

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Sterling Bank of Asia Inc. (A Savings Bank)
Sterling Bank Corporate Center
8004 Ortigas Avenue
Greenhills, 1500, San Juan
Metro Manila

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Sterling Bank of Asia Inc. (A Savings Bank) (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to the audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditors' report thereon. The Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.



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

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

Report on the Supplementary Information Required under the Bangko Sentral ng Pilipinas (BSP) Circular No. 1074, Series of 2020, Amendments to Regulations on Financial Audit of Banks

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information on Note 27 to the combined financial statements is presented for purposes of filing with the BSP and is not a required part of the basic combined financial statements. Such supplementary information is the responsibility of the management of Sterling Bank of Asia Inc. (A Savings Bank). The supplementary information has been subjected to the auditing procedures applied in our audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

REYES TACANDONG & Co.

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 0663-AR-3 Group A

Valid until August 30, 2020

BIR Accreditation No. 08-005144-006-2019

Valid until October 20, 2022

PTR No. 8116475

Issued January 6, 2020, Makati City

March 31, 2020

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2019	2018
ASSETS			
Cash and other cash items		₱675,319,948	₱673,088,622
Due from Bangko Sentral ng Pilipinas	13	3,174,324,418	2,654,024,133
Due from other banks		3,413,981,051	3,538,958,509
Interbank loans receivable	6	532,740,895	83,115,070
Investment securities	7	2,622,904,058	1,896,830,728
Loans and receivables	8	32,689,858,426	31,608,206,084
Assets held for sale	9	488,968,117	445,743,668
Property and equipment	10	671,187,614	434,435,516
Intangible assets	11	326,946,303	315,085,543
Net deferred tax assets	21	28,539,985	16,663,522
Other assets	12	117,955,185	103,963,559
		₱44,742,726,000	₱41,770,114,954
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	13	₱38,951,135,847	₱36,704,417,712
Accrued interest, taxes and other expenses	14	246,973,922	179,847,292
Manager's checks		173,777,188	128,070,287
Unsecured subordinated debt	15	1,000,000,000	1,000,000,000
Income tax payable		23,150,047	2,275,290
Lease liabilities	18	277,062,586	–
Retirement liability	19	62,271,457	72,439,948
Other liabilities	16	927,347,348	882,185,212
Total Liabilities		41,661,718,395	38,969,235,741
Equity			
Common stock	22	2,070,000,000	2,070,000,000
Perpetual preferred stock	22	300,000,000	300,000,000
Other equity reserves		(47,600,357)	(160,269,013)
Retained earnings		758,607,962	591,148,226
Total Equity		3,081,007,605	2,800,879,213
		₱44,742,726,000	₱41,770,114,954

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2019	2018
INTEREST INCOME ON:			
Loans and receivables	8	₱2,949,469,158	₱2,458,099,376
Investment securities	7	107,491,382	75,956,913
Interbank loans receivable	6	78,691,422	33,378,432
Due from Bangko Sentral ng Pilipinas and other banks		29,436,567	15,847,813
		3,165,088,529	2,583,282,534
INTEREST EXPENSE ON DEPOSIT AND OTHER FINANCIAL LIABILITIES			
	13	1,321,985,164	856,018,996
NET INTEREST INCOME		1,843,103,365	1,727,263,538
OTHER INCOME (CHARGES)			
Service charges, fees and commissions		203,819,559	201,012,017
Net losses from assets sold or acquired	9	(97,807,708)	(70,464,456)
Net trading and securities gains (losses) from investment securities	7	68,698,143	(40,257,221)
Net foreign exchange gains		33,977,922	19,842,700
Others - net		6,371,220	15,807,737
		215,059,136	125,940,777
OPERATING EXPENSES			
Compensation and fringe benefits		641,854,650	592,640,073
Taxes and licenses		328,972,691	283,064,175
Depreciation and amortization	10	150,791,921	72,138,954
Representation and entertainment		92,489,362	82,996,808
Insurance		75,167,759	71,197,798
Security, messengerial and janitorial		68,733,426	66,016,309
Occupancy		50,016,558	126,246,868
Others	20	321,905,418	277,632,686
		1,729,931,785	1,571,933,671
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES			
Loans and receivable	8	43,120,648	103,101,227
Assets held for sale	9	12,681,009	-
Investment securities	7	1,907,892	-
		57,709,549	103,101,227
INCOME BEFORE INCOME TAX		270,521,167	178,169,417
INCOME TAX EXPENSE (BENEFIT)			
Current	21	113,374,261	78,470,700
Deferred		(10,312,830)	(5,556,581)
		103,061,431	72,914,119
NET INCOME		₱167,459,736	₱105,255,298

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	2019	2018
NET INCOME		₱167,459,736	₱105,255,298
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to profit or loss:</i>			
Net unrealized gains (losses) on fair value changes			
of investment securities	7	122,020,013	(105,005,023)
Translation adjustment		(5,702,879)	(702,581)
<i>Item not to be reclassified to profit or loss -</i>			
Remeasurement losses on retirement liability,			
net of deferred tax	19	(3,648,478)	(821,611)
		112,668,656	(106,529,215)
TOTAL COMPREHENSIVE INCOME (LOSS)		₱280,128,392	(₱1,273,917)

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31	
		2019	2018
COMMON STOCK	22	₱2,070,000,000	₱2,070,000,000
PERPETUAL PREFERRED STOCK	22	300,000,000	300,000,000
OTHER EQUITY RESERVES			
Cumulative Unrealized Losses on Fair Value Changes			
of Investment Securities			
	7		
Balance at beginning of year		(184,339,694)	(79,334,671)
Net unrealized gains (losses)		120,112,121	(105,005,023)
Provision for impairment losses		1,907,892	–
Balance at end of year		(62,319,681)	(184,339,694)
Cumulative Remeasurement Gains			
on Retirement Liability			
	19		
Balance at beginning of year		15,606,506	16,428,117
Remeasurement losses, net of deferred tax		(3,648,478)	(821,611)
Balance at end of year		11,958,028	15,606,506
Cumulative Translation Adjustment			
Balance at beginning of year		8,464,175	9,166,756
Translation adjustment		(5,702,879)	(702,581)
Balance at end of year		2,761,296	8,464,175
		(47,600,357)	(160,269,013)
RETAINED EARNINGS			
Balance at beginning of year		591,148,226	485,892,928
Net income		167,459,736	105,255,298
Balance at end of year		758,607,962	591,148,226
		₱3,081,007,605	₱2,800,879,213

