**OVERSEAS FILIPINO BANK, INC**.

**(A Digital Bank of LANDBANK)**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2022 AND 2021**

(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 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 EO 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 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. 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.”

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

As of December 31, 2022, the Bank had eight 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 30, 2023.

1. **Statement of Compliance and Basis of Financial Statements Preparation**
	1. Statement of Compliance

The Bank’s financial statements have been prepared in compliance 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).

* 1. 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) 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.

**Summary of Significant Accounting Policies**

* 1. 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, 2022.

1. PFRS 3 (Amendments), Business Combination – Reference to the Conceptual Framework (effective from January 01, 2022). The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or Philippine –IFRIC 21, Levies, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.
2. PAS 16 (Amendments), Property, Plant and Equipment – Proceeds Before Intended Use (effective from January 01, 2022). The amendments prohibit 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 cost of producing those items, in profit or loss.
3. PAS 37 (Amendments), Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts –Cost of Fulfilling a Contract (effective January 01, 2022). The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
4. Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 01, 2022:
* PFRS 1 – The amendments permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent’s date of transition to PFRSs.
* PFRS 9 (Amendments), Financial Instruments –The amendment clarifies which fees an entity includes when it applies the ’10 per cent’ test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.
* PFRS 16 – The amendments to Illustrative Example 13 accompanying PFRS 16, removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

**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.

1. PAS 1 (Amendments), Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (effective January 1, 2023). 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.
2. PAS 1 (Amendments), Presentation of Financial Statements – Disclosure of Accounting Policies (effective January 1, 2023). 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.
3. PFRS 4 (Amendments) Extension of the Temporary Exemption from Applying PFRS 9. The amendment changes the fixed expiry date for the temporary exemption in PFRS 4 Insurance Contracts from applying PFRS 9 Financial Instruments, so that entities would be required to apply PFRS 9 for annual periods beginning on or after 1 January 2023.
4. PAS 8 (Amendments), Accounting Estimates – Definition of Accounting Estimates (effective January 01, 2023). 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”.
5. PAS 12 (Amendments), Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective January 1, 2023). 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.
6. 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 01, 2023.
	1. 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.

* 1. 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.

* 1. 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:

1. 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:

1. the Financial Asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
2. 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.
3. 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:

1. acquired principally for the purpose of selling or repurchasing them in the near term; or
2. 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.
3. Financial assets at amortized cost

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

1. 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
2. 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.

* 1. 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.

* 1. 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.

* 1. 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 ddevelopment, employee costs and the related overheads.

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

* 1. 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 2022 and 2021, rent expenses were included in the statement of comprehensive income, amounting to P1.89 million and P2.08 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.

* 1. 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.

1. **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:

* 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.

* 1. 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 P9.69 million additional credit losses as of December 31, 2022 computed using Expected Credit Losses Model of Parent Bank. Net carrying value of loans from customers stood at P1,834.81 million, net of allowance for credit losses amounting to P31.31 million.

* 1. 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.

* 1. 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.

1. **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

1. **Cash and Cash Equivalents**

This is broken as follows:

|  | **Note** | **2022** | **2021** |
| --- | --- | --- | --- |
| Due from Bangko Sentral ng Pilipinas | 6 | 760,024,312 | 3,163,314,370 |
| Due from other banks | 7 | 31,662,362 | 25,156,645 |
| Loans and receivables arising from RA/CA/PR/SLB  | 8 | 88,943,598 | 375,840,333 |
|   |  | 880,630,272 | 3,564,311,348 |

1. **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:

|  |  |  |
| --- | --- | --- |
|  | **2022** | **2021** |
| Term deposit account  | 397,000,000 | 2,000,000,000 |
| Demand deposit account | 244,024,312 | 88,314,370 |
| Overnight deposit account | 119,000,000 | 1,075,000,000 |
|  | 760,024,312 | 3,163,314,370 |

1. **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:

|  |  |  |
| --- | --- | --- |
|  | **2022** | **2021** |
| Land Bank of the Philippines  | 31,662,362 | 25,156,645 |

1. **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 88,943,598 and 375,840,333 in 2022 and 2021, respectively.

