

OVERSEAS FILIPINO BANK, INC.
(A Savings Bank of LANDBANK)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

(All amounts in Philippine Peso unless otherwise stated)

1. Corporate Information

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

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

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

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

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

The Bangko Sentral ng Pilipinas (BSP) through its Circular Letter no. CL-2018-007 dated January 18, 2018, approved the change of corporate name of the PPSBI to "Overseas Filipino Bank, Inc., a Savings Bank of LANDBANK".

On March 2018, the BTR and PPC transferred and conveyed to LBP the 3,802,428 and 2,999,998 common shares respectively at P100 per share.

The Monetary Board (MB) of the BSP, in its Resolution No. 358 dated 25 March 2021, approved the application of the Bank to convert its banking license from a thrift bank to a digital bank license, subject to the fulfillment of certain conditions.

As stated in its Vision/Mission: "OFB is the first digital bank in the country and the official digital bank of the Philippine government committed to provide convenient, reliable and secure banking solutions responsive to the needs of the global Filipinos, focused on

developing long-term relationship with customers and other stakeholders through strategic alliances and partnerships. By 2024, OFB shall be the country's leading OFW-centric Branchless Digital Bank committed to provide competitive and innovative products and services through convenient, reliable and secure banking platforms."

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

As of December 31, 2021, the Bank had six organic employees and seven seconded employees from the Parent Bank.

The accompanying comparative financial statements were authorized for issue by the Board of Directors per Secretary's Certificate issued on June 13, 2022.

2. Statement of Compliance and Basis of Financial Statements Preparation

2.1 Statement of Compliance

The Bank's financial statements have been prepared in compliance with the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRSs/PASs).

2.2 Basis of Financial Statements Preparation

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

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

The accompanying financial statements include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements prepared for these units are combined after eliminating inter-unit accounts. The functional currency of RBU and FCDU is Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated assets and liabilities in the RBU are translated in Philippine Peso based on the Bankers Association of the Philippines (BAP) closing rate prevailing at the end the year.

The preparation of financial statement requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

The accounting policies adopted are consistent with those of the previous year.

The financial statements are presented in Philippine Peso and all values are rounded to the nearest peso except when otherwise indicated.

Summary of Significant Accounting Policies

2.3 Adoption of New and Amended PAS/PFRS

The Bank adopted for the first time the following new PFRS, amendments to PAS or PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021.

a. PFRS 9 (Amendments), Financial Instruments, PFRS 7 (Amendments), Financial Instruments: Disclosures, PFRS 16 (Amendments), Leases, and PFRS 4 (Amendments), Insurance Contracts-Interest Rate Benchmark Reform Phase 2. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments are non-relevant to OFB because it is exposed to the effects of the LIBOR reform on its financial instruments that will mature post-2021 (the date by which the reform is expected to be implemented) Below are the relevant information about these amendments.

(i) PFRS 9 (Amendments), Financial Instrument. The contractual terms of the borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Bank changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of PFRS 9 are applied to the other changes.

(ii) PFRS 16 (Amendments), Leases-Interest Rate Benchmark Reform Phase 2. When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Bank remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contracted cash flows.

(iii) Amendments to PFRS 9, PAS 39 and PFRS 7 – Interest Rate Benchmark Reform Phase 2. The amendments provide for relief on hedging relationships on interest rate-based contracts that are directly affected by the interest rate benchmark reform. The reliefs have the effect that the reform should not generally cause hedge accounting to terminate. Further, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The Bank assumed that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are bases will not be materially impacted as a result of interest rate benchmark reform.

For the year ended December 31, 2021, the interest rate benchmark reform has no impact on the OFB's financial assets and liabilities.

b. PFRS 16 (Amendments), Leases-COVID-19 Related Rent Concessions beyond June 30, 2021, which was effective from April 1, 2021. The amendment extends for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

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

Standards Issued but not yet Effective

Below consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

a. PFRS 3 (Amendments), Business Combination – Reference to the Conceptual Framework (effective from January 01, 2022). The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or Philippine –IFRIC 21, Levies, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

b. PAS 16 (Amendments), Property, Plant and Equipment – Proceeds Before Intended Use (effective from January 01, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

c. PAS 37 (Amendments), Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts –Cost of Fulfilling a Contract (effective January 01, 2022). The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

d. Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 01, 2022:

- PFRS 9 (Amendments), Financial Instruments – Fees in the “10 per cent” Test for Derecognition of Liabilities. The improvements clarify the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
- Illustrative Examples Accompanying PFRS 16, Leases-Lease Incentives. The improvement merely removes potential for confusion regarding lease incentives.

e. PAS 1 (Amendments), Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (effective January 01, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

f. PAS 1 (Amendments), Presentation of Financial Statements – Disclosure of Accounting Policies (effective January 1, 2023). The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy.

g. PAS 8 (Amendments), Accounting Estimates – Definition of Accounting Estimates (effective January 01, 2023). The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

h. PAS 12 (Amendments), Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective January 1, 2023). The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

2.4 Foreign currency translation

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

2.5 Fair Value Measurement

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

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

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

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

2.6 Financial assets and liabilities

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers and loans are recognized when cash is received or released to the borrowers.

