Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 1- Banking and Credit

June 21, 2019

Overseas Filipino Bank
A Savings Bank of LANDBANK
OFFICE OF THE PRESIDENT AND CEO
RECEIVED BY: rmy
DATE: 6-25-19
TIME: 9:29PM
REF. NO.

Mr. RENATO G. EJE
President and CEO
Overseas Filipino Bank, Inc.
Manila

Dear President Eje:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of the Overseas Filipino Bank, Inc. (OFBI) for the years ended December 31, 2018 and 2017.

The report consists of the Independent Auditor's Report, Audited Financial Statements, Observations and Recommendations, and Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of OFBI for the years ended December 31, 2018 and 2017 because the disclosure requirements of Philippine Financial Reporting Standards (PFRS) 7 and Philippine Accounting Standards (PAS) 8 due to adoption of PFRS 9 were not sufficiently provided in the Notes to Financial Statements, contrary to BSP Circular No. 1011 series of 2018 and Management's representation that the financial statements have been prepared in accordance with the PFRS/PAS.

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

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on April 30, 2018, are presented in detail in Part II of the report.

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

ADELA L. DONDONILLA
Director IV
Cluster Director

Copy Furnished:

The President of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission of Government-Owned or Controlled Corporation
The National Library
The UP Law Center

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 1- Banking and Credit

OFFICE OF THE CORPORATE ... RECEIVED BY Minchi DATE 26 JUNE 2019 TIME 3:28 P.M. OFBANK INC.

June 21, 2019

THE BOARD OF DIRECTORS
Overseas Filipino Bank, Inc.
Manila

Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith the Auditor's report on the results of audit of the accounts and transactions of the Overseas Filipino Bank, Inc. (OFBI) for the years ended December 31, 2018 and 2017.

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

The other audit observations together with the recommended courses of action, which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on April 30, 2018, are presented in detail in Part II of the report.

In a letter of even date, we requested the President and CEO of OFBI that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken thereon by submitting the Agency Action Plan and Status of Implementation within 60 days from date of receipt.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:

ADELA L. DONDONILLA
Director IV
Cluster Director

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

ANNUAL AUDIT REPORT

on the

OVERSEAS FILIPINO BANK, INC.
(A Savings Bank of Landbank)

For the years ended December 31, 2018 and 2017

EXECUTIVE SUMMARY

INTRODUCTION

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

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

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

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

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts of OFBI for the period January 1 to December 31, 2018 in accordance with the International Standards of Supreme Audit Institutions (ISSAI) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2018 and 2017. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2018	2017 As Restated	Increase/ (Decrease)
Resources	9,017,235,136	9,134,645,708	(117,410,572)
Liabilities	8,794,240,658	8,303,121,772	491,118,886
Equity	222,994,478	831,523,936	(608,529,458)

II. Comparative Results of Operations

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

III. Comparative Budget and Actual Expenditures

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

AUDITOR'S OPINION

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

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

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

The following are the other significant audit observations and recommendations:

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

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

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

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

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

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

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

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

TABLE OF CONTENTS

PART I – AUDITED FINANCIAL STATEMENTS

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of **Overseas Filipino Bank, Inc. (OFBI)**, which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Bases for Qualified Opinion section, the financial statements present fairly, in all material respects, the financial position of **OFBI** as at December 31, 2018 and 2017, and its comprehensive income and its cash flows for the years then ended in accordance with applicable Philippine Financial Reporting Standards (PFRS).

Basis for Qualified Opinion

Disclosure requirements of PFRS 7 and Philippine Accounting Standards (PAS) 8 due to the adoption of PFRS 9 were not sufficiently provided despite Management representation in Notes 2.1 and 2.2 to the financial statements that the Bank adopted PFRS 9 and that its financial statements have been prepared in accordance with the applicable accounting principles generally accepted in the Philippines and as set forth in the PFRS/PAS, respectively.

Had the disclosure requirements been sufficiently provided, financial information regarding financial instruments would have been relevant and faithfully represented.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the OFBI in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the OFBI's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the OFBI or to cease operations, or has no realistic alternative but to do so.

Those charges with governance are responsible for overseeing the OFBI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee than an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAI, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OFBI's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimate and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the OFBI to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 27 to the 2018 financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

COMMISSION ON AUDIT

ROSALINDA T. SILAGAN
OIC - Supervising Auditor
Audit Group D

April 30, 2019

April 30, 2019

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of OVERSEAS FILIPINO BANK (OFB), formerly PHILIPPINE POSTAL SAVINGS BANK, INC. (PPSBI), is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing OFB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate OFB or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing OFB's financial reporting processes.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein and submits the same to the Stockholders, regulators, creditors and other users.

The Commission on Audit (COA), has audited the financial statements of OFB in accordance with International Standards of Supreme Audit Institutions (ISSAI), and in its report to the Board of Directors, has expressed its opinion on the fairness of presentation upon completion of such audit.

CECILIA C. BORROMEO
Chairman of the Board

RENATO G. EJE
President and Chief Executive Officer

PATRIA P. MADRIO
Head, Admin. & Compt. Group

OVERSEAS FILIPINO BANK, INC.
(A SAVINGS BANK OF LANDBANK)
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017 (As restated)
ASSETS			
Cash and other cash items	4	101,977,551	93,796,842
Due from Bangko Sentral ng Pilipinas	5	3,601,334,772	2,848,360,713
Due from other banks	6	39,970,752	73,996,036
Held for trading financial assets	7	44,660,866	47,467,251
Available for sale financial assets	8	476,887,524	526,642,841
Unquoted debt securities classified as loans	9	0	50,008,282
Loans and receivables - net	10 & 22	3,376,847,969	4,503,231,050
Loans and receivables arising from RA/CA/PR/SLB	11	529,000,000	330,428,988
Investment property - net	12	267,210,491	215,428,598
Property and equipment - net	13 & 22	176,184,871	184,062,698
Non-current assets held for sale	14 & 22	133,326,909	57,287,156
Sales contract receivable	15	10,640,648	22,786,375
Other intangible assets	16 & 22	10,126,927	13,201,346
Other assets - net	17 & 22	249,065,856	167,947,532
TOTAL ASSETS		**9,017,235,136**	**9,134,645,708**
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	18	8,316,243,017	7,979,186,648
Manager's/Cashier's checks		17,622,225	18,689,569
Accrued expenses	19	335,549,661	107,264,955
Other liabilities	20	124,825,755	197,980,600
Total Liabilities		**8,794,240,658**	**8,303,121,772**
Equity			
Capital stock	21	1,000,000,000	820,242,883
Retained earnings unappropriated	22	(675,133,920)	65,394,350
Unrealized loss on available for sale financial assets	23	(101,871,602)	(54,113,297)
Total Equity		**222,994,478**	**831,523,936**
TOTAL LIABILITIES AND EQUITY		**9,017,235,136**	**9,134,645,708**

The Notes on pages 9 to 43 form part of these financial statements.

