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

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

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

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

The Bangko Sentral ng Pilipinas through its Circular Letter no. CL-2018-007 dated 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: “OFB is a Digital Bank servicing Overseas Filipinos and their Beneficiaries through state-of-the-art Electronic Banking Channels such as Mobile Phone, Automate Teller Machine and Internet which are more convenient, faster (real-time), cheaper and secure, eliminating the need for over-the-counter services. By 2023, LANDBANK through OFB will be the market leader among the top five universal banks in terms of online transactions from Overseas Filipinos and their Beneficiaries.”

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

As of December 31, 2019, the Bank had 52 employees.

The 24 branches and 6 branch lite units were closed and ceased operations as of November 30, 2019 due to the implementation of new business model of the Bank.

The accompanying comparative financial statements were authorized for issue by the Board of Directors per Secretary's Certificate issued on August 17, 2020.

2. Statement of Compliance and Basis of Financial Statements Preparation

2.1 Basis of Financial Statements Preparation

The financial statements are 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 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.

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

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

2.2 Statement of Compliance

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

Summary of Significant Accounting Policies

2.3 Foreign currency translation

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

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 – 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.

2.5 Financial assets and liabilities

Date of recognition

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

Initial recognition and classification

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

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. <u>Financial assets at amortized cost</u>

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 are 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.

Prepayment Features with Negative Compensation

All loans are payable within the amortization periods and prepayments, if any, shall be equal to the unpaid amounts of principal and interests.

2.6 Impairment of Financial Assets

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

Financial assets at FVOCI

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

Financial assets at amortized cost

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

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

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

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

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

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

Investment Property, Property and Equipment and Other Assets

Where an indicator of impairment exists, the Bank makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the higher of its fair market value less cost to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. The impairment loss on non-revalued asset is recognized in the profit or loss and an allowance account is set up to reduce the carrying amount of the asset.

2.7 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 10 years useful lives.

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

2.8 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

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 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 (SCR)

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

2.11 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 (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 2019 and 2018, rent expenses were included in the statement of comprehensive income, amounting to P17.137 million and P28.017 million, respectively.

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

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

Within one year	P3,862,531
After one year but not more than five years	3,014,448
	P6,876,979

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

2.14 Recognition of Income and Accounting for Expenses

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

3. Significant Accounting Judgments and Estimates

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

3.1 Operating lease commitments

The Bank has entered into lease agreement on branch premises for its operations wherein the lessor retains all the significant risks and rewards of ownership of these properties. The terms and conditions provide no transfer of ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life.

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 P702.4 million additional credit losses as of December 31, 2019 computed using Expected Credit Losses Model of parent bank, LBP, on top of the remaining approved staggered booking of P1.138 billion. Net carrying value of loans from customers stood at P2.418 billion.

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.

3.3 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/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	2019	2018 As restated
Cash and other cash items		265,041	101,977,551
Due from Bangko Sentral ng Pilipinas	6	1,834,723,024	3,601,334,772
Due from other banks	7	60,518,088	39,970,422
Loans and receivables arising from RA/CA/PR/SLB	8	247,549,214	529,000,000
		2,143,055,367	4,272,282,745

Cash and other cast items consists of the following:

	2019	2018
Cash on hand	265,041	101,866,846
Checks and other cash items	0	98,705
Petty cash fund	0	12,000
	265,041	101,977,551

6. 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.

	2019	2018
Reserve deposit account	1,500,000,000	2,900,000,000
Demand deposit account	162,723,024	691,334,772
Overnight deposit account	172,000,000	10,000,000
	1,834,723,024	3,601,334,772

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 following banks:

	2019	2018 As restated
Landbank of the Philippines	60,518,088	33,675,496
United Coconut Planters Bank	0	6,175,883
Banco de Oro Unibank, Inc.	0	64,638
Rizal Commercial Banking Corporation	0	54,405
	60,518,088	39,970,422

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.