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱270,521,167	₱178,169,417
Adjustments for:			
Depreciation and amortization	10	150,791,921	72,138,954
Net losses from assets sold or acquired	9	97,807,708	70,464,456
Provision for credit and impairment losses on:			
Loans and receivable	8	43,120,648	103,101,227
Assets held for sale	9	12,681,009	-
Investment securities	7	1,907,892	-
Amortization of discount (premium) of investment securities		(23,990,232)	15,465,422
Interest expense on lease liabilities	18	19,630,669	-
Retirement benefits	19	15,916,162	19,953,097
Unrealized losses (gains) on fair value changes of investment securities	7	(12,653,194)	4,360,768
Net gain on sale of investment securities	7	(2,166,517)	-
Operating income before working capital changes		573,567,233	463,653,341
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Loans and receivables		(1,538,847,900)	(2,795,800,329)
Financial assets at fair value through profit or loss		(575,034,978)	(157,626,075)
Other assets		(13,991,626)	2,902,600
Increase (decrease) in the amounts of:			
Deposit liabilities		2,246,718,135	2,081,708,912
Manager's checks		45,706,901	(57,311,200)
Accrued interest, taxes and other expenses		76,217,728	44,647,586
Other liabilities		45,162,136	(10,546,718)
Net cash generated from (used in) operations		859,497,629	(428,371,883)
Income tax paid		(92,499,504)	(101,198,987)
Retirement contributions	19	(30,000,000)	(16,000,000)
Retirement benefits paid	19	(1,296,764)	-
Net cash flows provided by (used in) operating activities		735,701,361	(545,570,870)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investment securities	7	(4,139,882,805)	(1,138,600,000)
Property and equipment	10	(38,886,184)	(43,502,660)
Computer software	11	(30,356,486)	(28,745,901)
Maturity of investment securities	7	3,935,260,000	607,500,000
Proceeds from sale of:			
Assets held for sale	9	259,605,652	159,575,274
Investment securities	7	212,506,517	-
Property and equipment	10	2,550,508	2,361,675
Net cash flows provided by (used in) investing activities		200,797,202	(441,411,612)

(Forward)

		Years Ended December 31	
	Note	2019	2018
CASH FLOW FROM A FINANCING ACTIVITY			
Payment of lease liabilities	18	(P83,615,706)	P-
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		(5,702,879)	(702,581)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		847,179,978	(987,685,063)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		673,088,622	629,416,734
Due from Bangko Sentral ng Pilipinas		2,654,024,133	2,519,965,700
Due from other banks		3,538,958,509	4,333,505,485
Interbank loans receivable	6	83,115,070	453,983,478
		6,949,186,334	7,936,871,397
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items		675,319,948	673,088,622
Due from Bangko Sentral ng Pilipinas		3,174,324,418	2,654,024,133
Due from other banks		3,413,981,051	3,538,958,509
Interbank loans receivable	6	532,740,895	83,115,070
		P7,796,366,312	P6,949,186,334
OPERATING CASH FLOWS FROM INTEREST			
Interest received		P2,904,891,343	P2,458,099,376
Interest paid		1,272,059,682	856,018,996
NONCASH INFORMATION			
Foreclosure of assets held for sale	9	P414,074,911	P412,613,156
Recognition of:			
Lease liabilities	18	341,047,623	-
Right-of-use assets	18	331,956,524	-

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

NOTES TO FINANCIAL STATEMENTS

1. General Information

Sterling Bank of Asia Inc. (A Savings Bank) (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP). The Bank is primarily engaged in the general business of savings and mortgage banking. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions.

The Bank was granted authority to engage in trust operations in 2008 and to issue foreign letters of credit in 2010.

As at December 31, 2019 and 2018, the Bank operates a total of 47 branches.

The Bank was formerly known as Far East Savings Bank (FESB) and was originally issued with a Certificate of Incorporation by the SEC on January 20, 1998.

In 2006, JTKC Equities, Inc. (JEI), Surewell Equities, Inc. (SEI) and Star Equities, Inc. acquired all the outstanding shares of stock of FESB from the Bank of the Philippine Islands. In 2007, the Bank changed its corporate name from FESB to Sterling Bank of Asia Inc. (A Savings Bank) as approved by the BSP and the SEC.

In 2009, the BSP approved the Bank's application to acquire 100% of the shares of stock of Centennial Savings Bank (CSB). In 2010, as approved by the BSP and the SEC, the Bank, as the surviving entity, merged with CSB.

As at December 31, 2019 and 2018, the ultimate parent company of the Bank is JEI, through a direct equity interest of 40% and indirect equity interest of 30%, through Star Equities, Inc., a wholly owned subsidiary of JEI.

The registered office address of the Bank is Sterling Bank Corporate Center, 8004 Ortigas Avenue, Greenhills, 1500, San Juan, Metro Manila.

The financial statements of the Bank as at and for the years ended December 31, 2019 and 2018 have been approved and authorized for issue by the Board of Directors (BOD) on March 31, 2020 as recommended for approval by the Audit Committee on March 17, 2020.

2. Summary of Significant Accounting Policies

Basis of Preparation and Compliance

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions.

Measurement Bases

The financial statements have been prepared under the historical cost basis, except for:

- financial assets measured at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI);
- assets held for sale that are measured at the lower of carrying amount of loans and receivables and fair value of foreclosed properties, less cost-to-sell;
- retirement liability that is carried at the present value of defined benefit obligation less the fair value of plan assets; and
- lease liabilities that are carried at the present value of remaining lease payments, discounted using an appropriate discount rate.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of consideration received in exchange for incurring a liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Bank uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - quoted (unadjusted) market prices in active market for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 5, *Fair Value Measurement*.

Functional and Presentation Currency

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalent amounts in Philippine Peso, which is the functional and presentation currency of the Bank. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Bank adopted effective January 1, 2019.

- PFRS 16, *Leases* – PFRS 16 replaced PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The new standard provides two recognition exemptions for lessees - leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

The lessor's accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The lessor should continue to classify leases using the same classification principle as in PAS 17 to distinguish the two types of leases: operating and finance leases.

The Bank adopted PFRS 16 using the modified retrospective approach with no effect on the beginning retained earnings. Accordingly, 2018 comparative information have not been restated.

The Bank elected to use the following practical expedients in transitioning to recognition of leases from PAS 17:

- Applied the standard only to contracts that were previously identified as leases under Philippine Accounting Standards (PAS) 17 and Philippine Interpretation IFRIC 4 at the date of initial application.
- Applied the exemption not to recognize right-of-use (ROU) assets and liabilities for leases with lease term that ends within 12 months from the date of initial adoption.

