

This account comprises of:

	2020	2019 As restated
Accounts payable – others	41,982,794	16,991,780
Sundry credits	7,054,066	871,229
Unclaimed balances	3,368,861	3,368,861
Due to the Treasurer of the Phil.	851,205	851,205
Withholding tax payable	107,022	250,490
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	72,968	416,077
Unearned income and other deferred credits	0	68,898,924
Miscellaneous liabilities	101,499	298,591
	53,538,415	91,947,157

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

Unearned income relates to loans and receivable accounts that was approved by the Board for reversal in 2020.

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 Philippine Postal Corporation (PPC) amounting to P440 million Additional issuance of 1,310,080 common shares of stock for the National Government was made by Philippine Postal Savings Bank, Inc. (PPBSI) corresponding to the latest appraised value of parcel of land where Head Office is situated per Board Resolution No. 2014-142 dated June 10, 2014. These shares were then approved for transfer to Land Bank of the Philippines

(LBP) on October 10, 2017 per PPC Board Resolution no. 2017-147 in compliance with Executive Order no. 44, dated September 28, 2017.

The Board of Directors of the Bank, through Board Resolution No. 2011-274, approved the issuance to the Republic of the Philippines of common shares of stock with par value equal to the cash balance of the Project Dagdag Regular Income Via Entrepreneurship (DRIVE) Fund, a microfinance program for the transport sector, amounting to P249.24 million or equivalent to 2,492,348 shares last 2011. The National Government consented to the treatment of the Fund as capital in the books of PPSBI per memorandum from the Executive Secretary of the Office of the President of the Philippines dated December 16, 2011.

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

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

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

EO No. 44 series of 2017 provides that "In order to strengthen the capital base of OFB and enable the same to attain its primary agenda of servicing the various financial and banking needs of overseas Filipinos, the LBP is hereby directed to infuse the necessary capital to OFB".

Relatedly, at the respective meetings of the stockholders and Board of Directors held on May 18, 2018, approved the increase in the authorized capital stock from P1.0 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 P 1.0 billion divided into 10.0 million shares of the par value of P100.00 each, to P3.5 billion divided into 30.0 million common shares of the par value of P100.00 each and 5.0 million preferred shares of the par value of P100.00 each, and Certificate of Filing of Amended Articles of Incorporation dated March 18, 2021.

20. Retained Earnings Deficit

In consonance with PAS 8, the balance of this account as of December 31, 2019 was restated for prior period adjustments. The adjustments principally relate to reclassification of various accounts, recognition of expenses and the reversal of income.

Details of the restatement of Retained earnings of the Bank as December 31, 2019 are as follows:

Particulars	Debit	Credit	Balance
Retained earnings, as of January 1, 2019 before restatement			(726,806,000)
Adjustments :			
Reversal of various expenses		72,904,942	72,904,942
Retained earnings as of January 1, 2019, as restated			(653,901,058)
Net loss for CY 2019 before restatement			(609,274,581)
Adjustments:			
Compensation and Fringe Benefits		436,170	
Rent		317,933	
Security services		377,809	
Management & Other Professional Fees		205,755	
Power, Light and Water		103,166	
Postage, Tel., Cables and Telegrams		468,068	
Information Technology		926,704	
Repairs and Maintenance	391,443	190,348	
Depreciation -BPFFE	9,724		
Fees and Commissions (PCHC)		7,224	
	401,167	3,033,177	2,632,010
Net loss for FY 2019, as restated			(606,642,571)
Retained earnings as of December 31, 2019, as restated			(1,260,543,629)

The effects of these restatements in the financial statements as of and for the year ended December 31, 2019 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
Changes in the Statement of Financial Position			
Assets			
Loans and Receivables - net	2,417,557,121	194,854	2,417,751,975
Property and Equipment - net	165,953,189	314,403	166,267,592
		509,257	
Liabilities			
Accrued Expenses	333,425,097	(75,743,264)	257,681,833
Other Liabilities	91,231,587	715,569	91,947,156
		(75,027,695)	
Equity			
Retained earnings deficit	(1,336,080,581)	75,536,952	(1,260,543,629)
		509,257	