Initial recognition and classification

The Bank's financial instruments, including investment securities and loans and receivables, are initially recognized at fair value. Except for financial assets and financial liabilities valued at Fair Value through Profit or Loss (FVTPL). The initial measurement of financial instruments includes transaction costs. The Bank generally classifies its financial assets in the following measurement categories as: (1) financial assets at FVTPL, (2) financial assets at Fair Value through Other Comprehensive Income (FVOCI) investments, and (3) financial assets at amortized cost.

The Bank classifies its financial assets under the following categories:

a. Financial assets at Fair Value through Other Comprehensive Income

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

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

b. Financial assets at Fair Value through Profit or Loss

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

- i. acquired principally for the purpose of selling or repurchasing them in the near term; or

- ii. part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
- c. Financial assets at amortized cost

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

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

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

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

Determination of fair value

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

2.7 Impairment of Assets

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

Financial assets at FVOCI

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

Financial assets at amortized cost

The Bank calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes. Because every loan and

receivable carries with it some risk of default, every such asset has an expected loss attached to it – from the moment of its origination or acquisition.

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

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

The Bank measures expected credit losses of a financial instrument that reflects:

- a. an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- b. the time value of money; and
- c. reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.”

The maximum period considered when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

Property and Equipment and Other Assets

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

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 10 per cent residual value of acquisition cost over the estimated useful lives of the related assets as follows:

	Number of Years
Building	10 – 20
Furniture, fixtures and equipment	5 -10
Leasehold improvements	5 (maximum)
Transportation equipment	5

Impairment is only recognized when there is substantial evidence of the decline in the value of the property and equipment.

The cost of leasehold improvements is amortized over the term of the lease or the estimated useful life of the improvements not exceeding five years whichever is shorter. Minor expenditures for replacement, maintenance and repairs are expensed as incurred. Major renovations and improvements that will extend the life of the asset are capitalized.

Properties that are no longer needed or uneconomical to maintain are disposed of in accordance with the existing guidelines on disposal. The cost and the related accumulated depreciation and amortization of the disposed assets are derecognized in the books and any resulting gain or loss is credited or charged to current operations.

2.9 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.

2.10 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 three branches (Cagayan de Oro, Baguio and Dagupan) from Philippine Postal Corporation (PPC), its former mother corporation, for periods ranging from five to 10 years renewable upon mutual agreement of both parties. The costs of renovations effected by the Bank on PPC premises are charged against future rentals payable.

The Bank leases the premises occupied by its provincial branches. The terms of these contracts are renewable at the mutual agreement of both lessee and lessor. Various lease contracts contain escalation clauses.

In 2021 and 2020, rent expenses were included in the statement of comprehensive income, amounting to P2.08 million and P4.21 million, respectively.

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

Future minimum rentals payable under non-cancellable operating leases as at December 31, 2021 are as follows:

Within one year	246,400
	246,400

2.11 Recognition of Income and Accounting for Expenses

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

3. **Significant Accounting Judgments and Estimates**

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

3.1 Operating lease commitments

The Bank assesses at contract inception whether a contract is, or contains a lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for considerations. It applies a single recognition and measurement approach for all leases, except for short term leases and leases of low value assets. Also, the Bank applies the short term and low value assets lease recognition exemptions to its lease of branch premises with remaining lease term which are non-cancellable when they ceased operations. The Bank has no lease liabilities and Right of Use Assets recognized.

3.2 Impairment losses of loans and receivables

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

The Bank estimated a total of P1.17 million additional credit losses as of December 31, 2021 computed using Expected Credit Losses Model of Parent Bank. Net carrying value of loans from customers stood at P0.03 million, net of allowance for credit losses amounting to P2.13 million.

3.3 Impairment of FVOCI investments

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

3.4 Impairment of Property and Equipment /Other Assets

Assets are reviewed and tested whenever there is indication of impairment at least annually. Impairment of assets requires estimates and judgments through the use of certain tools/devices/factors/market data/existing conditions.

Management determines the estimated useful lives and related depreciation charges for its property and equipment. The Bank will increase the depreciation charge where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or items that have been sold.