9. Fair Value thru Profit or Loss

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

10. Fair Value thru Other Comprehensive Income

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

	2019	2018
Rizal Commercial Banking Corporation	0	267,792,935
East West Banking Corporation	0	84,861,171
Security Bank Corp.	48,087,121	81,757,833
Chinabank	0	42,475,585
	48,087,121	476,887,524

11. Loans and Receivables - net

This account consists of:

	2019	2018
Loans to Private Corporation	1,564,712,484	1,824,108,048
Small & Medium Enterprises	530,657,960	659,107,033
Consumption loans	287,403,673	437,818,532
Contract to Sell	402,861,900	406,500,605
Agrarian Reform & other Agricultural Loan	345,004,230	380,614,849
Loans to Government	173,715,986	218,640,188
Loans to Individuals for Housing Purposes	44,343,072	56,145,749
Loans to Individuals for Other Purposes	38,078,608	48,711,267
Microfinance Loans	8,931,734	12,377,920
	3,395,709,647	4,044,024,191
Allowance for Losses	978,152,526	667,176,222
Net of Allowance	2,417,557,121	3,376,847,969

Allowance for Losses

The details of specific allowances on loans are:

	2019	2018
Balance, January 01	637,847,724	337,194,554
Provisions	324,725,668	358,045,831
Write-Offs	(5,012,863)	(14,548,600)
Transfers and other adjustments	11,968,998	(42,844,061)
Balance, December 31	969,529,527	637,847,724

The movement of the general loan loss provisions are:

	2019	2018
Balance, January 01	29,328,497	22,502,083
Transfers and other adjustments	(20,705,498)	6,826,415
Balance, December 31	8,622,999	29,328,498

As to Status:

	2019	2018
Current Loans	1,040,170,953	1,804,538,991
Non-Performing Loans	2,355,538,694	2,239,485,200
	3,395,709,647	4,044,024,191

As to Security:

	2019	2018
Secured Loans	2,482,160,676	2,848,349,817
Unsecured Loans	913,548,971	1,195,674,374
	3,395,709,647	4,044,024,191

As to Type of Security:

	2019	2018
Real Estate Mortgage	1,407,647,322	1,554,456,761
Other Collaterals	1,074,513,354	1,293,893,056
	2,482,160,676	2,848,349,817

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.

12. 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. For the year 2019 and 2018, this account amounts to P18,159,959 and P12,340,648, respectively.

13. Investment Property - net

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.

	2019	2018
Land	0	126,731,457
Building	0	186,656,132
Others	0	19,393,890
Cost	0	332,781,479
Accumulated depreciation	0	47,682,695
	0	285,098,784
Allowance for probable losses	0	17,888,293
Net of allowance	0	267,210,491

On November 27, 2019, the OFB Board of Directors under Board Resolution No. 2019-142 approved the transfer of the Real and Other Properties Acquired (ROPAs) to LBP as of December 31, 2019. The consideration for the sale shall be the net carrying value as of December 31, 2019. Thus, balances were accordingly reclassified to Non-Current Assets Held for Sale as of December 31, 2019.

14. Property and Equipment - net

This account consists of:

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Lease, Right And Improvements	Totals
Cost							
January 1, 2019, As restated	131,008,000	41,501,900	52,617,855	13,822,648	135,430,150	26,245,745	400,626,298
Additions	0	2,290,174	775,488	0	211,601	0	3,277,263
Disposals	0	0	(24,732,720)	(4,537,151)	(1,909,503)	(26,245,745)	(57,425,119)
Reclassifications	0	0	0	0	(5,264,353)	0	(5,264,353)
31-Dec-19	131,008,000	43,792,074	28,660,623	9,285,497	128,467,895	0	341,214,089
Accumulated Depreciation							
January 1, 2019	0	16,572,421	47,732,812	12,836,560	125,293,503	21,936,015	224,371,311
Provisions	0	2,181,849	1,234,798	83,413	3,378,263	743,698	7,622,021
Disposals	0	0	(22,055,004)	(4,232,461)	(7,765,254)	(22,679,713)	(56,732,432)
Reclassifications	0	0	0	0	0	0	0
31-Dec-19	0	18,754,270	26,912,606	8,687,512	120,906,512	0	175,260,900
Carrying amount 31-Dec-19	131,008,000	25,037,804	1,748,017	597,985	7,561,383	0	165,953,189
Carrying amount 31-Dec-18, As restated	131,008,000	24,929,479	4,885,043	986,088	10,136,647	4,309,730	176,254,987

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.