1. **Fair Value thru Other Comprehensive Income**

This account is composed of:

|  | **2022** | **2021** |
| --- | --- | --- |
| Investment in Treasury Bills/Fixed Treasury Notes purchased from Security Bank Corp.  | 46,240,669  | 48,994,600  |
| Investment in QUEDANCOR Bonds | 30,000,000 | 30,000,000 |
| Allowance for credit losses | (30,000,000) | (30,000,000) |
|  | 46,240,669  | 48,994,600  |

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. This investment was made for the Bank’s Agri-Agra compliance which is now under negotiation for the replacement of QUENDANCOR Restructured Notes.

1. Held to Maturity Financial Assets, net

|  | **2022** | **2021** |
| --- | --- | --- |
| Retail Treasury Bonds (05-16) | 1,290,687,648 | 0  |
| San Miquel Corporation GP Bonds | 59,830,000 | 0 |
| Robinson Land Corporation Bonds | 62,200,000 | 0 |
|  Total | 1,412,715,648 | 0  |

1. **Loans and Receivables - net**

This account consists of:

|   | **2022** | **2021**  |
| --- | --- | --- |
| Loans to Individuals for Other Purposes  | 1,866,120,069 | 2,158,501 |
| Allowance for Losses | (31,306,708) | (2,126,413) |
| Net of Allowance  | 1,834,813,361 | 32,088 |

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 servicer 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:

|  | **2022** | **2021** |
| --- | --- | --- |
| Balance, January 01 | 2,097,613 | 738,683 |
| Provisions | 9,688,099 | 1,169,396 |
| Transfers and other adjustments | 0 | 189,534 |
| Balance, December 31  | 11,785,712 | 2,097,613 |

The movement of the general loan loss provisions are:

|  | **2022** | **2021** |
| --- | --- | --- |
| Balance, January 01 | 28,800 | 231,451 |
| Provisions | 19,492,196  |  (202,651) |
| Balance, December 31  |  19,520,996 | 28,800 |

As to Status:

|   | **2022** | **2021** |
| --- | --- | --- |
| Current Loans | 1,854,869,013 | 0 |
| Non-Performing Loans | 11,251,056 | 2,158,501 |
|   | 1,866,120,069 | 2,158,501 |

As to Security:

|  |  |  |
| --- | --- | --- |
|   | **2022** |  **2021**  |
| Secured Loans | 0 | 0 |
| Unsecured Loans | 1,866,120,069 | 2,158,501 |
|   | 1,866,120,069 | 2,158,501 |

# **Property and Equipment - net**

# This account consists of:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Land** | **Building** | **Furniture Fixture & Equipment** | **Motor Vehicles** | **Computer and Peripherals** | **Totals** |
| CostJanuary 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  |  5  |  2,005  |
| Disposal | 0  | 0  |  (130,500) |  (1,855,400) |  (6,445,576) |  (8,431,476) |
| December 31, 2022 | 131,008,000  | 48,199,841  | 7,761,859 | 4,298,798  | 91,735,959  | 283,004,457  |
|  |  |  |  |  |  |  |
| 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  |  |  0  |  2,000  |  480,925  |  482,925  |
| Disposal | 0 |   |  (130,499) | (1,769,397) | (6,229,891) | (8,129,787) |
| December 31, 2022 | 0 | 26,515,146  | 7,344,886  | 4,134,243  | 90,335,434  | 128,329,709  |
| Carrying amount December 31, 2022 |  131,008,000  |  21,684,695  |  416,973  |  164,555  |  1,400,525  |  154,674,748  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Land** | **Building** | **Furniture Fixture & Equipment** | **Motor Vehicles** | **Computer and Peripherals** | **Totals** |
| CostJanuary 1, 2021, as restated | 131,008,000  | 44,116,200  |  7,868,359  | 6,152,198 | 97,215,795 | 286,360,552 |
| Additions | 0 |  4,083,641 |  24,000 | 0 |  271,796  |  4,379,437 |
| December 31, 2021, as restated | 131,008,000  | 48,199,841  | 7,892,359  | 6,152,198  | 97,487,591  | 290,739,989  |
|  |  |  |  |  |  |  |
| Accumulated Depreciation/Allowance for Impairment  |  |  |  |  |
| January 1, 2021, as restated | 0 | 21,347,711  | 7,036,236  | 5,977,600  | 94,216,673  | 128,578,220  |
| Provisions | 0 |  2,583,718  |  287,522  |  (75,960) |  978,626  |  3,773,906  |
| Impairment loss | 0 | 0 |  2,018 | 0 |  518,148 |  520,166 |
| December 31, 2021, as restated | 0 | 23,931,429  | 7,325,776  | 5,901,640  | 95,713,447  | 132,872,292  |
| Carrying amount December 31, 2021, as restated |  131,008,000  |  24,268,412  |  566,583  |  250,558  |  1,774,144  |  157,867,697  |