OVERSEAS FILIPINO BANK, INC.
(A SAVINGS BANK OF LANDBANK)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017 As restated
INTEREST INCOME			
Loans & discounts		266,410,525	351,444,787
Investments		17,430,167	18,619,778
Loans and receivables arising from RA/CA/PR/SLB		12,601,030	7,904,055
Due from Bangko Sentral ng Pilipinas		84,711,945	40,800,351
Deposits with banks		190,873	11,424,263
Sales contract receivable		2,178,673	2,531,923
Others		714	46
		383,523,927	432,725,203
INTEREST EXPENSE			
Deposit liabilities		(105,526,328)	(127,498,083)
NET INTEREST INCOME		277,997,599	305,227,120
Provision for credit losses		(258,173)	19,460
NET INTEREST INCOME AFTER PROVISION FOR LOSSES		277,739,426	305,246,580
OTHER OPERATING INCOME			
Fees and commission		12,926,774	23,687,327
Foreign exchange gains from revaluation		138,409	229,631
Miscellaneous income	24	72,038,630	72,350,812
		85,103,813	96,267,770
OTHER OPERATING EXPENSES			
Compensation and fringe benefits	25	(371,350,023)	(205,492,179)
Provision for probable losses		(342,671,815)	(28,649,142)
Depreciation and amortization		(35,076,510)	(27,859,644)
Rent		(28,016,607)	(33,077,495)
Taxes and licenses		(20,828,308)	(23,011,532)
Miscellaneous expenses	26	(305,428,246)	(194,004,404)
		(1,103,371,509)	(512,094,396)
NET LOSS BEFORE TAX		(740,528,270)	(110,580,046)
PROVISION FOR INCOME TAX		0	0
NET LOSS FOR THE PERIOD		(740,528,270)	(110,580,046)
OTHER COMPREHENSIVE LOSS			
Unrealized loss on available for sale financial assets	23	(47,758,305)	(18,025,621)
TOTAL COMPREHENSIVE LOSS		**(788,286,575)**	**(128,605,667)**

The Notes on pages 9 to 43 form part of these financial statements.

OVERSEAS FILIPINO BANK, INC.
(A SAVINGS BANK OF LANDBANK)
STATEMENTS OF CHANGES IN EQUITY
December 31, 2018 and 2017
(In Philippine Peso)

	Note	Capital Stock 21	Other Comprehensive Income/ (Loss) 23	Retained Earnings Unappropriated 22	Total Equity
Balance as of January 1, 2017, before restatement		**820,242,883**	**(36,087,676)**	**182,644,558**	**966,799,765**
Net adjustments				(6,670,162)	(6,670,162)
Unrealized loss on available for sale financial assets			(18,025,621)		(18,025,621)
Balance as of January 1, 2017, as restated		**820,242,883**	**(54,113,297)**	**175,974,396**	**942,103,982**
Net loss for CY 2017 before restatement				(106,772,385)	(106,772,385)
Net adjustments				(3,807,661)	(3,807,661)
Net loss for CY 2017, as restated		0	0	(110,580,046)	(110,580,046)
Balance as of December 31, 2017, as restated		**820,242,883**	**(54,113,297)**	**65,394,350**	**831,523,936**
Issuance of capital stock		428,992,000			428,992,000
Transfer of capital stock		(249,234,883)			(249,234,883)
Unrealized loss on available for sale financial assets			(47,758,305)		(47,758,305)
Net loss for CY 2018				(740,528,270)	(740,528,270)
Balance as of December 31, 2018		**1,000,000,000**	**(101,871,602)**	**(675,133,920)**	**222,994,478**

The Notes on pages 9 to 43 form part of these financial statements.

OVERSEAS FILIPINO BANK, INC.
(A SAVINGS BANK OF LANDBANK)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2018 and 2017
(In Philippine Peso)

	Note	2018	2017 restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		398,474,303	442,746,752
Interest paid		(102,391,121)	(129,577,906)
Fees and Commissions		12,926,774	23,687,327
Loss on financial assets and liabilities held for trading		(2,802,777)	(1,010,351)
Miscellaneous Income		72,038,629	73,958,372
General and Administrative Expenses		(472,209,041)	(401,884,961)
Operating loss before changes in operating assets and liabilities		(93,963,233)	7,919,233
Changes in operating assets and liabilities			
(Increase) / Decrease in operating assets			
Held for Trading		2,806,385	3,931,590
Loans and Receivables		795,608,411	995,956,770
Other Resources		(105,697,450)	(28,963,238)
(Increase) / Decrease in operating liabilities:			
Deposit Liabilities		337,056,368	(1,744,454,421)
Treasurer's, Manager's and Cashier's Checks		(1,067,343)	2,379,801
Other Liabilities		(61,502,003)	56,033,066
Net Cash Provided by/ (Used) in Operating Activities		873,241,135	(707,197,199)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(1,611,531)	(24,202,357)
Additions to Investment Property		(51,781,893)	(16,286,828)
Additions to Non-Current Assets Held for Sale		(76,039,753)	4,760,412
Decrease in Available for sale investments		1,997,012	20,895,267
Net Cash Provided by/ (Used) in Investing activities		(127,436,165)	(14,833,506)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Common Shares		428,992,000	-
Other Charges to Capital		(249,234,883)	-
Increase/(Decrease) in:			
Bills Payable		-	(650,000,000)
Special Time Deposit		-	(40,000,000)
Net Cash Provided by/ (Used) in Financing Activities		179,757,117	(690,000,000)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS		138,409	229,631
NET INCREASE IN CASH AND CASH EQUIVALENTS		925,700,496	(1,411,801,074)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		3,346,582,579	4,758,383,653
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4	4,272,283,075	3,346,582,579

The Notes on pages 9 to 43 form part of these financial statements.

OVERSEAS FILIPINO BANK, INC.
(A Savings Bank of LandBank)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. Corporate Information

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

The Philippine Postal Savings Bank, Inc. (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 R.A. 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 Bank was incorporated on June 22, 1994 and started operations as a savings and mortgage bank on July 21, 1994. The Bank 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 Land Bank of the Philippines (LBP) to initiate the acquisition of Postbank as its subsidiary, with the plan of eventually converting it to a bank for Overseas Filipino Workers (OFWs).

On September 26, 2017, President Rodrigo Duterte issued Executive Order (EO) No. 44, which mandates the PPC and the Bureau of Treasury 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 18 January 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: “OFBank is a Digital Bank servicing Overseas Filipinos and their Beneficiaries through state-of-the-art Electronic Banking Channels such as Mobile Phone, ATM and Internet which are more convenient, faster (real-time), cheaper and secure, eliminating the need for over-the-counter services. By 2023, LANDBANK through OFBank will be the market leader among the top five (5) 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, 2018, the Bank had 248 employees and operated twenty five (25) branches and six (6) Micro Banking Offices (MBO), namely:

Northern Luzon Area:

1. Tuguegarao, Cagayan Branch
2. Baguio Branch
3. Asingan, Pangasinan Branch
4. Dagupan, Pangasinan Branch
   - 4.1. MBO Binmaley
   - 4.2. MBO Mapandan
5. San Fernando, La Union Branch
6. Tarlac Branch

Metro Luzon Area:

1. Head Office-Liwasang Bonifacio, Manila
2. Mabalacat, Pampanga Branch
3. Malolos, Bulacan Branch
4. San Pablo, Laguna Branch
5. Lipa City, Batangas Branch

Southern Luzon Area:

1. Naga, Camarines Sur Branch
   - 1.1. MBO Bombon
2. Tigaon, Camarines Sur Branch
   - 2.1. MBO San Jose
3. Legaspi, Albay Branch
   - 3.1. MBO Bacacay
   - 3.2. MBO Malinao
4. Sorsogon Branch

Visayas Area:

1. Tacloban, Leyte Branch
2. Tagbilaran, Bohol Branch
3. Iloilo Branch
4. Himamaylan, Negros Occidental Branch
5. Cebu Branch
6. Bacolod Branch

Mindanao Area:

1. Davao Branch
2. Dipolog Branch
3. Cagayan de Oro Branch
4. Manolo Fortich, Bukidnon Branch

The accompanying comparative financial statements were authorized for issue by the Board of Directors per Resolution No. 2019-02 entitled "Submission of the Bank’s Financial Statements as of December 31, 2018 to Commission on Audit (COA)" on April 2, 2019.