15. 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.

	2019	2018 As restated
Cost	389,313,657	151,104,691
Accumulated depreciation	0	10,263,064
	389,313,657	140,841,627
Allowance for losses	34,849,940	44,956,836
Net of allowance	354,463,717	95,884,791

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

16. Other Intangible Assets - net

This account is composed of the following:

	2019	2018
Other intangible assets	87,321,798	89,201,779
Accumulated amortization	(70,266,264)	(69,074,852)
	17,055,534	20,126,927
Allowance for losses	(10,000,000)	(10,000,000)
	7,055,534	10,126,927

17. Other Assets - net

This account is composed of the following:

	2019	2018 As restated
Accounts receivables	199,156,080	202,893,700
Accrued interest income from financial assets	37,878,383	58,084,083
Miscellaneous assets	38,632,627	38,722,818
Documentary stamps on checks	429,593	5,281,231
Stationery and supplies on hand	2,024,870	3,750,574
Prepaid expenses	1,115,556	3,202,503
Deferred tax asset	2,549,904	2,549,904
Returned checks and other cash items	21,597	291,043
Other investments	153,333	153,333
Sundry debits	305,473	54,801
Inter-office float items	2,946,379	0
	285,213,795	314,983,990
Other Assets - Allowance for Losses	113,954,522	66,376,050
	171,259, 273	248,607,940

Accounts receivable

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 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.

Miscellaneous assets

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.

The investment in Quedancor bonds recorded under Unquoted Debt Securities Classified as Loans (UDSCL) amounting to P30 million and its Allowance for credit losses of the same amount are reported under Miscellaneous Assets account in accordance with BSP Circular No. 1011 dated August 14, 2018. This investment was made for the Bank's Agri-Agra compliance which is now under negotiation for the replacement of Quedancor Restructured Notes.

18. Deposit Liabilities

This account is composed of the following:

	2019	2018
Domestic:		
Demand deposits	0	330,580,970
Savings deposits	3,944,711,618	7,946,350,831
Time certificate of deposits	17,732,502	34,635,318
Foreign:		
Savings deposits	816,540	1,504,135
Time certificate of deposits	255,627	3,171,763
	3,963,516,287	8,316,243,017

Domestic deposit liabilities earns annual fixed interest rates ranging from 0.10 to 5.25 per cent and 0.25 to 4.25 per cent in 2019 and 2018, respectively. Foreign deposits range from 0.15 to 0.5 per cent and 0.25 to 0.875 per cent in 2019 and 2018, respectively.

19. Accrued Expenses

This account represents**:**

	2019	2018 As restated
Fringe benefits	140,472,633	176,086,413
Litigation/assets acquired	66,703,977	65,692,756
Management and other professional fees	63,744,685	40,817,304
Accrued interest expense in financial liabilities	14,801,626	16,048,238
Rent	845,467	7,886,176
Security, clerical, messengerial and janitorial	13,601,077	5,431,425
Other taxes and licenses	1,829,364	3,419,696
Salaries and wages	1,170,252	1,654,686
Postage, telephone, cables and telegrams	1,473,126	842,799
Power, light and water	831,439	725,983
Repairs and maintenance	227,836	356,525
Fuel and lubricants	82,961	54,957
Fines, penalties and other charges	0	4,223
Others*	27,640,654	32,070,312
	333,425,097	**351,091,493**

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

The accrual as of December 31, 2019 and 2018 includes the P137.16 million and P173.03 million, respectively, employee benefits representing the Early Retirement Incentive Plan (ERIP) per E.O. 44, dated 28 September 2017.