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.

1. **Other Intangible Assets - net**

This account represents cost of the Digital license fee, creation of the OFB microsite in LBP, 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:

|   |  **2022** | **2021****As restated** |
| --- | --- | --- |
| Other intangible assets | 25,353,287 | 95,411,251 |
| Accumulated amortization | (5,737,471) | (67,407,758) |
|  | 19,615,816 | 28,003,493 |
| Allowance for losses | 0 | (10,000,000) |
|   | 19,615,816 | 18,003,493 |

1. **Other Assets - net**

This account is composed of the following:

|   | **2022** | **2021** **As restated** |
| --- | --- | --- |
| Accounts receivables | 257,207,028 | 204,562,604 |
| Deferred Charges | 16,647,965 | 0 |
| Stationery and supplies on hand  | 870,042 | 1,397,390 |
| Accrued interest income from financial assets | 10,299,444 | 1,219,491 |
| Prepaid expenses | 556,683 | 895,894 |
| Documentary stamps on checks | 1,015,794 | 547,756 |
| Other investments | 153,333 | 153,333 |
| Miscellaneous assets | 10,206,523 | 10,523,714 |
| Sundry debits | 44,274,138 | 38,746,123 |
|   | 341,230,950 | 258,046,305 |
| Other Assets - Allowance for Losses | (199,878,770) | (162,376,076) |
|   | 141,352,180 | 95,670,229 |

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.

Sundry Debits

This is a temporary account used as partner clearing account on transactions resulting to inflow of funds on the Due Other Banks accounts which are cleared the next day.

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 P2.57 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 amount shall be applied in the future payments of income tax. This was utilized in the payment of MCIT for 2022 and 2021 which was treated also as miscellaneous asset-prepaid tax.

1. **Deposit Liabilities**

This account is composed of the following:

|   | **2022** | **2021** |
| --- | --- | --- |
| Domestic: |  |  |
|  Savings deposits | 3,056,725,993 | 2,926,724,148 |
|   | 3,056,725,993 | 2,926,724,148 |

Domestic deposit liabilities earn annual fixed interest rates ranging from 0.05 to 1.25 per cent in 2022 and 2021.

1. **Accrued Expenses**

This account represents**:**

|   | **2022** | **2021** **As restated**  |
| --- | --- | --- |
| Management and other professional fees | 52,430,114 | 15,156,290 |
| Accrued interest expense in financial liabilities  | 24,027,778 | 5,024,406 |
| Information technology | 20,241,290 | 13,852,904 |
| Insurance | 3,004,092 | 2,544,000 |
| Other taxes and licenses | 2,969,266 | 0 |
| Postage, telephone, cables and telegrams | 2,582,622 | 222,906 |
| Fringe benefits | 2,049,400 | 1,856,107 |
| Fees and commissions | 1,602,450 | 465,854 |
| Rent | 1,354,955 | 1,108,644 |
| Advertising & Publicity | 1,343,545 | 5,334,177 |
| Travelling  | 1,223,200 | 738,713 |
| Security, clerical, messengerial and janitorial | 890,045 | 2,535,166 |
| Stationeries and supplies | 834,857 | 14,469 |
| Salaries and wages | 646,961 | 56,970 |
| Power, light and water | 599,848 | 141,000 |
| Others | 325,010 | 451,113 |
| Fuel and lubricants | 151,978 | 42,764 |
| Repairs and maintenance | 0 | 82,908 |
|   | 116,277,411 | 49,628,391 |

As of December 31, 2022, 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 Baiphil and accrual for freight charges to PPC.