4. Fair Value Hierarchy

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

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

5. Cash and Cash Equivalents

This is broken as follows:

	Note	2021	2020 As restated
Due from Bangko Sentral ng Pilipinas	6	3,163,314,370	2,475,820,036
Due from other banks	7	25,156,645	32,364,991
Loans and receivables arising from RA/CA/PR/SLB	8	375,840,333	835,828,167
		3,564,311,348	3,344,013,194

6. Due from Bangko Sentral ng Pilipinas

This account consists of the following deposits/placement accounts which the bank utilizes in its clearing operations and reserve requirements of the Bangko Sentral ng Pilipinas:

	2021	2020
Term deposit account	2,000,000,000	0
Demand deposit account	88,314,370	78,820,036
Overnight deposit account	1,075,000,000	2,397,000,000
	3,163,314,370	2,475,820,036

7. Due from Other Banks

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

	2021	2020 As restated
Land Bank of the Philippines	25,156,645	32,364,991

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

This pertains to loans arising from repurchase agreement with Bangko Sentral ng Pilipinas amounting to P375.840 million and P835.828 million in 2021 and 2020, respectively.

9. Fair Value thru Other Comprehensive Income

This account is composed of:

	2021	2020
Investment in Treasury Bills/Fixed Treasury Notes purchased from Security Bank Corp.	48,994,600	51,506,986
Investment in QUEDANCOR Bonds	30,000,000	30,000,000
Allowance for credit losses	(30,000,000)	(30,000,000)
	48,994,600	51,506,986

The investment in QUEDANCOR bonds amounting to P30.0 million with allowance for probable losses of the same amount was recorded initially under Unquoted Debt Securities Classified as Loans (UDSCL) and subsequently reclassified to Miscellaneous Assets account in 2018 in accordance with BSP Circular No. 1011 dated August 14, 2018 and to FVOCI account in 2020. This investment was made for the Bank's Agri-Agra compliance which is now under negotiation for the replacement of QUENDANCOR Restructured Notes.

10. Loans and Receivables - net

This account consists of:

	2021	2020
Loans to Individuals for Other Purposes	2,158,501	3,327,244
Allowance for Losses	(2,126,413)	(970,134)
Net of Allowance	32,088	2,357,110

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

Allowance for Losses

The details of specific allowances on loans are:

	2021	2020
Balance, January 01	738,683	969,334,673
Provisions	1,169,396	250,192
Write-Offs	0	0
Transfers and other adjustments	189,534	(968,846,182)
Balance, December 31	2,097,613	738,683

The movement of the general loan loss provisions are:

	2021	2020
Balance, January 01	231,451	8,622,999
Transfers and other adjustments	(202,651)	(8,391,548)
Balance, December 31	28,800	231,451

As to Status:

	2021	2020
Current Loans	0	3,291,339
Non-Performing Loans	2,158,501	35,905
	2,158,501	3,327,244

As to Security:

	2021	2020
Secured Loans	0	0
Unsecured Loans	2,158,501	3,327,244
	2,158,501	3,327,244

11. Property and Equipment - net

This account consists of:

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Totals
Cost						
January 1, 2021	131,008,000	44,116,201	12,647,493	6,286,057	123,034,374	317,092,125
Additions	0	4,083,641	24,000	0	271,796	4,373,437
31-Dec-2021	131,008,000	48,199,842	12,671,493	6,286,057	123,306,170	321,471,562
Accumulated Depreciation/Allowance for Impairment January 1, 2021	0	21,347,712	11,304,855	6,098,074	118,058,158	156,808,799
Provisions	0	2,583,718	287,522	(75,960)	978,627	3,773,907
Impairment loss	0	0	2,018	0	518,148	520,166
31-Dec-2021	0	23,931,430	11,594,395	6,022,114	119,554,933	161,102,872
Carrying amount						
31-Dec-2021	131,008,000	24,268,412	1,077,098	263,943	3,751,237	160,368,690

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Totals
Cost						
January 1, 2020	131,008,000	44,116,201	28,660,623	9,285,497	128,467,895	341,538,216
Additions	0	0	0	0	145,960	145,960
Disposals	0	0	(15,822,487)	(2,999,440)	(5,579,481)	(24,401,408)
Reclassifications	0	0	(190,643)	0	0	(190,643)
31-Dec-2020	131,008,000	44,116,201	12,647,493	6,286,057	123,034,374	317,092,125
Accumulated Depreciation						
January 1, 2020	0	18,763,994	26,912,606	8,687,512	120,906,512	175,270,624
Provisions	0	2,583,718	482,985	0	1,835,069	4,901,772
Disposals	0	0	(16,090,736)	(2,589,438)	(4,683,423)	(23,363,597)
31-Dec-2020	0	21,347,712	11,304,855	6,098,074	118,058,158	156,808,799
Carrying amount						
31-Dec-20	131,008,000	22,768,489	1,342,638	187,983	4,976,216	160,283,326