2. Statement of Compliance and Basis of Financial Statements Preparation

2.1 <u>Basis of Financial Statements Preparation</u>

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

The accompanying financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

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.

During the year, the Bank adopted PFRS 9 which replaced PAS 39. This resulted in changes in accounting policies and adjustments to the amount previously recognized in the financial statements. In accordance with the transitional provision of PFRS 9, comparative figures have not been restated, hence, all comparative period information is presented in accordance with PAS 39.

Financial statements are presented in Philippine peso, which is the country's functional currency.

2.2 Statement of Compliance

The Bank's consolidated 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 (PFRS/PAS).

Summary of Significant Accounting Policies

2.3 Foreign currency translation

Foreign currency transactions are accounted for and revalued monthly using the month-end Philippine Dealing and Exchange System (PDEX) closing rate. Foreign exchange differences arising from the revaluation are charged to operations.

2.4 Fair Value Measurement

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

Cash and cash equivalents and short-term investments have carrying amounts which approximate fair values due to the relatively short-term maturity of these instruments.

Debt securities are measured at fair values which 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 in which quoted market prices are not readily available are reported at cost.

2.5 Financial Assets/Liabilities

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.

In accordance with PFRS 9 and PFRS 7, Financial Instruments – Recognition, Classification, Measurement and Disclosures, the Bank's financial instruments are recognized initially at fair value in its statement of financial position.

The Bank subsequently measures its financial assets at amortized cost, fair value through other comprehensive income and fair value through profit or loss on the basis of both business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

a. Financial Assets Available for Sale (AFS)

Available for sale investments are those purchased and held indefinitely, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices.

b. Financial Assets Held for Trading (HFT)

This refers to the debt and equity securities that are:

b.1. acquired principally for the purpose of selling or repurchasing them in the near term; or

b.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.

c. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: a) those that the bank intends to sell immediately or in the near term, which shall be classified as Held for Trading (HFT) and those that the entity upon initial recognition designates as at fair value through profit or loss; b) those that the Bank designates as AFS upon initial recognition; or c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as AFS.

Regular loans (Loans to Gov't, Agri-Agra, Development Incentive, SME, microfinance, contract to sell and others) are carried in the books at its amortized cost or the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the diminishing balance method, minus any reduction – directly or through the use of an allowance account – for impairment or uncollectibility.

There are fees and other charges that are recognized immediately as income upon collection except for the advance interests, which are booked under Unearned Income account. The Bank uses the Effective Interest Rate Method of calculating interest on new loans releases. Transactions costs were amortized over the life of the loan.

Past due loans and receivables are automatically carried on non-accrual basis. Interest incomes on such accounts are recognized only upon collection.

Unclassified Loans are loans that do not have a greater-than normal risk and do not possess the characteristics of classified loans as defined below:

a. Loans or portions thereof secured by holdouts on deposit/deposit substitutes maintained in the lending institution and margins deposits, or government-supported securities; and

b. Loans with technical defects and deficiencies in documentation and/or collateral requirements. These deficiencies are isolated cases where the exception involved are not material nor is the Bank's chance to be repaid or the borrower's ability to liquidate the loan in an orderly manner undermined. These exceptions should be brought to management's attention for corrective action during the examination and those which are not corrected shall be included in the Report of Examination under "Miscellaneous Exceptions – Loan". Moreover, deficiencies which remained uncorrected in the following examination shall be classified as "Loans Especially Mentioned".

Classified Loans are loans which possess the characteristics outlined hereunder:

a. Loans Especially Mentioned are loans and advances that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

b. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists in such loans the possibility of future loss to the institutions unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

c. Doubtful Loans are loans or portion thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

d. Loans classified as loss are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

As a general rule, past due accounts refers to all accounts of the Bank under its loan portfolio which are not paid at maturity.

a. The following are considered as past due:

a.1. Loan receivable payable on demand not paid on the date indicated on the demand letter, or within three months from the date of grant, whichever comes earlier;

a.2. Bills discounted and time loans, whether or not representing availments against a credit line, not paid on the respective maturity dates of the promissory notes;

a.3. Bills and other negotiable instruments purchased, if dishonored upon presentment for acceptance/payment or not paid on maturity date, whichever comes earlier: provided, however, that an out-of-town check and a foreign check are considered as past due if outstanding for 30 days and 45 days, respectively, unless earlier dishonored; and

a.4. Loans or receivables collectible in installments where the number of installment in arrears fall under the following:

Mode of Payment	Minimum No. of Installment in Arrears
Monthly	3
Quarterly	1
Semestral	1
Annual	1

Provided, however, that when the total amount of arrearages reaches 20 per cent of the total outstanding balance of the loan/receivable, the total outstanding balance of the loan/receivable is considered as past due, regardless of the number of installment in arrears.

Provided, further, that for modes of payment other than those listed above (e.g., daily, weekly, semi-monthly), the entire outstanding balance of the loan/receivable is considered as past due when the total amount of arrearages reaches 10 percent of the total loan/receivable balance.

b. Reclassification of loan accounts to past due status is effected on the banking day immediately following the date when any of the preceding conditions has been reached. In determining the total number of days past due, the relevant time period is reckoned as follows:

Payment Type	Reclassification date
Lump sum (single) payment	From maturity date to payment date
Amortized	From date of first default to payment date

c. If a borrower has past due obligations, the Bank may declare the borrower's other current obligation as due and demandable.

d. The decision to proceed with the collection of outstanding obligations in current status as well as the suspension of credit lines rest with the same approving authority which approved the loan.

e. When the account turned past due, real estate tax and insurance premium is updated by the lending unit concerned if the client fails to pay such obligations.

f. A grace period of 30 days is given to clients after the due date where no penalty charges is imposed.

g. Past due interest is computed on loans considered past due. Interest on past due loans (amortized) before the maturity date is computed as is using the interest rate indicated in the PN. Interest on the past due loans after the maturity date is computed using the interest rate indicated in the PN or the prevailing interest rate at the time of payment, whichever is higher.

h. Penalty charge is computed on delayed amortization or, in case of past due accounts, on outstanding balance. Amortization means principal and/or interest payment. When the payment due date falls on a Saturday, Sunday or a non-working holiday, payment made on the next banking days is deemed to have been received on the original due date. No penalty charges is imposed accordingly.

Subsequent to initial recognition, we continue to measure at fair value except for the loans and receivables, which are measured at amortized cost using the effective interest method. Changes in fair value relating to the held for trading positions are recognized in profit or loss. Gains and losses arising from changes in the fair values of available for sale financial assets are recognized directly in the equity until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Gain or loss arising from the change in carrying amount of Unquoted Debt Securities Classified as Loans are recognized in profit or loss when the security is derecognized or impaired, and through the amortization process.

Initial application of PFRS 9 (effective January 1, 2018) – Financial Instruments that replaced PAS 39. Financial Instruments, Classification and Measurement. The new standard contains, among others, the following:

- Three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments.

- An expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial assets

In accordance with the financial asset classification principle of PFRS 9, the bank's financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding.

For liabilities, the standard retains most of the PAS 39 requirements, which includes amortized cost accounting for the bank's financial liabilities.