	As Previously Reported	Effects of Restatement	As Restated
Changes in the Statement of Comprehensive Income			
Compensation and fringe benefits	91,418,310	(436,170)	90,982,140
Depreciation and Amortization	31,190,945	9,724	31,200,669
Rent	17,137,411	(317,933)	16,819,478
Miscellaneous expense	248,741,275	(1,887,631)	246,853, 644
		(2,632,010)	
Net		(2,632,010)	

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:

	2020	2019
Rental income	51,717	427,135
Penalties on past due loans/amortizations	0	28,584,019
Recovery on charged-off assets	0	923,152
Gain from sale/derecognition of non-financial assets	0	11,097,514
Other income	246,258	3,564,772
	297,975	44,596,592

23. Other Operating Expenses

a. Compensation and fringe benefits

	2020	2019 As restated
Salaries and Wages	6,732,185	59,081,675
Fringe Benefits	715,232	24,492,777
Government Contribution	388,205	3,870,992
Other compensation and benefits	1,530,218	3,536,696
	9,365,840	90,982,140

b. Provision for probable losses

	2020	2019
Loans to Individuals for Consumption Purposes	250,192	28,511,213
Loans to Private Corporation	0	197,296,741
Small and Medium Enterprise Loans	0	76,899,999
Agrarian Reform and Other Agricultural Loans	0	22,017,715
Other Assets	50,063,658	35,685,000
	50,313,850	360,410,668

c. Depreciation and amortization

	2020	2019 As restated
Bank Premises, Furniture, Fixtures and Equipment	4,901,772	7,631,745
Investment Property	0	20,033,510
Other Intangible Assets	2,299,854	3,535,414
	7,201,626	31,200,669

24. Miscellaneous Expenses

This account is composed of:

	2020	2019 As restated
Information technology	52,472,162	26,870,773
Management and other professional fees	44,423,625	50,315,676
Documentary stamps used	23,539,031	38,130,238
Security, clerical, messengerial and janitorial	7,882,443	27,048,432
Insurance	5,523,067	14,231,145
Fees and commission	5,430,337	1,730,601
Power, light and water	2,460,609	9,295,473
Stationeries and supplies used	2,080,790	6,211,303
Impairment loss	1,037,811	13,018,275
Postage, telephone, cable and telegram	955,910	7,969,686
Representation & entertainment	691,158	4,730,768
Repairs and maintenance	654,274	4,839,736
Membership fees and dues	251,720	640,053
Fuel and lubricants	247,369	1,060,268
Litigation expense	123,998	5,587,860
Travelling expense	70,586	1,619,084
Advertising and publicity	62,720	74,475
Periodicals and magazines	740	73,543
Loss on financial assets held for trading	0	28,664,704
Supervision fees	0	2,054,750
Fines, penalties and other charges	0	339,052
Donation and charitable contributions	0	5,220
Other expenses	186,572	2,342,529
	148,094,922	246,853,644

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 (GRT) and documentary stamp tax (DST).

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

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

Summary of taxes paid during the year:

	2020	2019
Documentary stamp taxes	23,539,031	38,130,238
Final income taxes (1602)	163,371	21,481,108
Income taxes on compensation (1601C)	436,635	3,616,087
Percentage taxes (2551M)	3,553,481	5,835,506
VAT & other percentage taxes (1600)	1,634,062	2,070,778
Creditable income taxes (1601E)	823,384	1,404,573
Annual registration	500	500
	30,150,464	**72,538,790**

Supplemental Information Required under Revenue Regulation No. 15-2010

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

a. Documentary stamp tax

The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2020 are as follows:

Documents/Transactions	DST Paid
Certificate of time deposits/Other deposits	23,539,031
	23,539,031

b. Other taxes and licenses

In 2020, Taxes and licenses presented as part of “Other Operating Expense” accounts in the statement of comprehensive income includes the following:

Local taxes	10,500
National	
BIR annual registration	500
Percentage taxes (2551)	3,553,481
	3,564,481

c. Withholding Taxes

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

Tax on compensation and benefits	436,635
Creditable withholding taxes	823,384
Final withholding taxes	
Final income taxes	163,371
Final withholding VAT	1,634,062
	3,057,452