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

12. Other Intangible Assets - net

This account is composed of the following:

	2021	2020
Other intangible assets	95,410,918	89,121,798
Accumulated amortization	(67,407,758)	(72,566,118)
	28,003,160	16,555,680
Allowance for losses	(10,000,000)	(10,000,000)
	18,003,160	6,555,680

13. Other Assets - net

This account is composed of the following:

	2021	2020 As restated
Accounts receivables	203,286,864	197,964,704
Stationery and supplies on hand	1,397,390	1,965,127
Accrued interest income from financial assets	1,219,491	829,984
Prepaid expenses	895,894	12,449,509
Documentary stamps on checks	547,756	912,644
Other investments	153,333	153,333
Miscellaneous assets	10,838,880	10,838,880
Sundry debits	38,746,123	6,367,839
	257,085,731	231,482,020
Other Assets - Allowance for Losses	(162,376,076)	(113,214,060)
	94,709,655	118,267,960

Accounts receivable

The Accounts Receivable account includes the amounts relative to cases involving former officers of Postbank branches, to wit: Sorsogon Branch in the amount of P4.10 million and Tacloban Branch of P8.635 million. Appropriate charges were filed in court. In addition, outstanding accounts receivable from Naga branch amounts to P179.37 million as of December 2019 as restitution for losses expropriated by a former employee. On the last quarter of 2018, the Bank requested for staggered booking of the estimated P237.9 million provision for losses arising from Naga branch fraud.

On March 2019, the BSP approved the staggered booking of allowance at P11.90 million quarterly starting March 31, 2019 for five years ending in December 2023.

Miscellaneous assets

The account consists of various security deposits and advance rentals of building and utilities transferred from the closed branches. This account also includes the amount of P2.57 million resulting from the payments of quarterly income tax of prior years which was recorded under Deferred Tax Assets account in CY 2019. However, the year-end operations resulted in a loss. Said amount shall be applied in the future payments of income tax.

Sundry Debits

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

14. Deposit Liabilities

This account is composed of the following:

	2021	2020
Domestic:		
Savings deposits	2,926,724,148	2,555,944,367
Time certificate of deposits	0	2,012
Foreign:		
Savings deposits	0	630,691
Time certificate of deposits	0	97,197
	2,926,724,148	2,556,674,267

Domestic deposit liabilities earns annual fixed interest rates ranging from 0.05 to 1.5 per cent in 2021 and 2020. Foreign deposits range from 0.05 to 0.75 per cent in 2020.

15. Accrued Expenses

This account represents:

	2021	2020 As restated
Information technology	13,852,904	841,690
Management and other professional fees	11,457,055	66,839,549
Advertising & Publicity	5,334,177	0
Accrued interest expense in financial liabilities	5,024,406	5,588,928
Insurance	2,544,000	2,544,000
Security, clerical, messengerial and janitorial	2,535,166	2,265,291
Fringe benefits	1,856,107	1,374,269
Rent	1,427,351	1,095,261
Power, light and water	141,000	476,717
Repairs and maintenance	82,908	426,815
Postage, telephone, cables and telegrams	67,232	176,118
Salaries and wages	56,970	121,599
Fuel and lubricants	42,764	35,239
Other taxes and licenses	0	3,476,791
Others	451,113	1,003,569
	44,873,153	86,265,836

Others include accruals for fees and commission, stationeries and supplies and miscellaneous expenses.

As of December 31, 2021, the remaining accrual on Early Retirement Incentive Plan is P1.24 million included under Fringe benefits.

16. Other Liabilities

This account comprises of:

	2021	2020 As restated
Accounts payable – others	16,462,152	42,021,749
Due to the Treasurer of the Phil.	3,083,920	851,205
Unclaimed balances	2,191,140	3,368,861
Withholding tax payable	139,600	107,022
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	62,950	72,968
Sundry credits	32,715,762	7,054,066
Miscellaneous liabilities	101,499	101,499
	54,757,023	53,577,370

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

The Sundry Credits account is a temporary account used as partner clearing account on transactions resulting to outflow of funds on the Due Other Banks account which are cleared the next day.

17. Capital Stock

The Bank is authorized to issue 10,000,000 shares at P100 par value of which 10,000,000 shares amounting to P1 billion were fully paid and issued.

Four million four hundred thousand (4,400,000) shares were issued and were fully paid by PPC amounting to P440 million. Additional issuance of 1,310,080 common shares of stock for the National Government was made by PPSBI corresponding to the latest appraised value of parcel of land where Head Office is situated per Board Resolution No. 2014-142 dated June 10, 2014. These shares were then approved for transfer to LBP on October 10, 2017 per PPC Board Resolution no. 2017-147 in compliance with Executive Order no. 44, dated September 28, 2017.