BSP placements, AFS financial assets, government securities and loans and receivables satisfied the conditions for classification at amortized cost. Those that are currently classified as loans and receivables did not resulted in a change in measurement, while for those that are currently classified as AFS financial assets, the instrument shall be carried as if it was amortized from the date of acquisition.

2.6 Impairment

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

Financial assets

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.

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

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 income statement.

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.

Measurement of expected credit losses

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.

2.7 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 ten (10) 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.

2.8 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 ten percent 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

COA Circular no. 2015-010 increased the threshold in the recognition of Furniture, Fixtures and Equipment from Php10,000.00 to Php15,000.00.

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 5 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.

2.9 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.

2.10 Sales Contract Receivable

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 PAS 18 Revenue.

2.11 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.

2.12 Deferred Tax Asset

Deferred tax assets are the amount of income taxes recoverable in future periods, which are recognized for all deductible temporary differences.

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, its former mother corporation, for periods ranging from five to ten 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.

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.

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 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.

3.2 Impairment of AFS investments

The Bank considers AFS 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.

3.3 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.

4. Cash and Cash Equivalents

This is broken down as follows:

	2018	2017
Cash and other cash items	101,977,551	93,796,842
Due from Bangko Sentral ng Pilipinas	3,601,334,772	2,848,360,713
Due from other banks	39,970,752	73,996,036
Loans and receivables arising from RA/CA/PR/SLB	529,000,000	330,428,988
	4,272,283,075	**3,346,582,579**

Cash and other cash items consists of the following:

	2018	2017
Cash on hand	101,866,846	93,749,842
Checks and other cash items	98,705	0
Petty cash fund	12,000	47,000
	101,977,551	**93,796,842**

5. Due from Bangko Sentral ng Pilipinas

This account represents the following: a) demand deposits which the bank utilizes in its clearing operations, b) Special Deposit Account for liquidity requirement purposes, and c) Reserve Deposit Account for the Circular 10 compliance of the bank with the Bangko Sentral ng Pilipinas.

	2018	2017
Reserve deposit account	2,900,000,000	2,124,000,000
Demand deposit account	691,334,772	724,360,713
Overnight deposit account	10,000,000	0
	3,601,334,772	**2,848,360,713**

6. Due from Other Banks

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

	2018	2017
Landbank of the Philippines (LBP)	33,675,496	17,423,859
United Coconut Planters Bank (UCPB)	6,176,213	41,321,550
Banco de Oro Unibank, Inc. (BDO)	64,638	65,508
Rizal Commercial Banking Corporation	54,405	3,492,309
Philippine Business Bank (PBB)	0	6,217,334
China Bank (CBS)	0	4,122,923
Philippine National Bank (PNB)	0	782,109
Metro Bank and Trust Company (MBTC)	0	504,339
Philippine Savings Bank (PSB)	0	39,111
Development Bank of the Philippines (DBP)	0	26,994
	39,970,752	**73,996,036**

7. Held for Trading Financial Assets

This comprises securities purchased from Rizal Commercial Banking Corporation which are issued by the Bureau of the Treasury.

8. Available for Sale Financial Assets

This account is composed of investments in government treasury bills and fixed treasury notes purchased from the following:

	2018	2017
Rizal Commercial Banking Corporation	267,792,935	295,913,596
East West Banking Corporation	84,861,171	93,758,651
Security Bank Corp.	81,757,833	90,091,269
Chinabank	42,475,585	46,879,325
	476,887,524	**526,642,841**

In the implementation of the effective interest method, the following adjustments were made during the year in the amortization and allocation of interest income of the financial assets:

a. Carrying value

ISIN NO.	TRADING ORDER	SHOULD BE	PER BOOKS	ADJUSTMENT
PIBD1025I608	P2016-022	51,150,483	51,115,879	34,604
PIBD1025I608	P2016-023	51,212,586	51,176,360	36,226
PIBD1025I608	P2016-021	102,350,628	102,280,117	70,511
PIBD1024H595	P2016-026	51,921,174	51,861,714	59,460
PIBD2031G171	GSP2016-028	69,931,027	69,325,656	605,371
PIBD1025I608	GSP2016-033	50,718,781	50,696,972	21,809
PIBD1025I608	GSP2016-032	50,731,075	50,708,920	22,155
PIBD1025I608	GSP2016-031	50,743,372	50,720,873	22,499
PIBD10261057	P2016-034	100,000,000	100,000,000	0
		578,759,126	**577,886,491**	**872,635**

b. Net unrealized loss on Equity

ISIN NO.	TRADING ORDER	SHOULD BE	PER BOOKS	ADJUSTMENT
PIBD1025I608	P2016-022	(8,674,898)	(8,640,294)	34,604
PIBD1025I608	P2016-023	(8,737,000)	(8,700,775)	36,225
PIBD1025I608	P2016-021	(17,399,457)	(17,238,946)	160,511
PIBD1024H595	P2016-026	(7,537,900)	(7,478,440)	59,460
PIBD2031G171	GSP2016-028	(16,423,708)	(15,818,337)	605,371
PIBD1025I608	GSP2016-033	(8,243,196)	(8,221,386)	21,810
PIBD1025I608	GSP2016-032	(8,255,489)	(8,233,335)	22,154
PIBD1025I608	GSP2016-031	(8,267,787)	(8,245,288)	22,499
PIBD10261057	P2016-034	(18,242,167)	(18,241,280)	887
		(101,781,602)	**(100,818,081)**	**963,521**

c. Accrued interest receivable

ISIN NO.	TRADING ORDER	SHOULD BE	PER BOOKS	ADJUSTMENT
PIBD1025I608	P2016-022	439,028	452,624	13,596
PIBD1025I608	P2016-023	439,028	452,624	13,596
PIBD1025I608	P2016-021	878,056	905,249	27,193
PIBD1024H595	P2016-026	586,667	596,332	9,665
PIBD2031G171	GSP2016-028	1,413,333	1,434,783	21,450
PIBD1025I608	GSP2016-033	439,028	452,624	13,596
PIBD1025I608	GSP2016-032	439,028	452,624	13,596
PIBD1025I608	GSP2016-031	439,028	452,624	13,596
PIBD10261057	P2016-034	62,222	241,111	178,889
		5,135,418	**5,440,595**	**305,177**

d. Interest income relating to financial assets was also adjusted by P567,455.93.

9. Unquoted Debt Securities Classified as Loans

These are investments in government securities held by the Bureau of the Treasury under the Registry of Scripless Securities (ROSS) System in compliance with BSP Memorandum Circular (series of 1997) dated October 6, 1997.

The BSP, under Circular No. 1011 dated August 14, 2018, issued the Guidelines on the Adoption of the Philippine Financial Reporting Standards (PFRS) 9 for financial instruments.