As a lessee, the Bank recognized ROU assets and lease liabilities for leases classified as operating leases under PAS 17. The ROU assets are measured at an amount equal to the lease liability, adjusted by prepayments or accrued lease payments at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of 6.88% to 7.78%, depending on the remaining lease term, as at January 1, 2019.

The Bank elected to use the practical expedient transitioning to allow the standard to be applied only to contracts that were previously identified as leases under PAS 17 and Philippine Interpretation IFRIC 4 at the date of initial application.

The impact on transition as at January 1, 2019 is summarized below:

	Note	Increase (Decrease)
Lease liabilities	18	₱242,768,377
ROU assets	18	233,677,278
Accrued rent		(9,091,099)

The reconciliation of operating lease commitments as at December 31, 2018 discounted using the incremental borrowing rates and the lease liabilities recognized as at January 1, 2019 follows.

Operating lease commitments as at December 31, 2018 under PAS 17	₱296,603,832
Discounted using the incremental borrowing rate at January 1, 2019	(44,284,555)
Recognition exemption for leases with less than remaining term of less than 12 months at transition	(9,550,900)
<u>Lease liabilities recognized as at January 1, 2019</u>	<u>₱242,768,377</u>

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities’ examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.
- Amendments to PFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the “solely payments of principal and interest” criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at fair value through other comprehensive income).
- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.
- Annual Improvements to PFRS 2015 to 2017 Cycle –
 - Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments require entities to recognize the income tax consequences of dividends as defined in PFRS 9 when the liability to pay dividends are recognized. The income tax consequences of dividends are recognized either in profit or loss, other comprehensive income or equity, consistently with the transactions that generated the distributable profits. This requirement applies to all income tax consequences of dividends, such as withholding taxes.

Under prevailing circumstances, the adoption of the foregoing, except for PFRS 16, did not have any material effect on the financial statements of the Bank. Additional disclosures were included in the financial statements, as applicable.

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS, which are not yet effective as at December 31, 2019 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or would involve undue cost or effort.
- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Bank. Additional disclosures will be included in the financial statements, as applicable.

Financial Instruments

Date of Recognition. The Bank recognizes a financial asset or liability in the statements of financial position when the Bank becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

“Day 1” Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the “Day 1” difference.

Financial Assets

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at FVOCI and (c) financial assets at amortized cost. The classification of a financial instrument largely depends on the Bank's business model and its contractual cash flow characteristics.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated as FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting year, with any fair value gains or losses, including foreign exchange gains or losses, recognized in profit or loss to the extent that these are not part of a designated hedging relationship. Interest income (calculated using the effective interest rate method) is recognized directly in profit or loss.

Certain investments in government securities and private bonds are included in this category (presented under "Investment Securities" account).

Financial Assets at FVOCI. For debt instruments that are not designated at FVPL under the fair value option, the financial assets should be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- 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.

Debt instruments are initially measured at fair value plus transaction costs. Interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses on debt instruments measured at FVOCI are recognized directly in profit or loss. After initial recognition, debt instruments are carried at fair value. Unrealized gains or losses from changes in fair values are recognized in other comprehensive income and presented in the equity section of the statements of financial position. When the financial asset is derecognized, the cumulative unrealized gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Equity instruments that are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI on initial recognition. Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. After initial recognition, equity instruments are carried at fair value. Foreign currency gains or losses and unrealized gains or losses from changes in fair values are recognized in other comprehensive income and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

In limited circumstances, cost may be an appropriate estimate of fair value of equity securities designated as financial asset measured at FVOCI, such as if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Certain investments in government securities, private bonds and unquoted equity securities are included in this category (presented under “Investment Securities” account).

Financial Assets at Amortized Cost. Financial assets should be measured at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting year. Otherwise, these are classified as noncurrent assets.

Cash and other cash items, due from BSP and other banks, interbank loans receivable, loans and receivables, government securities at amortized cost (presented under “Investment securities” account), refundable deposits, and returned checks and other cash items (RCOCI) (included under “Other assets” account) are classified under this category.

Reclassification. The Bank reclassifies its financial assets when, and only when, the Bank changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, the financial asset is reclassified at its fair value at the reclassification date, and the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

In the case of a financial asset that does not have a fixed maturity, the gain or loss should be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Impairment. The Bank recognizes impairment losses based on expected credit loss (ECL) which is the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate and adjusted for forward-looking estimates, as appropriate.

The Bank recognizes impairment loss based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within 12 months after the reporting year. The Bank measures impairment loss at an amount equivalent to the 12-month ECL for financial assets that are determined to have low credit risk and those financial assets for which credit risk has not increased significantly since initial recognition. Financial instruments for which a 12-month ECL is recognized are referred to as "Stage 1 financial assets."

However, when there has been a significant increase in credit risk since initial recognition, the allowance for credit and impairment losses will be based on the lifetime ECL. The lifetime ECL is the ECL that results from all possible default events over the expected life of the financial asset. A financial asset for which a lifetime ECL are recognized but which are not credit-impaired are referred to as "Stage 2 financial assets". When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial asset as at the reporting year with the risk of a default occurring on the financial asset as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

At each reporting date, the Bank assesses whether the financial assets at amortised cost are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Derecognition. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Bank retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Bank has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank’s continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

Classification. The Bank classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

The Bank has not designated any financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Deposit liabilities, accrued interest and other expenses, manager's checks, unsecured subordinated debt, lease liabilities, and other liabilities (excluding due to Philippine Deposit Insurance Corporation - PDIC, withholding taxes and statutory obligations) are included under this category.

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Assets Held for Sale

Foreclosed assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than continuing use. Assets held for sale are accounted for at the lower of cost and fair value less cost to sell. The cost of foreclosed assets includes the carrying amount of the related loan, less any allowance for credit and impairment losses, at the time of foreclosure. Impairment loss is recognized in profit or loss for any subsequent write-down of the asset to fair value less cost to sell. Gain on any subsequent increase in fair value less costs to sell of an asset is recognized in profit or loss to the extent of the cumulative impairment loss.

Assets held for sale that cease to be classified as such is measured at the lower of (a) carrying amount before the assets were classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the assets not been classified as held for sale, and (b) recoverable amount at the date of the subsequent decision not to sell. Any adjustment on the carrying amount of assets held for sale that cease to be classified as held for sale is recognized in profit or loss.