1. **Other Liabilities**

This account comprises of:

|   | **2022** |  **2021**As restated |
| --- | --- | --- |
| Accounts payable – others | 28,212,165 | 16,649,779 |
| Unclaimed balances | 5,907,843 | 2,191,140 |
| Due to the Treasurer of the Phil. | 3,083,920 | 3,083,920 |
| Withholding tax payable | 165,462 | 139,600 |
| SSS, PHIC, Employee Compensation and |  |  |
|  Pag-ibig Fund Payable | 100,750 | 62,950 |
| Sundry credits | 34,241,445 | 32,715,762 |
| Miscellaneous liabilities | 101,499 | 101,499 |
|   | 71,813,084 | 54,944,650 |

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.

1. **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 P 407.992 million to meet the requirement of the P1 billion capitalization of a digital bank.

1. **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, 2021 are as follows:

|  **Particulars** | **Debit** | **Credit** | **Balance** |
| --- | --- | --- | --- |
|  Retained Earnings, as of January 1, 2021 |  | (1,286,986,769) |
| Net loss for CY 2021 before restatement  |  |  |  (123,903,032) |
| Adjustments:  |  |  |  |
| Rent Income  | 0 | 1,275,740 |  |
| Correction on amortization of Intangible Assets  | 0 |  333 |  |
| Gross receipts tax  |  187,627 | 0 |  |
| Additional cost of seconded personnel services  | 3,699,236 | 0 |  |
| Cost of Chauffeuring services  |  738,713 | 0 |  |
| Fees and commissions-switch fee  |  465,854 | 0 |  |
| Stationeries and supplies  | 2,793,274 |  42,273 |  |
|  Communication expenses  |  116,058 | 0 |  |
| Adjustment on depreciation  | 0 |  82,429 |  |
| Cost of leased lines  |  39,616 | 0 |  |
|  Reversal of rent  | 0 |  156,652 |  |
|   | 8,040,378 |  1,557,427 |  (6,482,951) |
|  Net loss for CY 2021, as restated  |  |   | (130,385,983) |
|  Retained earnings as of December 31, 2021, as restated  | (1,417,372,752) |

| **December 31, 2021** |  **As Previously Reported**  |  **Effects of Restatement**  |  **As Restated**  |
| --- | --- | --- | --- |
| ***Changes in the Statement of Financial Position***  |  |  |
|  **Assets**  |  |  |  |
|  Bank Premises, Furniture, Fixtures & Equipment,  | 160,368,690 | (2,500,993) | 157,867,697 |
|  Other Intangible Asset,  | 18,003,160 |  333 | 18,003,493 |
|  Other Assets | 94,709,655 |  960,574 | 95,670,229 |
|   |  | (1,540,086) |  |
|  **Liabilities**  |  |  |  |
|  Accrued Expenses | 44,873,153 | 4,755,238 | 49,628,391 |
|  Other Liabilities | 54,757,023 |  187,627 | 54,944,650 |
|  |  | 4,942,865 |  |
|  **Equity**  |  |  |  |
| Retained earnings (Deficit) | (1,410,889,801) | (6,482,951) | (1,417,372,752) |
|  |   |   |
| ***Changes in the Statement of Comprehensive Income*** |  |  |  |
|  Miscellaneous Income  | 5,165,014 | 1,275,740 | 6,440,754 |  |
|  Depreciation and Amortization  | 5,695,547 | (82,762) | 5,612,785 |  |
|  Rent  | 2,078,400 | (156,652) | 1,921,749 |  |
| Taxes and Licenses | 1,646,409 | 187,627 | 1,834,036 |  |
|  Miscellaneous Expenses  | 84,002,963 | 7,810,478 | 91,813,441 |  |
|  Net  |  | 6,482,951 |  |  |

1. **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.