10. Loans and Receivables

This account consists of:

	2018	**2017 (As restated)**
Loans to Private Corporation	1,824,108,048	2,200,452,288
Small & Medium Enterprises	659,107,033	813,500,170
Consumption loans	437,818,532	668,086,194
Contract to Sell	406,500,605	343,113,514
Agrarian Reform & other Agricultural Loan	380,614,849	395,050,230
Loans to Government	218,640,188	257,671,914
Loans to Individual for Housing Purposes	56,145,749	86,079,619
Loans to Individual for Other Purposes	48,711,267	73,490,529
Microfinance Loans	12,377,920	25,483,229
	4,044,024,191	**4,862,927,687**
Allowance for Losses	667,176,222	359,696,637
Net of Allowance	**3,376,847,969**	**4,503,231,050**

Allowance for losses

The details of specific allowances on loans are:

	2018	2017
Balance, January 1	337,194,554	295,217,916
Provision	358,045,831	42,133,750
Write-offs	(14,548,600)	0
Transfers and other adjustments	(42,844,061)	(157,112)
Balance, December 31	637,847,724	337,194,554

The movement of the general loan loss provisions are:

	2018	2017
Balance, January 1	22,502,083	37,829,407
Transfers and other adjustments	6,826,414	(15,327,324)
Balance, December 31	29,328,497	22,502,083

<u>As to Status:</u>

	2018	2017 (As restated)
Current Loans	1,804,538,991	2,294,899,114
Non-Performing Loans	2,239,485,200	2,568,028,573
	4,044,024,191	**4,862,927,687**

<u>As to Security</u>:

	2018	2017 (As restated)
Secured Loans	2,848,349,817	3,534,130,504
Unsecured Loans	1,195,674,374	1,328,797,183
	4,044,024,191	**4,862,927,687**

<u>As to Type of Security:</u>

	2018	2017 (As restated)
Real Estate Mortgage	1,554,456,761	2,660,906,617
Other Collaterals	1,293,893,056	873,223,887
	2,848,349,817	**3,534,130,504**

Consumption loans include financial assistance given to eligible employees of the PPC and OFB, for personal consumption such as educational, hospital or medical, appliance purchase and/or working capital for business/ livelihood purposes in the form of salary loans in a maximum amount of P150,000 and P250,000, respectively.

In October 2017, pursuant to ManCom Resolution no. 299-2017, the Committee directed all Lending Groups/ Branches to be guided by the following on the grant of loans:

- No new and additional loans shall be granted. Increase in exposures in terms of aggregate amount on a per borrower/ group basis shall be considered a willful violation;

- Renewal of the existing exposures, particularly if the renewal per se is nothing but normal considering its nature, is acceptable.

On April 6, 2018, the approval of the request for staggered booking of the unbooked valuation reserves in the amount of P1.646 billion was ratified by the board of directors per Board Resolution no. 2018-56.

The BSP Monetary Board approved per Resolution no. 993, dated June 14, 2018, the request of OFB to book the allowance for credit losses (ACL) on a staggered basis over a five-year period to be implemented through monthly recording of P27.4 million ACL in OFB's books, with the initial booking to commence within 30 calendar days from date of receipt of BSP's notice and every month thereafter, until the entire P1.646 billion is fully booked.

11. 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.

12. Investment Property

Investment property represents properties acquired by the Bank judicially in settlement of outstanding loans of delinquent borrowers. These are maintained by the Bank pending sale through public auction after a one-year redemption period as mandated by Bangko Sentral ng Pilipinas regulations.

	2018	**2017**
LAND		
At Cost		
At January 1	176,309,535	169,774,395
Additions	50,096,990	27,570,633
Disposal	(99,675,068)	(21,035,493)
At December 31	126,731,457	176,309,535
Impairment	14,041,000	5,210,771

	2018	2017
Net Book Value	112,690,457	171,098,764
BUILDING		
At Cost		
At January 1	53,179,920	54,599,892
Additions	134,627,822	3,328,387
Disposal	(1,151,610)	(4,748,359)
At December 31	186,656,132	53,179,920
Accumulated Depreciation		
At January 1	15,592,676	10,586,455
Depreciation	16,543,423	5,006,221
At December 31	32,136,099	15,592,676
Net Book Value	154,520,033	37,587,244
OTHERS*		
At Cost		
At January 1	19,393,890	19,517,629
Disposal		(123,739)
At December 31	19,393,890	19,393,890
Accumulated Depreciation		
At January 1	12,651,300	8,742,556
Depreciation	2,895,296	3,908,744
At December 31	15,546,596	12,651,300
Impairment	3,847,293	
Net Book Value	1	6,742,590
Total Investment Property – net	**267,210,491**	**215,428,598**

*Other properties include machineries mortgaged from the previously acquired properties.

13. Property and Equipment

This account consists of:

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Lease, Right And Improvements	Totals
Balance as of 1-Jan-18							
Cost (restated)	131,008,000	41,501,900	57,316,775	13,832,135	131,348,871	26,441,983	401,449,664
Additions	0	0	362,597	0	1,556,350	0	1,918,947
Disposals	0	0	(18)	0	0	0	(18)
Reclassifications	0	0	(5,131,615)	(9,487)	2,524,929	(196,238)	(2,812,411)
Balance as of 31-Dec-18	131,008,000	41,501,900	52,547,739	13,822,648	135,430,150	26,245,745	400,556,182
Balance as of 1-Jan-18							
Accumulated Depreciation (restated)	0	14,105,136	51,307,948	12,635,996	118,634,839	20,703,047	217,386,966
Provisions	0	2,467,285	1,376,891	223,842	4,011,228	1,374,506	9,453,752
Disposals	0	0	0	0	0	0	-
Reclassifications	0	0	(4,952,027)	(23,278)	2,647,436	(141,538)	(2,469,407)

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Lease, Right And Improvements	Totals
Balance as of 31-Dec-18	0	16,572,421	47,732,812	12,836,560	125,293,503	21,936,015	224,371,311
Carrying amount as of 31-Dec-18	**131,008,000**	**24,929,479**	**4,814,927**	**986,088**	**10,136,647**	**4,309,730**	**176,184,871**
Carrying amount as of 31-Dec-17 (restated)	131,008,000	27,396,764	6,008,827	1,196,139	12,714,032	5,738,936	184,062,698

OFB (formerly PPSBI) building was acquired thru Dacion En Pago from Philippine Postal Corporation on November 02, 2012 with booked value amounting to P37,567,000.

14. 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.

	2018	2017 (As restated)
Cost	151,104,691	69,062,794
Accumulated depreciation	10,263,064	9,994,797
	140,841,627	59,067,997
Allowance for losses	7,514,718	1,780,841
Net of allowance	**133,326,909**	**57,287,156**

The details of allowance for losses are:

	2018	2017
Balance, January 1	1,780,841	0
Impairment	4,674,418	1,780,841
Transfers and other adjustments	1,059,459	0
Balance, December 31	7,514,718	1,780,841

15. 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.

16. Other Intangible Assets

This account is composed of the following:

	2018	2017 (As restated)
Other intangible assets	89,201,779	89,221,606
Accumulated amortization	(69,074,852)	(66,020,260)
Total	20,126,927	23,201,346
Other assets - allowance for losses	(10,000,000)	(10,000,000)
	10,126,927	**13,201,346**

17. Other Assets

This account is composed of the following:

	2018	2017 (As restated)
Accounts receivables	202,487,616	56,893,397
Accrued interest income from financial assets	58,948,083	64,862,553
Miscellaneous assets	38,722,818	61,942,948
Documentary stamps on checks	5,281,231	1,899,494
Stationery and supplies on hand	3,750,574	3,835,605
Prepaid expenses	3,202,503	4,285,291
Deferred tax asset	2,549,904	2,539,789
Returned checks and other cash items	291,043	1,370,032
Other investments	153,333	153,333
Sundry debits	54,801	71,762
Shortages	0	1,500
	315,441,906	197,855,704
Other Assets - Allowance for Losses	66,376,050	29,908,172
	249,065,856	**167,947,532**

The Accounts Receivable account includes the amount of P4 million and P7.3 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 2018 as restitution for losses expropriated by a former employee.

On April 30, 2018, the Bank requested for staggered booking of the estimated P237.9 million provision for losses arising from Naga Branch fraud.