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

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

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

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

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

Relatedly, at the respective meetings of the stockholders and Board of Directors held on May 18, 2018, approved the increase in the authorized capital stock from P1.0 billion to P3.5 billion divided into 30.0 million common shares with a par value of P100 per share and 5.0 million preferred shares with a par value of P100 per share.

In January and December 2019, the parent bank, LBP contributed cash of P500 million and P772 million, respectively, and recognized as deposit for stock subscription.

The Bank received the endorsement by the Government Commission on GOCCs on the proposed increase in capital stock which was also filed and approved by the Securities and Exchange Commission through issuance of Certificate of Approval of Increase of Capital Stock from P 1.0 billion divided into 10.0 million shares of the par value of P100.00 each, to P3.5 billion divided into 30.0 million common shares of the par value of P100.00 each and 5.0 million preferred shares of the par value of P100.00 each, and Certificate of Filing of Amended Articles of Incorporation dated March 18, 2021.

18. Retained Earnings/(Deficit)

In consonance with PAS 8, the balance of this account as of December 31, 2020 was restated for prior period adjustments. The adjustments principally relate to reclassification of various accounts, recognition of expenses and the reversal of income.

Details of the restatement of Retained earnings/(Deficit) of the Bank as December 31, 2020 are as follows:

Particulars	Debit	Credit	Balance
Retained earnings/(Deficit), as of January 1, 2020 before restatement			(1,260,543,629)
Adjustments:			
Reversal of various expenses		24,197,406	24,197,406
Retained earnings/(Deficit), as of January 1, 2020, as restated			(1,236,346,223)
Net loss for CY 2020 before restatement			(126,426,358)
Adjustments:			
Foreign exchange profit (loss)		30	
Management & Other Professional Fees		18,654,133	
Information Technology		45,491,702	
Documentary Stamp Tax		12,181,599	
Rent	541,652		
	541,652	76,327,464	75,785,812
Net loss for FY 2020, as restated			(50,640,546)
Retained earnings/(Deficit) as of December 31, 2020, as restated			(1,286,986,769)

The effects of these restatements in the financial statements as of and for the year ended December 31, 2020 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
Changes in the Statement of Financial Position			
Assets			
Cash and cash equivalents	3,344,013,164	30	3,344,013,194
Other assets	106,086,361	12,181,599	118,627,960
		12,181,629	

	As Previously Reported	Effects of Restatement	As Restated
Liabilities			
Accrued Expenses	174,106,380	(87,840,544)	86,265,836
Other Liabilities	53,538,415	38,955	53,577,370
		(87,801,589)	
Equity			
Retained earnings deficit	(1,386,969,987)	99,983,218	(1,286,986,769)
		12,181,629	
Changes in the Statement of Comprehensive Income			
Foreign exchange profit (loss)	1,043	(30)	1,073
Rent	3,668,651	541,652	4,210,303
Miscellaneous expense	148,094,922	(76,327,434)	71,767,488
		(75,785,812)	
Net		(75,785,812)	

19. Other Comprehensive Income (Loss)

This account consists of Unrealized Gains/Losses on FVOCI Financial Assets representing the gains and losses from mark to market valuation of FVOCI securities which is booked on a daily basis and the Cumulative Foreign Currency Translation representing the foreign exchange differences arising from the revaluation of the foreign currency assets every end of the month using the month-end closing rate published by the Banker's Association of the Philippines.

20. Miscellaneous Income

This account includes the following:

	2021	2020
Rental income	5,136,095	51,717
Other income	28,919	246,258
	5,165,014	297,975

21. Other Operating Expenses

a. Compensation and fringe benefits

	2021	2020
Salaries and Wages	3,129,509	6,732,185
Fringe Benefits	1,526,342	715,232
Government Contribution	196,008	388,205
Other compensation and benefits	988,000	1,530,218
	5,839,859	9,365,840

b. Provision for probable losses

	2021	2020
Loans to Individuals for Consumption Purposes	0	250,192
Other Assets	49,162,016	50,063,658
	49,162,016	50,313,850

c. Depreciation and amortization

	2021	2020
Bank Premises, Furniture, Fixtures and Equipment	3,773,907	4,901,772
Other Intangible Assets	1,921,640	2,299,854
	5,695,547	7,201,626

22. Miscellaneous Expenses

This account is composed of:

	2021	2020 As restated
Management and other professional fees	25,177,067	25,769,492
Documentary stamps used	16,716,539	11,357,432
Information technology	14,693,858	6,980,460
Security, clerical, messengerial and janitorial	6,316,722	7,882,443
Insurance	5,576,363	5,523,067
Advertising and publicity	5,413,390	62,720
Impairment loss	5,240,166	1,037,811
Power, light and water	2,118,230	2,460,609
Stationeries and supplies used	758,197	2,080,790
Fees and commission	508,347	5,430,337
Postage, telephone, cable and telegram	357,831	955,910
Representation & entertainment	342,673	691,158
Fuel and lubricants	258,003	247,369
Membership fees and dues	160,380	251,720
Repairs and maintenance	137,730	654,274
Litigation expense	0	123,998
Travelling expense	40	70,586
Periodicals and magazines	0	740
Other expenses	227,427	186,572
	84,002,963	71,767,488

23. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipt tax (GRT) and documentary stamp tax (DST).