20. Other Liabilities

This account comprises of:

	2019	2018
Unearned income and other deferred credits	68,898,924	69,011,835
Due to the Treasurer of the Phil.	851,205	0
Accounts payable – others	16,276,210	42,197,307
Inter-office float items	0	7,518,289
Withholding tax payable	250,490	3,142,521
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	416,077	905,135
Unclaimed balances	3,368,861	889,307
Overages	0	7,596
Miscellaneous liabilities	1,169,820	1,153,765
	91,231,587	**124,825,755**

The Accounts Payable – others 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 par value of which 10,000,000 shares amounting to P1 billion were fully paid and issued.

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

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

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

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

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

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

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

Relatedly, at the respective meetings of the stockholders and Board of Directors held on May 18, 2018, approved the increase in the authorized capital stock from P1 billion to P3.5 billion divided into P30 million common shares (30,000,000 shares with a par value of P100 per share) and P5 million preferred shares (5,000,000 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 is still awaiting for the endorsement by Government Commission on GOCCs on the proposed increase in capital stock which is a pre-requisite on filing the same to Securities and Exchange Commission.

22. Retained Earnings Deficit

In consonance with PAS 8, the balance of this account as of December 31, 2018 was restated for prior period adjustments. The adjustments principally relate to reclassification of various accounts, recognition of expenses and the reversal of income.

Details of the restatement of Retained earnings of the Bank as December 31, 2018 are as follows:

Particulars	Debit	Credit	Balance
Retained earnings, as of January 1, 2018 before restatement			65,394,350
Adjustments on:			
Reversal of Repairs and Maintenance to Accounts Receivable PPC		395,320	395,320
Retained earnings as of January 1, 2018, as restated			65,789,670

Particulars	Debit	Credit	Balance
Net loss for CY 2018 before restatement			(740,528,270)
Adjustments:			
Reclassification/ adjustments of BPFFE to Supplies	57,681	127,797	
Unrecognized income from sale of NCAHS		1,700,000	
Reversal of penalties (BIR)		90,224	
Overbooking of interest income	864,000		
Compensation and fringe benefits	79,460		
Management and Other Professional Fees	15,541,832		
Impairment Loss	37,442,118		
Foreign currency adjustments	330		
	53,985,421	1,918,021	(52,067,400)
Net loss for FY 2018, as restated			(792,595,670)
Retained earnings as of December 31, 2018, as restated			(726,806,000)

The effects of these restatements in the financial statements as of and for the year ended December 31, 2018 are summarized below:

	As Previously Reported	Effects of Restatement	As Restated
Changes in the Statement of Financial Position			
Assets			
Cash and cash equivalents	4,272,283,075	(330)	4,272,282,745
Non-Current Assets Held for Sale	133,326,909	(37,442,118)	95,884,791
Property and equipment - net	176,184,871	70,116	176,254,987
Sales contract receivable	10,640,648	1,700,000	12,340,648
Other assets	249,065,856	(457,916)	248,607,940
		(36,130,248)	
Liabilities			
Accrued Expenses	335,549,661	15,541,832	351,091,493
Equity			
Retained earnings deficit	(675,133,920)	(51,672,080)	(726,806,000)
		(36,130,248)	
Changes in the Statement of Comprehensive Income			
Interest income – loans	266,410,525	(864,000)	265,546,525
Miscellaneous income	72,038,630	1,700,000	73,738,630
Foreign exchange revaluation	138,409	(330)	138,079
		835,670	
Compensation and fringe benefits	371,350,023	79,460	371,429,483
Depreciation/amortization	35,076,510	(70,116)	35,006,394
Miscellaneous expense	305,428,246	52,893,726	358,321,972
		52,903,070	
Net		(52,067,400)	

23. Unrealized Gains/ Losses on FVOCI Financial Assets

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

24. Miscellaneous Income

This account is consists of:

	2019	2018 As restated
Penalties on past due loans/amortizations	28,584,019	38,138,801
Recovery on charged-off assets	923,152	14,513,195
Gain from sale/derecognition of non-financial assets	11,097,514	16,009,044
Rental income	427,135	77,220
Other income	3,564,772	5,000,370
	44,596,592	73,738,630