In 2017, total payments amounting to P52.16 million for the Bank's ongoing Loans Management System/GL Accounting System and Deposit System computerization projects, were temporarily lodge to Miscellaneous Assets account.

In October 2018, the impairment of the above cited system (ConnectCore) was approved per I.T. Steering Committee Resolution no. 2018-05, dated August 20, 2018 amounting to P46.97 million net of retention payable. All payments concerning the system was removed from Miscellaneous Assets.

In September 2018, the Quedancor investments booked under Unquoted Debt Securities classified as loans were being reported under Miscellaneous Assets account in accordance with BSP Circular No. 1011 dated August 14, 2018.

Allowance for losses on Other Assets includes the following:

	2018	2017
Accounts receivables	16,593,517	10,080,060
Accrued interest income from financial assets	19,782,533	19,828,112
Miscellaneous assets	30,000,000	0
	66,376,050	**29,908,172**

Movement of allowance:

	2018	2017
Balance, January 1	29,908,172	29,411,836
Provision	6,467,878	496,336
Transfers	30,000,000	0
Balance, December 31	**66,376,050**	**29,908,172**

18. Deposit Liabilities

This account is composed of the following:

	2018	2017
Domestic:		
Demand deposits	330,580,970	471,853,111
Savings deposits	7,946,350,831	7,233,914,508
Time certificate of deposits	34,635,318	269,085,885
Foreign:		
Savings deposits	1,504,135	2,168,556
Time certificate of deposits	3,171,763	2,164,588
	8,316,243,017	**7,979,186,648**

Domestic deposit liabilities earns annual fixed interest rates ranging from 0.10 to 4.25 per cent and 0.25 to 0.65 per cent in 2018 and 2017. Foreign deposits range from 0.15 to 0.875 per cent and 0.25 to 0.625 per cent in 2018 and 2017, respectively.

19. Accrued Expenses

This account represents**:**

	2018	2017 (As restated)
Fringe benefits	176,086,413	14,613,907
Litigation/assets acquired	65,692,756	18,636,227
Management and other professional fees	25,275,472	15,471,900
Accrued interest expense in financial liabilities	16,048,238	12,913,031
Rent	7,886,176	12,195,740
Security, clerical, messengerial and janitorial	5,431,425	6,494,842
Other taxes and licenses	3,419,696	1,705,410
Salaries and wages	1,654,686	2,853,047
Postage, telephone, cables and telegrams	842,799	570,305
Power, light and water	725,983	692,251
Repairs and maintenance	356,525	421,761
Fuel and lubricants	54,957	106,253
Fines, penalties and other charges	4,223	12,900
Others*	32,070,312	20,577,381
	335,549,661	**107,264,955**

*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 on fringe benefits as of December 2018 includes the P173.03 million employee benefits representing the Early Retirement Incentive Plan (ERIP) per E.O. 44, dated 28 September 2017.

20. Other Liabilities

This account comprises of:

	2018	2017
Unearned income and other deferred credits	69,011,835	59,930,349
Accounts payable – others	42,197,307	74,072,368
Inter-office float items	7,518,289	56,515,259
Withholding tax payable	3,142,521	4,898,501
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	905,135	1,193,915
Unclaimed balances	889,307	1,128,684
Overages	7,596	7,261
Sundry credits	0	28,322
Miscellaneous liabilities	1,153,765	205,941
	124,825,755	**197,980,600**

The Accounts Payable account represents 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.

21. Capital Stock

The Bank is authorized to issue 10,000,000 shares at P100.00 par value, of which 10,000,000 shares amounting to P1,000,000,000 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 P440,000,000.00. 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 Drive Fund (PDF), a microfinance program for the transport sector, amounting to P249,234,883 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.

In September 2017, the President of the Philippines, through Executive Order (E.O.) 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 PDF.

On January 19, 2018, pursuant to E.O. 44, the Bank transferred to the NT the amount of P249,234,883 which is the equivalent value of the Capital Stock issued for the remaining balance of the PDF.

On July 6, 2018, the Land Bank of the Philippines subscribed and paid four million two hundred eighty-nine thousand nine hundred twenty (4,289,920) shares amounting to P428,992,000.00.

22. Retained Earnings Unappropriated

In consonance with PAS 8, the balance of this account as of December 31, 2017 was restated for prior period adjustments. The adjustments principally relate to reclassification of various accounts, recognition of expenses and the reversal of income on penalties of loans.

Restatement of retained earnings of the Bank as December 31, 2017:

Particulars	Debit	Credit	Balance
Retained earnings, as of January 1, 2017 before restatement			182,644,558
Adjustments on:			
Income prior to CY 2017	6,670,162		(6,670,162)
Restated retained earnings as of January 1, 2017			175,974,396
Net loss for CY 2017 before restatement			(106,772,385)
Adjustments:			
Reclassification of BPFFE	1,622,951	62,792	
Rental charges	639,942		
Miscellaneous income	1,607,560		
	3,870,453	62,792	(3,807,661)
Restated net loss for CY 2017			(110,580,046)
Restated retained earnings as of December 31, 2017			65,394,350

The effects of these restatements in the financial statements as of and for the year ended December 31, 2017 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
Changes in the Statement of Financial Position			
Assets			
Loans and receivables - net	4,508,838,610	(5,607,560)	4,503,231,050
Property and equipment - net	185,587,251	(1,524,553)	184,062,698
Non-current assets held for sale	59,957,318	(2,670,162)	57,287,156
Other intangible assets - net	13,236,965	(35,619)	13,201,346
Other assets	167,947,519	13	167,947,532
		(9,837,881)	
Equity			
Retained earnings unappropriated	75,872,173	(10,477,823)	65,394,350
Changes in the Statement of Comprehensive Income			
Rent	32,437,553	639,942	33,077,495
Depreciation and amortization	27,371,642	488,002	27,859,644
Stationeries and supplies used	6,132,496	1,061,157	7,193,653
Repairs and maintenance	4,405,733	11,000	4,416,733
Miscellaneous income	73,958,372	(1,607,560)	72,350,812
		592,541	

23. Unrealized Gains/ Losses on AFS Financial Assets

This account refers to the gains and losses from mark to market valuation of AFS securities which is booked on a daily basis.

24. Miscellaneous Income

This account is consists of:

	2018	2017
Penalties on past due loans/amortizations	38,138,801	46,293,621
Recovery on charged-off assets	14,513,195	20,798,792
Gain from sale/derecognition of non-financial assets	14,309,044	1,185,675
Rental income	77,220	4,767
Other income	5,000,370	4,067,957
	72,038,630	**72,350,812**

25. Other Operating Expenses

a. Compensation and fringe benefits

	2018	2017
Salaries and Wages	98,891,544	134,485,122
Fringe Benefits	262,389,217	49,652,368
Government Contributions	6,098,172	8,024,707
Other compensation and benefits	3,971,090	13,329,982
	371,350,023	**205,492,179**

b. Provision for probable losses

	2018	2017
Loans to Private Corporations	249,850,749	1,461,100
Contracts to Sell	40,150,658	0
Small and Medium Enterprises Loans	32,138,521	4,658,952
General Loan Loss Provision	12,481,239	2,140,839
Loans to Individuals for Consumption Purposes	6,697,670	9,856,763
Agrarian Reform and Other Agricultural Loans	1,236,044	533,086
Microfinance Loans	116,934	322,476
Loans to Local Government Units	0	201,081
Individuals for Housing Purposes	0	359,411
Loans to Individuals for Consumption Purposes-Others	0	6,180,810
Loans to Individuals for Other Purposes	0	2,934,624
	342,671,815	**28,649,142**

c. Depreciation and amortization

	2018	2017
Non-Current Assets Held for Sale	3,123,357	4,589,162
Investment Property	19,438,719	8,914,965
Bank Premises, Furniture, Fixtures and Equipment	9,453,752	13,324,820
Other Intangible Assets	3,060,682	1,030,697
	35,076,510	**27,859,644**