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

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

Summary of taxes paid during the year:

	2021	2020
Documentary stamp taxes	5,413,833	23,539,031
Final income taxes (1602)	6,419,759	163,371
Income taxes on compensation (1601C)	364,671	436,635
Percentage taxes (2551M)	467,984	3,553,481
VAT & other percentage taxes (1600)	387,967	1,634,062
Creditable income taxes (1601E)	200,849	823,384
Annual registration	500	500
	13,255,563	30,150,464

Supplemental Information Required under Revenue Regulation No. 15-2010

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

a. Documentary stamp tax

The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2021 are as follows:

Documents/Transactions	DST Paid
Certificate of time deposits/Other deposits	5,413,833
	5,413,833

b. Other taxes and licenses

In 2021, Taxes and licenses presented as part of "Other Operating Expense" accounts in the statement of comprehensive income includes the following:

Local taxes	10,500
National	
BIR annual registration	500
Percentage taxes (2551)	467,984
	478,984

c. Withholding Taxes

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

Tax on compensation and benefits	364,671
Creditable withholding taxes	200,849
Final withholding taxes	
Final income taxes	6,419,759
Final withholding VAT	330,892
	<u>7,316,171</u>

24. Related Party Transactions

In the ordinary course of business, the bank has deposits and other transactions in 2021 with its parent, LBP, as follows:

	Transaction Amount
Due from other banks	25,156,646
Accounts Receivable-Others	5,167,015
Deposit liability	2,000,000,000
Accrued expenses	36,707,477
Accounts payable-others	7,105,103
PICS-common stock	1,701,000,000
Interest income	170,916
Fees and Commission Expense	508,347
Interest expense	22,750,000
	<u>3,798,565,504</u>

Breakdown of Accrued Expenses

Information technology	13,852,904
Management and other professional fees	11,457,055
Stationeries and Supplies	83,651
Fees and Commissions	367,461
Security Services	675,045
Advertising and Publicity	5,334,177
Fuel and Lubricants	6,628
Interest expense	4,930,556
	<u>36,707,477</u>

25. Employee Benefits

Sick Leave Credits

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

Employees Benefits, Plan Amendment, Curtailment or Settlement

As of December 31, 2021, the Bank outstanding accrual for retired employees pursuant to EO No. 44 series of 2017 is P1.24 million.

26. 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.

27. Basic Quantitative Indicators of Financial Performance

	2021	2020
		As restated
	(In percentage)	(In percentage)
Return on average equity	-13.4	-5.1
Return on average assets	-3.3	-1.1
Net interest margin	0.5	2.9
Risk Based Capital Adequacy Ratio	136.73	118.6

28. Capital Management

The overall capital management objective of the Bank is to create a more efficient capital structure while ensuring compliance with externally imposed capital requirements.

The Bank manages its capital by maintaining strong credit ratings and healthy risk-based Capital Adequacy Ratio to support its business and sustain its mandate. Adjustments to the Bank's capital structure are made in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

29. Reclassification of Accounts

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

30. Management of Risks Related to Financial Instruments

Credit risk management

Credit risk is a possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations. Traditionally, it refers to the risk that a lender may not receive the owed principal and interest, which results in an interruption of cash flows and increased costs for collection.

The Bank is exposed to credit risk as lender, holder of securities and as counterparty in trading activity.

Management of Credit Risk

Credit risk management aims to maintain its risk exposure within proper and acceptable parameters set out in contractual agreement.

The process involves the identification, measurement, and monitoring of actual or potential losses and implementation of appropriate measures by setting-up limits to credit exposures.

The Bank also manages the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions and the correlation of credit risk with other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of the Bank.

The Bank manages credit risk through a structured risk management system and structure, to wit:

Risk Management System and Structure

The risk management framework at OFB is a top-down process where all risk policies and procedures are approved by the Board of Directors (BOD). The Board sets the overall risk tolerance of the Bank that is consistent with its business plan, financial strength and organizational capability.

BOD has created the Corporate Governance and Risk Management Committee (CGRMC), composed of two members of the Board, to oversee the implementation of risk management process that includes development of various risk strategies and principles, implementation of risk measurement tools, monitoring risk indicators and approval of risk limits.