1. **Miscellaneous Income**

This account includes the following:

|  |  |  |
| --- | --- | --- |
|   | **2022** | **2021** |
| Rental income | 7,010,105 | 6,411,835 |
| Other income | 1,448,408 | 28,919 |
|   | 8,458,513 | 6,440,754 |

1. **Other Operating Expenses**
2. **Compensation and fringe benefits**

|   | **2022** | **2021** |
| --- | --- | --- |
| Salaries and Wages | 3,676,422 | 3,129,509 |
| Fringe Benefits | 1,421,370 | 1,526,342 |
| Government Contribution | 253,531 | 196,008 |
| Other compensation and benefits | 1,838,650 | 988,000 |
|   | 7,189,973 | 5,839,859 |

1. **Provision for probable losses**

|  |  |  |
| --- | --- | --- |
|   | **2022** | **2021** |
|  |  |  |
| Other Assets | 38,105,328 |  49,162,016 |
|   | 38,105,328 | 49,162,016 |

1. **Depreciation and amortization**

|  |  |  |
| --- | --- | --- |
|   | **2022** | **2021** |
| Bank Premises, Furniture, Fixtures and Equipment | 3,259,205 | 3,691,478 |
| Other Intangible Assets | 3,851,844 | 1,921,307 |
|   | 7,111,049 | 5,612,785 |

1. **Miscellaneous Expenses**

This account is composed of:

|   | **2022** | **2021**  |
| --- | --- | --- |
| Management and other professional fees | 41,340,008 | 28,876,302 |
| Documentary stamps used | 15,946,926 | 16,716,539 |
| Information technology | 7,385,858 | 14,693,858 |
| Security, clerical, messengerial and janitorial  | 4,913,773 | 6,316,722 |
| Insurance | 6,581,771 | 5,576,363 |
| Advertising and publicity | 1,406,585 | 5,413,390 |
| Impairment loss | 147,083 | 5,240,166 |
| Power, light and water | 1,875,483 | 2,118,230 |
| Stationeries and supplies used | 1,565,792 | 3,509,198 |
| Fees and commission | 2,795,853 | 974,201 |
| Postage, telephone, cable and telegram | 2,914,474 | 513,505 |
| Representation & entertainment | 454,835 | 342,673 |
| Fuel and lubricants | 324,686 | 258,003 |
| Membership fees and dues | 244,234 | 160,380 |
| Repairs and maintenance | 132,931 | 137,730 |
| Travelling expense | 732,112 | 738,754 |
| Other expenses | 265,474 | 227,427 |
|   | 89,027,878 | 91,813,441 |

1. **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.

Summary of taxes paid during the year:

|   | **2022** |  **2021** |
| --- | --- | --- |
| Documentary stamp taxes | 15,946,926 | 5,413,833 |
| Final income taxes (1602) | 1,553,410 | 6,419,759 |
| Income taxes on compensation (1601C) | 387,880 | 364,671 |
| Percentage taxes (2551M) | 6,538,116 | 467,984 |
| VAT & other percentage taxes (1600) | 347,247 | 387,967 |
| Creditable income taxes (1601E) | 349,467 | 200,849 |
| Annual registration | 500 | 500 |
|    | **25,123,546** | **13,255,563** |

**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.

1. **Documentary stamp tax**

The documentary stamp tax on loan instruments and other transactions subject thereto for the tax period 2022 are as follows:

|  **Documents/Transactions** |  |  **DST Paid** |
| --- | --- | --- |
| Certificate of time deposits/Other deposits |   | 15,946,926 |
|   |   | 15,946,926 |

1. **Other taxes and licenses**

In 2022, Taxes and licenses presented as part of “Other Operating Expense” accounts in the statement of comprehensive income includes the following:

| Local taxes  | 52,020 |
| --- | --- |
| National  |  |
|  | BIR annual registration | 500 |
|  | Percentage taxes (2551)  | 6,538,116 |
|  | 6,590,636 |

1. **Withholding Taxes**

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

|  |  |
| --- | --- |
| Tax on compensation and benefits | 387,880 |
| Creditable withholding taxes | 349,467 |
| Final withholding taxes |  |
| Final income taxes | 1,553,410 |
|  Final withholding VAT | 347,247 |
|  | 2,638,004 |