26. Miscellaneous Expenses

This account is composed of:

	2018	2017 As restated
Impairment loss	64,318,379	2,616,118
Litigation expense	59,696,523	32,120,923
Documentary stamps used	36,552,862	14,510,938
Information technology	36,379,882	32,804,331
Management and other professional fees	25,652,011	16,204,229
Security, clerical, messengerial and janitorial	19,040,610	20,011,990
Insurance	17,162,965	23,383,882
Power, light and water	10,725,236	10,994,548
Stationeries and supplies used	8,751,198	7,193,653
Representation & entertainment	7,052,750	9,708,048
Postage, telephone, cable and telegram	3,979,458	4,776,581
Repairs and maintenance	3,087,007	4,416,733
Travelling expense	2,956,790	4,927,480
Loss on financial assets held for trading	2,802,777	1,010,351
Supervision fees	2,374,823	2,476,498
Fees and commission	1,551,837	1,724,090
Fuel and lubricants	1,383,735	1,651,982
Fines, penalties and other charges	541,834	144,040
Membership fees and dues	447,930	720,708
Periodicals and magazines	91,546	111,968
Training and seminars	79,460	1,654,093
Advertising and publicity	71,662	191,037
Donation and charitable contributions	27,757	25,192
Other expenses	699,214	624,991
	305,428,246	**194,004,404**

27. Supplemental Information on Revenue Regulation

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.

	2018	2017
Documentary stamp taxes	45,731,781	25,856,186
Final income taxes (1602)	15,825,718	21,171,780
Income taxes on compensation (1601C)	7,608,139	23,739,959
Percentage taxes (2551M)	6,151,770	18,175,412
VAT & other percentage taxes (1600)	3,954,859	3,823,389
Creditable income taxes (1601E)	2,282,976	3,130,199
Annual registration	12,500	12,500
	81,567,743	**95,909,425**

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.

Requirement under RR 15-2010

Documentary stamp tax

The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2018 are as follows:

Documents/Transactions	DST Paid
Loan instruments	8,420,356
Cert. of time deposits/Other deposits	37,290,815
Certification	20,610
	45,731,781

Other taxes and licenses

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

a. Local

Annual business taxes	2,793,192
Other fees	91,524
Mayor's permit	89,738
Registration	82,191
Real property tax	43,442
Business tax for ATM	34,129
Garbage fee	31,745
Community tax	26,486
Fire inspection fee	18,549
Barangay business clearance	17,835
Electrical permit	11,123

Building safety inspection fee	6,775
Environmental fee	6,100
Sanitary fee	5,835
Occupational tax	4,900
Health	4,439
Plate and Sticker	3,540
Personnel	3,400
Corporate tax	3,081
Zoning inspection fee	2,780
Sewerage fee	2,640
Police clearance fee	2,105
Annual physical exam	1,700
Obo fees	1,659
Tax for generator	1,520
Drug test	1,050
Regulatory fee	800
Doc Stamps	275
CCENRO fee	40
Certification fee	20

b. National

BIR annual registration	12,500
Percentage taxes (2551)	6,151,770

Withholding Taxes

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

i. Tax on compensation and benefits	7,608,139
ii. Creditable withholding taxes	2,282,976
iii. Final withholding taxes	
(i) Final income taxes	15,825,718
(ii) Final withholding VAT	3,954,859

28. Related Party Transactions

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

	Transaction Amount
Due from other banks	33,674,997
Accrued interest income	14,201
Deposit liability	1,000,000,000
Accrued expenses*	25,180,924
Accounts payable-others	1,205,232
Withholding tax payable	401,389
PICS-common stock	428,992,000

Interest income	45,572
Interest expense	2,006,944
**Additional information (expenses with accrual):*	
Information technology	*10,815,878*
Management and other professional fees	*8,200,000*
Stationeries and supplies used	*4,559,490*

29. Employees Compensation and Benefits

Compensation of key management personnel:

	2018	2017
Salaries and wages	8,494,706	14,273,588
Other benefits	3,691,200	5,692,453
Total	12,185,906	19,966,041

Retirement/Separation Benefits

The Bank's Separation Plan per Board Resolution no. 2010-199 dated September 23, 2010, entitles all permanent and regular employees hired as of August 31, 2010 to the separation benefits as follows:

Length of Service	Amount to be received
5-10 years	75% of basic salary per year of service
More than 10 years-15 years	100% of basic salary per year of service
More than 15 years-20 years	125% of basic salary per year of service
More than 20 years	150% of basic salary per year of service

A fraction of six (6) months will be considered as one (1) year.

Payment of retirement/separation benefits is charged to current operations.

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

30. 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.

31. Basic Quantitative Indicators of Financial Performance

	2018	2017
	(In percentage)	(In percentage)
Return on average equity	-114.2	-11.8
Return on average assets	-8.15	-1.04
Net interest margin	3.08	3.09
Risk Based Capital Adequacy Ratio	3.94	6.63

32. Subsequent Events

Investment in notes by the Quedan and Rural Credit Guarantee Corporation (Quedancor) for the Bank's Agri-agra compliance is now under negotiation for the replacement by Quedancor Restructured Notes. This was lodged under the Miscellaneous assets account and was fully provided with allowance for losses.

33. Reclassification of Accounts

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

34. Management of Risks Related to Financial Instruments

The Bank has established risk management systems to address the risks inherent to its activities which include, among others, credit, market, liquidity, operational, IT, foreign currency, and interest rate risks.

Decisions in relation to risk management are made by the Corporate Governance and Risk Management Committee (CGRMC), which ensures effective monitoring and control over risks being taken. The committee, together with the Risk Officer, is responsible for the development, implementation, maintenance, improvement and communication of the risk management policy while each business and supporting unit has the primary task of managing the risks applicable to its area of responsibility.

Overall Risk Management Philosophy

OFB considers sound and adequate risk management as critical component of a stable and profitable financial institution. As risk is an inherent part of its business undertakings- present in the financial instruments it acquires and trades, in loans it grants, in deposits it generates to fund its requirements, and even in people it hires - it is imperative that risk- related issues are taken into consideration in all its business decisions and communicated across the Bank starting from the Board of Directors to Senior Management down to actual risk –taking units through a well-defined risk system and structure. A sound corporate risk management philosophy translates into prudent risk-taking and proactive portfolio management enabling OFB to pursue its financial expansion while maintaining adequate capital at all times.

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 5 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 in planning, reviewing and assessing different risks being managed by the Bank through the various committees. The Management Committee (Mancom) 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 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 Group 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 Group 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.

Credit Risk

Credit risk pertains to risk of financial loss due to non-payment by borrowers, issuer or counterparties of their obligations, deterioration in credit quality and reduced recovery from a credit facility in the event of default. The Bank is exposed to credit risk as lender, holder of securities and as counterparty in trading activity.

The Bank follows the Single Borrower's Limit (SBL) prescribed by the BSP. Credit exposures are constantly monitored and a credit evaluation process is conducted to assess the credit-worthiness of each borrower. 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.