The parent bank's Risk Management Group (RMG) under the group-wide structure supports the CGRMC in the identification, measurement, monitoring and control of risks. As an independent unit reporting directly to the Board of LBP, the RMG consults with OFB's business units through the Bank's Central Point of Contact Unit (CPCU) in identifying, measuring, and implementing risk management methodologies and controls. It assists business and operating units in measuring risk/return to better manage their risk profile.

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

The parent bank's Internal Audit Group (IAG) under the group-wide structure, provides another layer for independent check and balance to further strengthen risk controls and compliance. The IAG ensures that risk-takers comply with standards and established policies. It also evaluates the effectiveness and adequacy of the Bank's risk management framework particularly on its control processes.

The Bank outsources its Legal Office to its parent bank. The unit responsible for this is the Legal Services Group of LBP. It has the primary responsibility of reviewing all Banks' documents for completeness and enforceability under respective legal jurisdiction provided for the Service Level Agreement signed by the Bank.

The Credit Risk Management Department (CRMD) of the RMG reviews the Bank's effective impairment to assure proper loan classification and setting up of valuation reserves.

The Bank estimated a total of P1.17 million additional credit losses as of December 31, 2021 computed using Expected Credit Losses (ECL) Model of parent bank, LBP, with total booked allowance for credit losses of P2.13 million. For the same period, the Bank's Non-Performing Loan (NPL) stood at P2.16 million or 100 per cent of the total loan portfolio.

Credit Risk Rating

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

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

Credit Risk Monitoring

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

ECL assessment shall be applied to the following exposures:

1. Loans and receivables measured at amortized cost;
2. Investments in debt instruments that are measured at amortized cost;
3. Investments in debt instruments that are measured at fair value through other comprehensive income (FVOCI);
4. Due from Bangko Sentral ng Pilipinas and Due from Other Banks

Credit exposures follow the staging assessment:

Factor	Stage	Criteria	
Age	Stage 1	<ul style="list-style-type: none"> • Current • One (1) to thirty (30) days past due 	
	Stage 2	<ul style="list-style-type: none"> • Thirty one (31) to ninety (90) days past due 	
	Stage 3	<ul style="list-style-type: none"> • More than ninety (90) days past due (monthly installments) • More than thirty (30) days past due (lump sum payment, and quarterly, semi-annual and annual installments) 	
Observable Impairment Indicators	Stage 1	General economic and market conditions	
	Stage 2	<ul style="list-style-type: none"> • Economic and market conditions adverse to the borrower • Industry specific issues 	
	Stage 3	Company-specific business, operational and financial (PFRS 9 loss events)	
BSP Classification/ Internal Rating	Stage 1	<ul style="list-style-type: none"> • 1 (Prime) • 2 (High Grade) • 3 (Good) • 4 (Very Satisfactory) • 5 (Satisfactory) • 6 (Watchlist) 	
		Stage 2	<ul style="list-style-type: none"> • 7 (EM) • 8 (Substandard)
		Stage 3	<ul style="list-style-type: none"> • 9 (Doubtful) • 10 (Loss)

The Bank's exposures shall be further classified into the following stages:

Stage	Characteristics	ECL Assessment
1	credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	12 month
2	credit exposures that are considered "under-performing" or not yet non-performing but with significant increase in credit risk since initial recognition	lifetime
3	credit exposures with objective evidence of impairment, these are considered as "non-performing"	lifetime

The result of the credit evaluation is used as basis in adjusting credit lines periodically. To efficiently manage credit exposures, collateral and other applicable agreements are executed with counterparties whenever possible.

The Bank monitors and reviews from time to time the credit practices and reporting, and if appropriate, approve credit policy changes and procedures to ensure that credit policies are appropriate and are being complied with. Accounts for write-off shall also approved by the BOD.

The Bank prepares a monthly report on credit quality as summarized below (in million Pesos):

	2021	2020
Neither past due nor impaired	0	3.291
Past Due but not impaired	0	0
Impaired	2.159	0.036
	2.159	3.327
Less: Specific allowance for credit losses	2.097	0.739
	0.062	2.588

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

	2021	Per cent	2020	Per cent
Secured	0	0	0	0
Unsecured	2.159	100	0.04	100
	2.159	100	0.04	100

Credit Stress Test

The Bank regularly conducts stress testing of individual large exposure and its loan portfolio taking into account plausible risk events with high probability of occurrence. Utilizing such scenarios with documented assumptions, tests are done to determine the magnitude of impact on the loan portfolio, on the Credit Risk Weighted Assets, and finally on the Common Equity Tier 1 (CET1) Ratio. The stress testing also includes prescribed regulatory tests such as uniform stress test and REST. Likewise, various loan portfolio assessment and review are conducted to determine impact of a certain event and government regulation to the Parent's loan portfolio, past due ratio and CET 1. Results of the stress testing, together with the contingency plans, are validated by the CRMD and escalated to CGRMC.