25. Other Operating Expenses

a. Compensation and fringe benefits

	2019	2018 As restated
Salaries and Wages	59,395,106	98,891,544
Fringe Benefits	24,615,516	262,468,677
Government Contribution	3,870,992	6,098,172
Other compensation and benefits	3,536,696	3,971,090
	91,418,310	371,429,483

b. Provision for probable losses

	2019	2018
Loans to Private Corporation	197,296,741	249,850,749
Contract to Sell	0	40,150,658
Small and Medium Enterprise Loans	76,899,999	32,138,521
General Loan Loss Provision	0	12,481,239
Loans to Individuals for Consumption Purposes	28,511,213	6,697,670
Agrarian Reform and Other Agricultural Loans	22,017,715	1,236,044
Microfinance Loans	0	116,934
Other Assets	35,685,000	0
	360,410,668	342,671,815

c. Depreciation and amortization

	2019	2018 As restated
Non-Current Assets Held for Sale	0	3,123,357
Investment Property	20,033,510	19,438,719
Bank Premises, Furniture, Fixtures and Equipment	7,622,021	9,383,636
Other Intangible Assets	3,535,414	3,060,682
	31,190,945	35,006,394

26. Miscellaneous Expenses

This account is composed of:

	2019	2018 As restated
Impairment loss	13,018,275	101,760,497
Litigation expense	5,587,860	59,696,523
Documentary stamps used	38,130,238	36,552,862
Information technology	27,797,477	36,379,882
Management and other professional fees	50,521,431	41,193,843
Security, clerical, messengerial and janitorial	27,426,241	19,040,610
Insurance	14,231,145	17,162,965
Power, light and water	9,398,639	10,725,236
Stationeries and supplies used	6,211,303	8,751,198
Representation & entertainment	4,730,768	7,052,750
Postage, telephone, cable and telegram	8,437,754	3,979,458
Repairs and maintenance	4,638,641	3,087,007
Travelling expense	1,619,084	2,956,790
Loss on financial assets held for trading	28,664,704	2,802,777
Supervision fees	2,054,750	2,374,823
Fees and commission	1,737,825	1,551,837
Fuel and lubricants	1,060,268	1,383,735
Fines, penalties and other charges	339,052	531,070
Membership fees and dues	640,053	447,930
Periodicals and magazines	73,543	91,546
Advertising and publicity	74,475	71,662
Donation and charitable contributions	5,220	27,757
Other expenses	2,342,529	699,214
	248,741,275	358,321,972

27. 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:

	2019	2018
Documentary stamp taxes	38,130,238	45,731,781
Final income taxes (1602)	21,481,108	15,825,718
Income taxes on compensation (1601C)	3,616,087	7,608,139
Percentage taxes (2551M)	5,835,506	6,151,770
VAT & other percentage taxes (1600)	2,070,778	3,954,859
Creditable income taxes (1601E)	1,404,573	2,282,976
Annual registration	500	12,500
	72,538,790	**81,567,743**

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 2019 are as follows:

Documents/Transactions	DST Paid
Certificate of time deposits/Other deposits	38,130,238
	38,130,238

b. Other taxes and licenses

In 2019, Taxes and licenses presented as part of “Operating Expense” accounts in the statement of comprehensive income includes the following:

Local taxes	5,499,866
National	
BIR annual registration	12,500
Percentage taxes (2551)	5,835,506
	11,347,872

c. Withholding Taxes

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

Tax on compensation and benefits	3,616,087
Creditable withholding taxes	1,404,573
Final withholding taxes	
Final income taxes	21,481,108
Final withholding VAT	2,070,778
	28,572,546

28. Related Party Transactions

In the ordinary course of business, the bank has deposits and other transactions in 2019 with its parent, Land Bank of the Philippines (LBP), as follows:

	Transaction Amount
Due from other banks	60,518,088
Accrued interest income	13,762
Deposit liability	2,000,000,000
Accrued expenses*	70,586,973
Accounts payable-others	1,268,104
Withholding tax payable	3,750,000
PICS-common stock	428,992,000
Deposits for Stock Subscription	1,272,008,000
Interest income	15,662,103
Interest expense	57,465,278
	3,910,264,308

*Breakdown of Accrued Expenses	
Information technology	15,375,368
Management and other professional fees	54,291,155
Fees and Commission	920,450
	70,586,973

29. Employee Benefits

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 months will be considered as one year.