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable property and equipment are stated at cost less accumulated depreciation, amortization and any impairment.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year when 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 property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

The cost of replacing a part of the property and equipment is capitalized when that cost is incurred and all the relevant asset recognition criteria are met. The carrying amount of a part of an item of property and equipment that has been replaced is derecognized.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the property and equipment are as follows:

<u>Asset Category</u>	<u>Number of Years</u>
Building and condominium units	30
ROU assets	3 to 10 or the related lease term, whichever is shorter
Furniture, fixtures and equipment	5
Leasehold rights and improvements	10 or the related lease term, whichever is shorter

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Fully depreciated items are retained as property and equipment until these are no longer being used in the operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment loss are removed from the accounts, any resulting gain or loss is recognized in profit or loss.

Intangible Assets

Branch Licenses. Branch licenses are capitalized on the basis of the costs incurred to acquire and of bringing the asset to its use in the operations. Branch licenses are not amortized and deemed to have an indefinite economic life as there is no foreseeable limit to the period over which these are expected to generate net cash inflows for the Bank.

Branch licenses are reviewed annually to determine whether events and circumstances continue to support an indefinite economic life assessment. Any change in assessment from indefinite to finite life will be accounted prospectively.

Computer Software. Computer software is measured on initial recognition at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the estimated useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Other Assets

Other assets include prepaid expenses, refundable deposits, creditable withholding taxes (CWT), RCOI, other investments and others.

Prepaid Expenses. Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate accounts in profit or loss when incurred. Prepaid expenses that are expected to be realized for no more than 12 months after the financial reporting year are classified as current assets.

CWT. CWT represents the amount withheld by the Bank's customers in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

Impairment of Non-financial Assets

Property and equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Branch licenses are assessed for impairment annually, either individually or at the cash generating unit (CGU) level, as appropriate. The Bank assesses at the end of the reporting year whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's

recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Equity

Common Stock. Common stock is classified as equity and is measured at par value per share issued. Incremental costs directly attributable to the issuance of new shares are recognized as deduction from equity, net of tax. Otherwise, these are recognized as expense in profit or loss.

Perpetual Preferred Stock. Perpetual preferred stock is classified as equity if it is non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. Perpetual preferred stock is classified as a liability if this is redeemable on a specific date or at the option of the stockholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year. Other comprehensive income (loss), which is presented as "Other Equity Reserves", pertains to cumulative unrealized gains (losses) on fair value changes of investment securities classified as financial assets at FVOCI, cumulative remeasurement gains (losses) on retirement liability, and cumulative translation adjustment.

Revenue Recognition

Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources, except for fees and commissions.

The following specific recognition criteria must also be met before revenue is recognized:

Interest Income. Interest income is recognized in profit or loss as the interest accrues, taking into account the effective yield of the asset.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

For Stage 3 financial assets, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount, provided that the Bank determines that the collection of interest income is reasonably assured.

Service Charges and Penalties. Service charges and penalties, which are presented under “Service charges, fees and commissions” in profit or loss, are recognized upon collection or being accrued when there is reasonable degree of certainty as to its collectability.

Fees and Commissions. Fees and commissions arising from providing transaction services, which are presented under “Service charges, fees and commissions” in profit or loss, are recognized upon completion of the transaction. Fees or components of the fees that are linked to a certain performance of a service or a condition are recognized after performing the service or fulfilling the condition.

Gains (Losses) from Assets Sold or Acquired. Income or loss from sale of properties acquired is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Bank.

Trading and Securities Gains (Losses). Trading and securities gains or losses represent gains and losses from changes in fair value of financial assets at FVPL, and sale of investment securities classified as financial assets at FVPL, financial assets at FVOCI and financial assets at amortized cost.

Foreign Exchange Gains (Losses). Foreign exchange gains (losses) arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized when earned.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations, are recognized when incurred.

Employee Benefits

Short-term Benefits. Short-term employee benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits. The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the year.

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Bank recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements, and net interest expense or income in profit or loss. Net interest expense or income is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Bank recognizes restructuring-related costs.

Remeasurements comprising of actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting year.

The Bank contributes to the retirement fund based on the actuarial valuation report. The contributions to the retirement plan consist of annual normal cost and amortization of any unfunded past service liability. The Bank is not required to contribute when the fair value of plan assets exceeds the present value of retirement liability.

Leases

The Bank considers whether a contract is, or contains a lease at the inception of a contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank as a Lessee. At commencement date of the lease, the Bank recognizes ROU assets and corresponding lease liabilities on the statements of financial position, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities are measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the Bank's incremental borrowing rate. Incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the ROU assets in a similar economic environment.

The Bank recognizes ROU assets and lease liabilities at the commencement date of the lease agreement.

ROU assets are measured at cost, which consist of the initial measurement of the lease liabilities, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The Bank amortizes ROU assets on a straight-line basis using the expected useful life of three to 10 years or the lease term, whichever is shorter. The Bank also assesses the ROU assets for impairment when such indicators exist.

ROU assets are presented as part of property and equipment.

Lease payments included in the measurement of the lease liabilities consists of fixed payments and, if any, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liabilities will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liabilities are remeasured, the corresponding adjustment is reflected in the ROU assets, or profit and loss if the ROU assets are already reduced to zero.

Prior to January 1, 2019, the determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- (d) There is substantial change to the asset.

Where reassessment is made, lease accounting commences or ceases from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor or lessee retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense or income in profit or loss on a straight-line basis over the lease term.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

Deferred Tax. Deferred tax is provided on all temporary differences at the end of the reporting year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxing authority.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

Fiduciary Activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customer, are excluded from the financial statements of the Bank when the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

Foreign Currency Transactions

RBU. Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency at the Banking Association of the Philippines (BAP) closing rate, and its income and expenses are translated at the BAP weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment." Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is recognized in profit or loss.

Related Party Relationship and Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties.

Provisions

Provisions, if any, are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting year, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessment and the risks specific to the obligation. Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events after the Reporting Year

Subsequent events that provide additional information about the Bank's financial position at the reporting year are reflected in the financial statements when material. Subsequent events that are non-adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in preparing the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

Determining the Classification of Financial Assets. Classification of financial assets depends on the results of the business model test and sole payment of principal and interest (SPPI) test performed by the Bank.

The Bank exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives. The following are the factors considered by the Bank in its business model assessment:

- Specific business objectives in holding the financial assets,
- Whether income that can be generated from the financial assets can cover the cost of deposits,
- Policies in managing the risks of the financial assets,
- Expected frequency, value and timing of sales, and
- Key performance indicators of the financial assets.

The Bank also determines whether the contractual terms of debt instruments classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are solely payments for principal and interest, with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the SPPI test.

Determining the Functional Currency. The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates. The Bank, as a lessee, has existing lease agreements with related parties and third parties for its branches. Until December 31, 2018, the Bank accounts for these lease agreements as operating leases. Rent expense amounted to ₱98.9 million in 2018 (see Note 18).