Risk concentrations of the maximum exposure to credit risk

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

The Bank has established concrete guidelines and procedures relative to managing, monitoring and reporting large exposures and credit risk concentrations in accordance with the rules and regulations issued by the BSP.

Overall credit risk management oversight is a function of the BOD-level CGRMC. In general, mitigation measures on credit risks are implemented at various levels.

As of December 31, 2021, the Bank's qualifying capital covering credit risk is P839 million. On the other hand, the SBL is pegged at P210 million for direct lending.

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

	2021	2020
Salary-Based General-Purpose Consumption Loans	2.159	3.327
Allowance for Credit Losses	(2.097)	(0.739)
	0.062	2.588

Market Risk

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices, commodity prices and other market indicators which may affect the Bank's income or values of its financial assets. The Bank uses mark-to-market and factor sensitivity to manage risk on its securities portfolios.

The Bank is exposed to market risk that originates primarily from its risk-taking activities on fixed income investments in securities and foreign exchange effects. Transaction limits are used to operationally manage market risks.

Treasury market risks originate from its holdings of debt securities mainly as compliance to liquidity reserves for government deposits. Further, it classifies its debt securities exposures under trading and non-trading portfolios.

The Bank uses a combination of stress testing, CET 1 ratio and capital metrics to manage market risks and establish limits. The OFB BOD and CGRMC define and set the various market risk limits for each treasury portfolio. The Electronic Business Unit manages the liquidity and reserve positions, conducts risk-taking activities and seeks approval from President and CEO.

The Bank also adopts the following staging assessment for its treasury exposures based on external rating:

Stage 1 - investment grade

Stage 2 - downgrade to speculative/non-investment grade; risk ratings downgraded by at least two rating grades

Stage 3 - default

As of December 31, 2021, remaining GS classified under FVOCI with average yield to maturity of 3.5 per cent registered an unrealized gain/mark-to-market gain of P1.05 million for a P50 million portfolio.

Market Risk Measurement

Treasury portfolio is measured at mark-to-market to measure market risk in the books under normal conditions.

Liquidity Risk Management

Liquidity Risk Management (RM) Framework

The Bank's liquidity RM process is consistent with its general RM framework covering risk identification, measurement and analysis, monitoring and control. The Treasurer through the Management Committee is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank. The basic liquidity policy of the Bank is to maintain fund availability at all times and hence, to be in a position to meet all of its obligations, in the normal course of business.

The Bank considers liquidity risk based on market and funding liquidity risk perspectives. Market liquidity risk refers to inability to unwind positions created from market, exchanges and counterparties due to temporary or permanent factors. It is the risk that the Bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or through market disruption.

Market liquidity risk is also associated with the probability that large transactions may have a significant effect on market prices in markets that lack sufficient depth. This liquidity risk perspective is captured through stress testing or scenario analysis.

Funding liquidity risk is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Bank. It occurs from the mismatch of asset, liability, exchange contract and contingent commitment maturities. Funding liquidity risk is being monitored and controlled through the classification of maturities of assets and liabilities over time bands and across functional currencies as reflected in the Liquidity Position Matrix (LPM) and the Intraday Liquidity Reports.

The Bank's Board exercises oversight through CGRMC and has delegated the responsibility of managing overall liquidity to the Treasurer and the Management Committee. They are responsible for the daily implementation and monitoring of relevant variables affecting liquidity position. The Treasurer presents to the Management Committee the assets and liabilities position on a regular basis where the Management Committee recommends measures to promote diversification of its liabilities according to source, instrument and currency to minimize liquidity risks resulting from concentration in funding sources. The Bank performs a comprehensive liquidity risk measurement and control using LPM.

Liquidity Risk Measurement Models

The Bank conducts liquidity gap analysis using the LPM. This risk measurement tool is used in identifying the current liquidity position and the Bank's ability to meet future funding needs. It categorizes balance sheet items according to estimated maturities of assets and liabilities in order to determine any future mismatch such as long-term assets growing faster than long term liabilities.

Financial ratio analysis is another liquidity risk measurement tool that calculates and compares liquidity leverage ratios derived from information on financial statements against set liquidity/ leverage limits.

The following table sets out the liquidity ratios as of December 31, 2021.

Liquid Assets (Cash and Due From BSP/ Local Bank, Government Securities)	P3,613,305,948
Financial Ratios:	
Liquid Assets to Total Assets	93%
Liquid Assets to Total Deposits	123%