Management of Credit Risk

Management of credit risk at OFB begins with the loan approval process. The Bank has established a rigid screening and prudent credit evaluation process of loan applications as contained in the Manual of Lending Operations (MOLO). It defines loan activities from identification, credit initiation, documentation, loan administration, etc. The credit process is also guided by Board-approved credit policies and procedures including hierarchy on approving authority, internal risk-rating methodologies and collateral requirements.

An essential part of credit risk management is periodic review of quality of loan portfolio, monitoring of line utilization, analysis of concentration of loans by industry, assessment of adequacy of loan loss provisioning, etc. All these measures are implemented in order to maintain a diversified and sound loan portfolio, and to detect any deterioration in credit quality so that remedial actions can be implemented.

Aside from strengthening its credit evaluation process, the Bank has increased its provisioning for loan losses to address potential rise in non-performing loans as a result of robust expansion in its loan portfolio. In addition, it has pursued a speedy disposition of its ROPA.

Exposure to Credit Risk

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

	2018	**2017**
Real Estate Activities	1,222	1,462
Wholesale and Retail Trade	872	950
Salary-Based General–Purpose Consumption Loans	404	657
Public Adm. and Defense/Compulsary Social Sec.	308	350
Agriculture, Hunting and Forestry	279	288
Financial and Insurance Activities	260	334
Administrative and Support Service Activities	177	177
Education	115	122
Construction	114	143
Mining and Quarrying	75	75
Others	218	305
	4,044	4,863
Allowance for Credit Losses	638	337
	3,406	4,526

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.

In terms of credit risk monitoring, the Bank prepares a monthly report on credit quality as summarized below (in million Pesos):

	2018	2017
Neither past due nor impaired	1,677	2,198
Past Due but not impaired	128	97
Impaired	2,239	2,568
	4,044	4,863
Less: Specific allowance for credit losses	638	337
	3,406	4,526

The Bank further classifies its non-performing loans into secured and unsecured (in million Pesos):

	2018	Per cent	2017	Per cent
Secured	1,431	64	2,143	83
Unsecured	808	36	425	17
	2,239	100	2,568	100

Market Risk

The Bank's exposure to market risks 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.

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.

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 has an outstanding exposure of P45 million under the Held for Trading (HFT) portfolio as of December 31, 2018.

The Bank's government securities classified under Available for Sale Securities (AFSS) which have an average yield to maturity (YTM) of 3.27% registered an unrealized loss / marked to market loss of P100.91 million for a P550 million portfolio. Likewise a MTM loss of P36.6 thousand was registered for HFT securities.

Liquidity Risk

Liquidity risk pertains to potential losses to the Bank arising from either its inability to meet its obligations or to fund maturing liabilities as they fall due. Senior Management through the Assets and Liabilities Management Committee (ALMC) is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank.

Liquidity risk is the risk of loss to earnings or capital due to inability to meet funding requirements or payment of obligations as they fall due. OFB's liquidity policy is to maintain sufficient liquidity level not only to service deposit withdrawals and other contractual obligations but also to provide ample buffer to meet any unplanned changes in funding sources or changes in market conditions. Part of liquidity management strategy is to keep a sizeable amount of liquid assets like marketable government securities, and Deposit Balances with BSP such as Overnight Deposit Facility, Term Deposit Facility and Overnight Reverse Repurchase Agreement.

The Assets and Liabilities Management Committee (ALMC) and Treasury Group supervise the liquidity planning of the Bank both for the day-to-day funding requirements and for balance sheet management purposes. Daily cash flow projection and analysis of liquidity position are prepared with any excess funds temporarily park on interbank placements or deposit balances with BSP.

The liquidity risk management process at OFBank also include the preparation of liquidity gap reports. Also called Maximum Cumulative Outflow (MCO) report, it reveals the mismatch on the tenor of the assets against liabilities with risk that the Bank may be forced to borrow at higher rate or sell its assets at a discount to generate the required liquidity. The analysis of the MCO report contains risk mitigating measures on how to close the negative gaps particularly on the shorter tenor buckets. The MCO report also takes into account behavioral pattern of deposit withdrawal specifically deposit retained beyond the contractual maturity.

Presented below is the MCO report as of December 31, 2018 (in million Pesos):

	Up to 90 days	**91 days to 1 year**	**Over 1 year to 5 years**	**Over 5 years**	**Total**
Assets					
Cash and cash equivalents*	631	0	0	0	631
Due from BSP & other banks*	3,639	0	3	0	3,642
Investment securities	45	0	0	477	522
Loans and receivables	631	247	663	243	1,784
Other assets*	35	2	14	1	52
	4,981	249	680	721	6,631
Liabilities					
Deposit liabilities*	5,475	2,740	102	0	8,317
Accrued Interest expense*	6	10	0	0	16
Other liabilities*	26	0	0	0	26
	5,507	2,750	102	0	8,359

	Up to 90 days	91 days to 1 year	Over 1 year to 5 years	Over 5 years	Total
Equity				1,000	
Net Liquidity surplus (gap)	(526)	(2,501)	578	(279)	
Cumulative gap	(526)	(3,027)	(2,449)	(2,728)	

*Includes accounts in Foreign Currency Deposit Unit (FCDU)/ Expanded Foreign Currency Deposit Unit (EFCDU).

<u>Interest Rate Risk</u>

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable levels. Risk is addressed on a transactional level by matching the benchmark rate or basis for repricing of a particular asset with that of the equivalent source of fund at the onset of the transaction. Further, sensitivity analysis is regularly performed to efficiently manage risk on earnings.

When measuring interest rate risk, we consider liabilities as funding the Bank's asset (inversely related to liquidity risk, where we looked at assets as sources of funds to pay off maturing liabilities). The balance sheet is pulled apart into time buckets, showing when the assets will and liabilities will reprice or change their interest rates. The re-pricing gap analysis is calculated by first slotting the interest rate sensitive assets and liabilities into tenor buckets according to next re-pricing date (or the time remaining to maturity if the account has a fixed term), and then obtaining the difference or gap per defined buckets. A gap is considered negative when the level of interest rate sensitive liabilities exceeds that of assets. Conversely, a positive gap indicates more interest rate sensitive assets than liabilities. In an increasing interest rate scenario, a negative re-pricing gap would translate into potential reduction in interest income.

The following table shows the re-pricing gap position of OFBank as of December 31, 2018 (in million Pesos):

	Up to 1 month	Over 1 mo. to 3 mos.	Over 3 mos. to 1 yr.	Over 1 yr. to 3 yrs.	Over 3 yrs. to 5yrs.	Over 5 yrs. to 15 yrs.	Over 15 yrs.	Total
FINANCIAL ASSETS								
Due from BSP & other banks	3,639	0	0	3	0	0	0	3,642
Total investments	45	0	0	0	0	477	0	522
Total loans and receivables	269	362	247	446	217	229	14	1,784
Sales contract receivables	1	0	1	3	6	0	0	11
Other assets	35	0	1	4	0	1	0	41
Total Financial Assets	3,989	362	249	456	223	707	14	6,000
FINANCIAL LIABILITIES								
Deposit liabilities	4,695	779	2,740	102	0	0	0	8,316
Accrued Interest expense	4	2	10	0	0	0	0	16
Other liabilities	26	0	0	0	0	0	0	26
Total Financial Liabilities	4,725	781	2,750	102	0	0	0	8,358
Repricing Gap	**(736)**	**(419)**	**(2,501)**	**354**	**223**	**707**	**14**	**(2,358)**