1. **Related Party Transactions**

In the ordinary course of business, the Bank has deposits and other transactions in 2022 with its parent, LBP, as follows:

|   |  | **Amount** |
| --- | --- | --- |
| Due from other banks |  | 31,662,362 |
| Accounts Receivable-Others |  | 58,721,854 |
| Deposit liability |  | 2,000,000,000 |
| Accrued expenses |  | 103,960,087 |
| Accounts payable-others |  | 17,983,266 |
| Paid In Capital Stock-common stock |  | 2,108,992,000 |
| Interest income |  | 17,821 |
| Fees and Commission Expense |  | 2,795,853 |
| Interest expense |  | 25,347,222 |
|  |  | 4,349,480,465 |
| Breakdown of Accrued Expenses |  |  |
| Information technology |  | 20,171,290 |
| Management and other professional fees |  | 51,976,926 |
| Stationeries and Supplies |  | 819,607 |
| Fees and Commissions |  | 1,602,450 |
| Security Services |  | 780,045 |
| Advertising and Publicity |  | 1,343,545 |
| Employee Benefits (Seminars) |  | 7,000 |
| Postage, cables, telephone and telegraph |  | 1,856,269 |
| Fuel and Lubricants |   | 151,977 |
| Travelling expense |  | 1,223,200 |
| Interest expense |  | 24,027,778 |
|  |  | 103,960,087 |

1. **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, 2022, the Bank outstanding accrual for retired employees pursuant to EO No. 44 series of 2017 is P1.16 million.

1. **Commitments and Contingent Liabilities**

TheBank 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.

1. **Basic Quantitative Indicators of Financial Performance**

|   | **2022** | **2021** **As restated** |
| --- | --- | --- |
|  |  (In percentage) | (In percentage) |
| Return on average equity | -1.3 | -13.9 |
| Return on average assets | -0.3 | -3.4 |
| Net interest margin | 3.5 | 0.5 |
| Risk Based Capital Adequacy Ratio | 53.1 | 136.1 |

1. **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.

1. **Reclassification of Accounts**

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

1. **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 InternalAuditGroup (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 P9.69 million additional credit losses as of December 31, 2022 computed using Expected Credit Losses (ECL) Model of parent bank, LBP, with total booked allowance for credit losses of P11.79 million. For the same period, the Bank’s Non-Performing Loan (NPL) stood at P11.25 million or 0.6 per cent of the total loan portfolio.

*Credit Risk Rating*

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

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

*Credit Risk Monitoring*

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

ECL assessment shall be applied to the following exposures:

1. Loans and receivables measured at amortized cost;

2. Investments in debt instruments that are measured at amortized cost;

3. Investments in debt instruments that are measured at FVOCI; and

4. Due from Bangko Sentral ng Pilipinas and Due from Other Banks

Credit exposures follow the staging assessment:

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

|   | **2022** | **2021** |
| --- | --- | --- |
| Neither past due nor impaired | 1,848.593 | 0 |
| Past Due but not impaired | 6.276 | 0 |
| Impaired | 11.251 | 2.159 |
|  | 1,866.120 | 2.159 |
| Less: Specific allowance for credit losses | 11.786 | 2.098 |
|   | 1,854.334 | 0.061 |

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **2022** | **Per cent** | **2021** | **Per cent** |
| Secured | 0 | 0 | 0 | 0 |
| Unsecured | 11.251 | 100 | 2.159 | 100 |
|   | 11.251 | 100 | 2.159 | 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, 2022, the Bank’s qualifying capital covering credit risk is P1.3 billion. On the other hand, the SBL is pegged at P325 million for direct lending.

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

|   |  | **2022** |  | **2021** |
| --- | --- | --- | --- | --- |
| Salary-Based General–Purpose Consumption Loans  |  | 1,866.12 |  | 2.159 |
|  |  | 1,866.12 |  | 2.159 |
| Allowance for Credit Losses |   | (11.79) |   | (2.098) |
|   |   | 1,854.33 |   | 0.061 |

*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, 2022, 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 P3.759 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 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 Commitee 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, 2022.

|  |  |
| --- | --- |
| Liquid Assets (Cash and Due From BSP/ Local Bank, Government Securities) | P2,339,586,589 |
| Financial Ratios: |  |
| Liquid Assets to Total Assets | 52% |
| Liquid Assets to Total Deposits | 77% |