Under PFRS 16, the Bank recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Bank's incremental borrowing rate, except for its short-term leases.

The Bank has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Significant management judgment was likewise exercised by the Bank in determining the discount rate, whether implicit rate, if readily available or incremental rate, to be used in calculating the present value of ROU assets and lease liabilities. The discount rate ranges from 4.84% to 7.78% are incremental borrowing rates based on the Bloomberg Valuation Service (BVAL) rates adjusted by credit spread of the Bank.

Reassessments are made on a continuing basis whether changes should be reflected in the amount of lease liabilities due to circumstances affecting lease payments and discount rates.

Interest expense on lease liabilities and amortization on ROU assets amounted to ₱19.6 million and ₱73.1 million, respectively, in 2019 (see Note 18). As at December 31, 2019, ROU assets and lease liabilities amounted to ₱258.9 million and ₱277.1 million, respectively (see Note 18).

Evaluating Contingencies. The Bank is currently involved in various legal proceedings mainly pertaining to collectability of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Bank's financial position and performance (see Note 25).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determining the Fair Values of Financial Instruments. Certain financial assets and liabilities are carried at fair value and whose fair values are disclosed, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 5.

Estimating the Credit and Impairment Losses on Financial Assets. Credit and impairment losses on financial assets are based on ECL. In assessing the ECL, the Bank uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Bank measures impairment loss based on the 12-month ECL for the following:

- Debt instruments that are determined to have credit risk rating equivalent to "investment grade", and thus, a low credit risk at the reporting date.
- Receivables from customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank measures impairment loss based on the lifetime ECL for receivables from customers for which credit risk has increased significantly since initial recognition, or when:

- The account is considered as loans especially mentioned based on the BSP guidelines.
- The account has missed payment for more than 30 days or seven days for consumer and commercial loans; respectively.
- The Internal Credit Risk Ratings (ICRR) is downgraded by two risk ratings.

In estimating impairment loss of debt instruments measured at FVOCI and amortized cost, the Bank estimates the amounts and timing of future cash flows, collateral values and the assessment of a significant increase in credit risk. Below are the components considered in the calculation of ECL.

- Net flow and default rates of receivables from customers based on historical experience of the Bank.
- ICRR and certain qualitative factors in determining whether there has been a significant increase in credit risk to determine when to measure lifetime credit losses.
- Latest fair values of collaterals and historical recovery rates of foreclosed assets for loss given default calculations.
- Segmentation of financial assets for collective assessment of ECL.
- Use of regression analysis in determining macroeconomic factors that affect non-performing status of loan accounts.

Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as a default or past due event.
- The lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial Assets at FVOCI

Impairment loss on debt instruments at FVOCI amounted to ₱1.9 million in 2019. No impairment loss on debt instruments at FVOCI was recognized in 2018. The carrying amount of debt instruments at FVOCI amounted to ₱1,721.1 million and ₱1,584.9 million as at December 31, 2019 and 2018, respectively (see Note 7).

Other Financial Assets at Amortized Cost

No impairment loss on the Bank's cash and other cash items, due from BSP and other banks, interbank loans and receivables, government securities at amortized cost, refundable deposits, and RCOCI because these are placements with reputable counterparties that possess good ratings. The carrying amount of these financial assets at amortized cost (excluding loans and receivables) aggregated to ₱7,823.9 million and ₱6,981.2 million as at December 31, 2019 and 2018, respectively (see Notes 6, 7 and 12).

Loans and Receivables

Provision for credit and impairment losses on loans and receivables amounted to ₱43.1 million and ₱103.1 million in 2019 and 2018, respectively. Loans and receivables written-off amounted to ₱97.7 million in 2018 (see Note 8).

Details of loans and receivables as at December 31 are as follows:

	Note	2019	2018
Gross amount		₱33,372,392,397	₱32,247,619,407
Allowance for credit an impairment losses		(682,533,971)	(639,413,323)
Carrying amount	8	₱32,689,858,426	₱31,608,206,084

Determining the Valuation and Classification of Foreclosed Assets. The Bank classifies foreclosed assets, which will be recovered principally through sale, as assets held for sale. The Bank is committed to sell and actively markets the foreclosed assets at a price that is reasonable in relation to their current fair values. In determining the fair value of assets held for sale, sales price are analyzed by applying appropriate units of comparison, adjusted by differences between the subject property and related market data. Any subsequent write-down of the asset to fair value less cost to sell is recognized as impairment loss in profit or loss.

Allowance for impairment losses on assets held for sale amounted to ₱26.4 million and ₱13.7 million as at December 31, 2019 and 2018, respectively. Carrying amount of assets held for sale amounted to ₱489.0 million and ₱445.7 million as at December 31, 2019 and 2018, respectively (see Note 9).

Assessing the Impairment of Branch Licenses. Branch license is determined to be an intangible asset with an indefinite economic life because there is no foreseeable limit to the period on which the branch license is expected to generate net cash inflows for the Bank. The branch license is required to be assessed for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

The branches have been identified as the CGU for purposes of impairment assessment of branch licenses.

When the branch license's fair value less cost of disposal is lower than its carrying amount, the recoverable amount is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset base of the branch being tested. The recoverable amount is most sensitive to the discount rate as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

No impairment losses were recognized in 2019 and 2018. As at December 31, 2019 and 2018, the carrying amount of the branch licenses amounted to ₱225.4 million (see Note 11).

Assessing the Impairment of Assets Held for Sale, Property and Equipment and Computer Software. The Bank assesses impairment on property and equipment, computer software and assets held for sale whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The relevant factors that the Bank consider whether to perform an asset impairment review include, among others, the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; or
- significant negative industry or economic trends.

There is no indication that property and equipment and computer software may be impaired. Accordingly, no impairment losses on property and equipment and computer software were recognized in 2019 and 2018.

Impairment losses on assets held for sale amounted to ₱12.7 million in 2019. No impairment losses on assets held for sale was recognized in 2018. Allowance for impairment losses on assets held for sale amounted to ₱26.4 million and ₱13.7 million as at December 31, 2019 and 2018, respectively (see Note 9).

The carrying amounts of assets held for sale, property and equipment and computer software are as follows:

	Note	2019	2018
Assets held for sale	9	₱488,968,117	₱445,743,668
Property and equipment	10	671,187,614	434,435,516
Computer software	11	101,556,303	89,695,543
		₱1,261,712,034	₱969,874,727

Estimating the Useful Lives of Property and Equipment and Computer Software. The Bank estimates the useful lives of property and equipment and computer software based on the year over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and changed if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of property and equipment and computer software. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment and computer software would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment (excluding ROU assets) and computer software in 2019 and 2018.