26. Related Party Transactions

In the ordinary course of business, the bank has deposits and other transactions in 2020 with its parent, Land Bank of the Philippines (LBP), as follows:

	Transaction Amount
Due from other banks	32,364,961
Accounts Receivable-Others	30,920
Deposit liability	2,000,000,000
Accrued expenses	159,528,652
Accounts payable-others	33,643,547
PICS-common stock	428,992,000
Deposits for Stock Subscription	1,272,008,000
Interest income	61,018
Fees and Commission Expense	85,327
Interest expense	38,555,556
	3,965,269,981

Breakdown of Accrued Expenses	
Information technology	59,001,738
Management and other professional fees	94,291,155
Stationeries and Supplies	1,491,702
Repairs and Maintenance	344,057
Interest Expense	4,400,000
	159,528,652

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, 2020, the Bank already paid all retired employees pursuant to EO No. 44 series of 2017.

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

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

	2020	2019 As restated
	(In percentage)	(In percentage)
Return on average equity	-13.4	-102.8
Return on average assets	-2.8	-8.5
Net interest margin	0.8	2.0
Risk Based Capital Adequacy Ratio	108.1	19.6

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 five members of the Board, to oversee the implementation of risk management process that includes development of various risk strategies and principles, implementation of risk measurement tools, monitoring risk indicators and approval of risk limits.

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

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

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

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

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

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

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

The Bank estimated a total of P0.250 million additional credit losses as of December 31, 2020 computed using Expected Credit Losses (ECL) Model of parent bank, LBP, with total booked allowance for credit losses of P0.97 million. For the same period, the Bank's Non-Performing Loan (NPL) stood at P0.04 million or 1 per cent of the total loan portfolio of P3.327 million.

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

The 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):

	2020	2019
Neither past due nor impaired	3.291	578
Past Due but not impaired	0	462
Impaired	0.036	2,356
	3.327	3,396
Less: Specific allowance for credit losses	0.739	969
	2.588	2,427

Collateral and Other Credit Enhancements

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

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

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

	2020	Per cent	2019	Per cent
Secured	0	0	868	37
Unsecured	0.04	100	1,488	63
	0.04	100	2,356	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 escalated to LendCom and CGRMC.

Risk concentrations of the maximum exposure to credit risk

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

The Bank 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, 2020, the Bank's qualifying capital covering credit risk is P899 million. On the other hand, the SBL is pegged at P224 million for direct lending.

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

	2020	**2019**
Real Estate Activities	0	1,171
Wholesale and Retail Trade	0	744
Salary-Based General–Purpose Consumption Loans	3.327	269
Public Adm. and Defense/Compulsary Social Sec.	0	259
Agriculture, Hunting and Forestry	0	250
Financial and Insurance Activities	0	98
Administrative and Support Service Activities	0	177
Education	0	115
Construction	0	70
Mining and Quarrying	0	74
Others	0	169
	3.327	3,396
Allowance for Credit Losses	(0.739)	(969)
	2.588	2,427

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

Market Risk

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, CGRMC and ALMC, 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, 2020, remaining GS classified under FVOCI with average yield to maturity of 3.5 per cent registered an unrealized gain/mark-to-market gain of P1.5 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

Liquidity Risk Management (RM) Framework

The Bank's liquidity RM process is consistent with its general RM framework covering risk identification, measurement and analysis, monitoring and control. The Management through the ALMC is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank. 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 Gap Report (LGR).

The Bank's Board exercises oversight through CGRMC and has delegated the responsibility of managing overall liquidity to ALMC. The ALMC and Electronic Business Unit (EBU) are responsible for the daily implementation and monitoring of relevant variables affecting liquidity position. The EBU presents to ALMC the assets and liabilities position on a regular basis where ALMC 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 LGR.

Liquidity Risk Measurement Models

The Bank conducts liquidity gap analysis using the LGR. 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, 2020.

Liquid Assets (Cash and Due From BSP/ Local Bank, Government Securities)	P3,395,520,150
Financial Ratios:	
Liquid Assets to Total Assets	93%
Liquid Assets to Total Deposits	133%