Payment of retirement/separation benefits is charged to CY 2018 operations.

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, 2019, the Bank retired most of its employees pursuant to EO No. 44 series of 2017. Payments shall be made in 2020 pursuant to the Bank's retirement plan and afore cited EO.

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

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

	2019	**2018 As restated**
	(In percentage)	(In percentage)
Return on average equity	-110.24	-158.07
Return on average assets	-8.52	-8.75
Net interest margin	1.39	3.05
Risk Based Capital Adequacy Ratio	19.59	3.94

32. 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.

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

Credit risk management

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

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

Management of Credit Risk

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

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

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

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

Risk Management System and Structure

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

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

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

Senior Management of OFB is also actively involved in the planning, reviewing and assessing different risks being managed by the Bank through the various committees. The Management Committee (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 that market and liquidity risks are adequately addressed on long-term and daily basis.

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

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

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

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

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

The Bank estimated a total of P702.4 million additional credit losses as of December 31, 2019 computed using Expected Credit Losses Model of parent bank, LBP. For the same period, the Bank's Non-Performing Loan (NPL) stood at P2.36 billion or 69 per cent of the total loan portfolio of P3.40 billion.

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

Credit exposures are constantly monitored and a credit evaluation process is conducted to assess the credit-worthiness of each borrower.

Credit exposures follow the staging assessment:

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

The 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.

The Bank has continuously monitors credit risk thru periodic reporting system for the BOD and Senior Management on the asset quality indicators such as past due ratio, NPL ratio, level of non-performing assets, coverage ratio and concentration risk. 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):

	2019	2018
Neither past due nor impaired	578	1,677
Past Due but not impaired	462	128
Impaired	2,356	2,239
	3,396	4,044
Less: Specific allowance for credit losses	969	638
	2,427	3,406

For the year 2019, a total of P5.01 million fully provided consumption loans were written-off.

Collateral and Other Credit Enhancements

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

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

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

	2019	**Per cent**	**2018**	**Per cent**
Secured	868	37	1,431	64
Unsecured	1,488	63	808	36
	2,356	100	2,239	100

Credit Stress Test

The Bank conducts mandatory credit stress testing on large exposure portfolio, exposures by economic activity and consumer finance portfolio. Stress tests are performed to determine the severity of impact on the overall loan portfolio, credit risk-weighted asset and capital adequacy ratio. Results of stress testing, together with contingency plans, are reported to LendCom and CGRMC.

Risk concentrations of the maximum exposure to credit risk

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

The Bank provides for 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.

As of December 31, 2019, the Bank's qualifying capital covering credit risk is P907 million. On the other hand, the SBL is pegged at P226 million for direct lending.

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

	2019	2018
Real Estate Activities	1,171	1,222
Wholesale and Retail Trade	744	872
Salary-Based General–Purpose Consumption Loans	269	404
Public Adm. and Defense/Compulsary Social Sec.	259	308
Agriculture, Hunting and Forestry	250	279
Financial and Insurance Activities	98	260
Administrative and Support Service Activities	177	177
Education	115	115
Construction	70	114
Mining and Quarrying	74	75
*Others	169	218
	3,396	4,044
Allowance for Credit Losses	969	638
	2,427	3,406

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

Market Risk

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 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

In 2019, the Bank sold certain GS and booked P28.7 million as realized loss. As of December 31, 2019, remaining GS classified under FVOCI with average yield to maturity of 3.5 per cent registered an unrealized loss/mark-to-market loss of P1.9 million for a P50 million portfolio.

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 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 Special Deposit accounts.

The 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.