The carrying amounts of depreciable property and equipment and computer software are as follows:

	Note	2019	2018
Property and equipment	10	₱506,843,114	₱270,091,016
Computer software	11	101,556,303	89,695,543
		₱608,399,417	₱359,786,559

Determining the Retirement Liability. The determination of the obligation and cost of retirement benefits is dependent on selection of certain assumptions determined by management and used by the actuary in calculating such amounts. These assumptions include, among others, discount rate and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future years.

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 19 to financial statements.

Retirement liability amounted to ₱62.3 million and ₱72.4 million as at December 31, 2019 and 2018, respectively (see Note 19).

Assessing the Realizability of Deferred Tax Assets. The Bank reviews the carrying amount of deferred tax assets at each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting year and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The estimates of future taxable income indicate that deferred tax assets on certain temporary differences may be utilized in the future.

As at December 31, 2019 and 2018, deferred tax assets recognized by the Bank amounted to ₱72.3 million and ₱62.0 million, respectively (see Note 21).

As at December 31, 2019 and 2018, deferred tax assets on certain temporary differences aggregating ₱632.0 million and ₱589.0 million, respectively, were not recognized (see Note 21). Management assessed that it is not probable that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized.

4. Financial Risk Management Objectives and Policies

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and interest rate risk

Risk Governance

The Bank's BOD has overall responsibility for the oversight of the Bank's risk management process. The established risk governance framework together with the supporting structure provides for the mechanism to ensure oversight and accountability for risk at various levels in the organization. Various board and management committees, which are responsible for developing, managing and monitoring specific risks that the Bank is exposed to, are as follows.

Board Level:

1. Risk Management Committee (RMC)
2. Audit Committee (AC)
3. Corporate Governance Committee(CorGov)
4. Related Party Transaction (RPT)
5. Loan Committee (LOANCOM)
6. Bids & Awards Committee (BAC)
7. IT Committee (ITCOM)
8. Trust Committee (TRUSTCOM)
9. Executive Committee (EXCOM)

Management Level:

1. Senior Management Committee (SMC)
2. Credit Committee (CRECOM)
3. Fraud Committee (FRAUDCOM)
4. Anti-Money Laundering Committee (AMLCOM)
5. Data Protection Committee (DPC)
6. Asset-Liability Committee (ALCO)
7. Senior Management Oversight Committee for Outsourced Services (SMOC)

RMC is responsible for developing the Bank's risk strategy and the supporting risk management policies, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

RMC is supported by the Risk Management Group (RMG) in the exercise of its risk oversight functions. RMG, which is independent of the business units and is directly reporting to the RMC, performs daily market risk analyses to measure market risk exposures and ensure compliance with the Bank's policies, procedures and limit structures, and makes recommendations based on such analyses. RMG, likewise, monitors credit risk exposures and portfolio movements. They also take the lead in the development of the Bank's credit acceptance policies, risk classification and profiling through the administration of the internal credit rating system and the determination of appropriate levels of allowances for credit losses.

AC is responsible for monitoring the Bank's compliance with the risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks being faced by the Bank. AC is assisted by the Internal Audit (IA) Department. IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

CorGov assists the board in fulfilling its corporate governance responsibilities and oversees periodic assessment of board performance, as well as the various Board Committees and Executive Management.

RPT is responsible for screening related party accounts for board approval.

LOANCOM is a Board Committee that acts as the highest approving body for loan and other credit related matters, except for directors, officers, stockholders and related interest (DOSRI) loans. It ensures that the credit approval or endorsement of credit facilities is based on a diligent, sound and prudent evaluation of the risks involved and is aligned with the Bank's strategic objectives in terms of asset quality.

BAC oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

ITCOM oversees the development of the Bank's information Technology System and Infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect bank information and technical infrastructure.

TRUSTCOM is responsible for overseeing the investment activities of the Bank's Trust unit.

EXCOM assists the board in the general supervision, administration and management of the Bank's affairs, and is actively engaged in overseeing the development and execution of the Bank's business strategies.

SMC exercises general supervision, administration and management of the bank's operations, and as such oversees the operational and strategic risk management.

CRECOM is the management level committee that evaluates and screens all credit proposals that requires the approval of the President, LOANCOM or the BOD, and likewise monitors credit underwriting activities performed at management level. It ensures that credit risk is within the BOD established risk tolerance levels and that proposals comply with the credit underwriting standards as established in the Bank's policies and procedures.

FRAUDCOM addresses the increasing threat landscape for fraud incidents committed against the Bank and its clients. The primary responsibility of the FRAUDCOM is to determine actions to be taken when a fraud incident is reported and recommend changes in the processes, procedures and policies of the Bank whenever applicable.

AMLCOM was established assists the BOD in fulfilling its oversight responsibility over AML activities to ensure that the Bank complies with the provisions of the Anti-Money Laundering Act (AMLA), as amended, its Implementing Rules and Regulations (IRR), and BSP regulations.

DPC task is to oversee the implementation of the Data Privacy Act (DPA). The Bank adopted a committee approach to DPA compliance with Data Protection officers representing the different areas namely, Compliance Risk, Legal, Information Technology and Security.

ALCO is responsible for ensuring that the Bank maintains adequate liquidity, sufficient capital and the appropriate funding to meet business requirements and comply with regulatory requisites. It is also responsible for building a stable funding structure by managing the Bank's asset and liability profile. Moreover, it manages the Bank's financial position and ensures that the Bank's liquidity, capital and funding structure support the business strategies. It likewise establishes the Bank's asset-liability pricing policies.

SMOC is tasked to oversee the outsourcing arrangements with third party business partners.

Credit Risk

Credit risk is the risk of financial loss to the Bank when a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arises largely from the lending, trade finance and investment activities. The Bank manages credit risk through an established risk control framework that provides for policies and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries and industries are within BOD established and approved limits and that any credit concentration is within acceptable levels.

While the Credit Risk Control Department of RMG (CRC-RMG) provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defense, business units are responsible for monitoring and controlling the credit risks in its portfolio. The CRC-RMG, meanwhile, provides an independent evaluation of the Bank's credit risk exposure through review of loan proposals and credit processes, borrower risk assessments and credit administration. This is complemented by regular audits of business units and credit processes undertaken by IA that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

The Bank extends various types of loans, several on clean/unsecured basis, and others against hard collaterals and other form of securities. Personal and salary loans are generally granted on a clean/unsecured basis. Other consumer lending products are largely asset-backed financing with auto loans secured by chattel mortgage on the vehicles and real estate loans secured by first real estate mortgage on residential or commercial properties. The Bank's commercial/small-medium enterprise loans cover a mix of clean/unsecured (which includes those under personal guarantees) as well as secured credit facilities (i.e., those supported by real estate and chattel mortgages, guarantees and other registered securities). Estimates of fair value are based on the value of the collateral assessed at the time of the borrowing.

All loan applications, covering the different types of loans, undergo strict credit evaluation in accordance with established risk acceptance criteria. The essential elements that the Bank considers for all its credit dealings and account relationships are: favorable credit checking; good credit standing and track record with other counterparties, banks and trade partners alike; financial strength and cash generating capabilities (fund sourcing), which translate into determination of paying capacity that establishes repayment expectations; and acceptable collateral/security, if applicable. Furthermore, credit underwriting is performed within a framework of delegated credit authorities that take into account facility risks and magnitudes of potential exposures.

Management of Credit Risk

The BOD, through RMC and LOANCOM, is assisted in the monitoring and management of credit risk by the CRC-RMG, which continuously implements its risk control programs, in line with its oversight function over the Bank's lending activities. CRC-RMG is principally tasked with identifying, monitoring, reporting and controlling the Bank's credit risk. The specific functions of CRC-RMG are as follows:

- Takes charge of administering the Bank's lending policies, ensuring compliance by those concerned with continuous issuance of updates on policies and process guidelines for bank-wide implementation and compliance.

- Facilitates the activities of the CRECOM, whose main objective is to evaluate and screen loan proposals requiring approvals beyond line management levels.
- Classifies borrowing accounts according to several levels of risk, based on the ICRR system and loan portfolio assessments, to regularly determine loan impairments for the purpose of determining the appropriate loan loss reserves.
- Conducts credit stress testing and regularly evaluates and monitors the quality of the Bank's loan portfolio via the Portfolio Profile Report, as part of the scheme of controlling large concentration and Bank exposures.

Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

The Bank's maximum exposure to the credit risk is equal to the carrying amount of the financial assets, except for the following loans and receivables:

	2019			
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk
Loans and receivables:				
Receivables from customers:				
Consumer loans ¹	₱15,148,679,337	₱14,754,258,066	₱13,880,203,762	₱1,268,475,575
Corporate loans ²	17,257,076,506	5,968,717,796	3,581,230,678	13,675,845,828
	32,405,755,843	20,722,975,862	17,461,434,440	14,944,321,403
Sales contracts receivable ³	17,756,977	30,718,181	17,756,977	-
	₱32,423,512,820	₱20,753,694,043	₱17,479,191,417	₱14,944,321,403

¹Net of allowance for credit and impairment losses amounting to ₱444.0 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to ₱237.5 million and ₱8.0 million, respectively.

³Net of allowance for credit and impairment losses amounting to ₱1.0 million.

	2018			
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk
Loans and receivables:				
Receivables from customers:				
Corporate loans ¹	₱16,016,411,554	₱16,124,686,430	₱15,146,272,018	₱206,788,951
Consumer loans ²	15,353,060,559	4,554,858,557	2,732,915,134	13,951,731,595
	31,369,472,113	20,679,544,987	17,879,187,152	14,158,520,546
Sales contracts receivable ³	17,650,563	28,570,600	17,650,563	-
	₱31,387,122,676	₱20,708,115,587	₱17,896,837,715	₱14,158,520,546

¹Net of allowance for credit and impairment losses amounting to ₱393.4 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to ₱245.0 million and ₱5.6 million, respectively.

³Net of allowance for credit and impairment losses amounting to ₱1.0 million.

Concentration of Credit Risk Exposure of Financial Assets

The Bank monitors concentration of credit risk by industry. The distribution of the Bank's financial assets and off-balance sheet items by industry sector, before taking into account collaterals held or other credit enhancements (maximum exposure) are as follows:

	2019				
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	₱15,324,459,834	₱-	₱-	₱13,037,643	₱15,337,497,477
Financial intermediaries	2,636,207,756	7,121,046,364	226,164,391	-	9,983,418,511
Wholesale and retail trade	5,810,298,243	-	-	31,208,390	5,841,506,633
Real estate	5,029,230,938	-	-	27,172,248	5,056,403,186
Manufacturing	3,056,184,330	-	-	-	3,056,184,330

(Forward)

2019					
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Philippine government	P-	P-	P2,380,666,204	P-	P2,380,666,204
Transportation, storage and communication	671,682,237	-	-	-	671,682,237
Construction	249,275,886	-	-	-	249,275,886
Mining and quarrying	154,074,400	-	-	-	154,074,400
Hotel and restaurant	90,482,208	-	-	-	90,482,208
Agricultural, hunting and forestry	82,156,082	-	-	-	82,156,082
Electricity, gas and water supply	4,246,401	-	-	-	4,246,401
	33,108,298,315	7,121,046,364	2,606,830,595	71,418,281	42,907,593,555
Allowance for credit and impairment losses	681,502,335	-	-	-	681,502,335
	P32,426,795,980	P7,121,046,364	P2,606,830,595	P71,418,281	P42,226,091,220

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

²Comprised of due from BSP, due from other banks, interbank loans receivable.

³Comprised of financial assets at FVPL and FVOCI (excluding unquoted equity security).

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

2018					
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	P15,027,629,717	P-	P-	P31,412,431	P15,059,042,148
Financial intermediaries	2,600,149,285	6,276,097,712	401,986,255	-	9,278,233,252
Wholesale and retail trade	5,456,012,560	-	-	33,551,416	5,489,563,976
Real estate	4,403,658,169	-	-	27,429,884	4,431,088,053
Manufacturing	2,778,695,493	-	-	-	2,778,695,493
Philippine government	-	-	1,478,771,010	-	1,478,771,010
Transportation, storage and communication	1,288,721,641	-	-	60,000	1,288,781,641
Construction	210,219,754	-	-	-	210,219,754
Mining and quarrying	154,409,736	-	-	-	154,409,736
Hotel and restaurant	59,220,355	-	-	-	59,220,355
Agricultural, hunting and forestry	32,249,248	-	-	-	32,249,248
Electricity, gas and water supply	2,447,716	-	-	1,950,178	4,397,894
	32,013,413,674	6,276,097,712	1,880,757,265	94,403,909	40,264,672,560
Allowance for credit and impairment losses	638,381,687	-	-	-	638,381,687
	P31,375,031,987	P6,276,097,712	P1,880,757,265	P94,403,909	P39,626,290,873

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

²Comprised of due from BSP, due from other banks, interbank loans receivable.

³Comprised of financial assets at FVPL and FVOCI (excluding unquoted equity security).

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

The Bank regularly assesses impairment losses on its financial assets (except those held for trading) based on historical loss experience and adjusted for appropriate forward-looking estimates. The Bank addresses impairment assessment in two areas: individual or specific assessment and collective assessment.

Individual or Specific Assessment. The Bank determines the credit and impairment loss appropriate for each individually significant loan or receivable on an individual account basis. Factors considered in determining the appropriate amounts of impairment loss include an account's age, payment and collection history, short and medium-term prospects in the industry, timing of expected cash flows, realizable value of collateral and forward looking factors such as inflation and interest rates, and consumer price index.

The Bank establishes criteria for specific loan impairment testing and uses the discounted cash flow method to compute for impairment loss. Accounts subjected to specific assessment and are found to be impaired are excluded from the collective impairment assessment.

Collective Assessment. Collective assessment for loan impairment losses are performed on loans and receivables that are not individually significant and those significant loans and receivables, which were individually assessed for impairment but were found not to be impaired. Generally, the Bank applies the probability of loss method in determining the collective impairment loss, where such probability is derived from the product of default rate and loss rate. For personal and salary loans, the added dimension of net flow rate method is considered. This method utilizes the historical data on movements of arrearages (flow-over and flow-back) across the different delinquency age buckets, as a means of determining default and loss rate and forward looking factors such as interest rates, and consumer price index.

Significant Increase in Credit Risk. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

Definition of Default. The Bank considers a financial asset to be in default when a borrower fails to pay the loan in full within 90 days after contractual due date.

Credit Quality per Class of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. The following table provides the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses) classified as Stage 1, 2 or 3 financial assets as at December 31, 2019 and 2018, based on the requirements of PFRS 9.

<i>Amounts in Thousands</i>	2019			Total
	Stage 1	Stage 2	Stage 3	
Financial assets at FVOCI				
Government securities				
High grade	₱1,505,476	₱-	₱-	₱1,505,476
Private bonds				
High grade	199,576	-	-	199,576
Financial assets at amortized cost				
Due from BSP				
High grade	3,174,324	-	-	3,174,324
Due from other banks				
High grade	3,413,981	-	-	3,413,981
Interbank loans receivables				
High grade	532,741	-	-	532,741
Government securities				
High grade	2,140	-	-	2,140
Consumer loans				
High grade	12,232,539	-	-	12,232,539
Standard grade	1,830,350	238,208	-	2,068,558

(Forward)

<i>Amounts in Thousands</i>	2019			Total
	Stage 1	Stage 2	Stage 3	
Past due but not individually impaired	₱-	₱437,491	₱407,320	₱844,811
Individually impaired	-	-	446,822	446,822
Corporate loans				
High grade	4,004,294	-	-	4,004,294
Standard grade	12,888,535	-	-	12,888,535
Individually impaired	-	-	609,714	609,714
Bills purchased				
High grade	13,025	-	-	13,025
Accrued interest income				
High grade	99,439	-	-	99,439
Standard grade	68,548	1,796	-	70,344
Past due but not individually impaired	-	4,977	8,498	13,475
Individually impaired	-	-	20,165	20,165
Accounts receivable				
High grade	49,898	-	-	49,898
Sales contracts receivables				
High grade	6,654	-	-	6,654
Past due but not individually impaired	-	12,135	-	12,135
Other assets*				
High grade	27,561	-	-	27,561
	₱40,049,081	₱694,607	₱1,492,519	₱42,236,207

*Includes refundable deposits and RCOCI.

<i>Amounts in Thousands</i>	2018			Total
	Stage 1	Stage 2	Stage 3	
Financial assets at FVOCI				
Government securities				
High grade	₱1,192,770	₱-	₱-	₱1,192,770
Private bonds				
High grade	376,036	-	-	376,036
Financial assets at amortized cost				
Due from BSP				
High grade	2,654,024	-	-	2,654,024
Due from other banks				
High grade	3,538,959	-	-	3,538,959
Interbank loans receivables				
High grade	83,115	-	-	83,115
Consumer loans				
High grade	15,143,562	-	-	15,143,562
Standard grade	-	263,225	-	263,225
Past due but not individually impaired	-	507,214	187,754	694,968
Individually impaired	-	-	308,076	308,076
Corporate loans				
High grade	3,212,660	-	-	3,212,660
Standard grade	11,909,570	-	-	11,909,570
Individually impaired	-	-	476,468	476,468
Unquoted debt securities				
High grade	7,736	-	-	7,736
Bills purchased				
High grade	4,884	-	-	4,884
Accrued interest income				
High grade	74,257	-	-	74,257
Standard grade	52,474	1,728	-	54,202
Past due but not individually impaired	-	10,678	4,241	14,919
Individually impaired	-	-	15,467	15,467
Accounts receivable				
High grade	54,502	-	-	54,502
Sales contracts receivables				
High grade	6,700	-	-	6,700

(Forward)

Amounts in Thousands	2018			
	Stage 1	Stage 2	Stage 3	Total
Past due but not individually impaired	₱-	₱11,982	₱-	₱11,982
Other assets*				
High grade	32,042	-	-	32,042
	₱38,343,291	₱794,827	₱992,006	₱40,130,124

*Includes refundable deposits and RCOCI.

The Bank classifies its neither past due nor impaired financial assets subject to credit risk into the following credit grades:

- High Grade – This pertains to accounts with very low probability of default because of the borrower’s/counterparty’s established ability to tap its liquid resources to fully service its obligations as they become due. The borrower/counterparty has no history of default and uses leverage sparingly.
- Standard Grade – This pertains to accounts with an acceptable probability of default. Nevertheless, the borrower/counterparty has a strong debt service record and has demonstrated the ability to readily service its debts. Collateral cover, if applicable, should be adequate.
- Substandard Grade – Risk of default is higher than normal. The borrower/counterparty is expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower/counterparty. The borrower/counterparty may have a history of default but have regularized its debt service performance as at reporting year.

The credit quality of trading and investment securities is generally monitored through the external ratings of eligible external credit rating institutions.

Presented below is the mapping of the credit risk rating from external rating agencies with the Bank’s internal risk rating for investment securities:

A. Moody’s Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	Aaa	Aa	A	Baa	Prime
Standard Grade	Ba	B			Not Prime
Substandard Grade	Caa	Ca			
Impaired	C				

B. S&P Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC	CC	C		C
Impaired	D				

C. Fitch Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC				C
Impaired	DDD	DD	D		

D. Philratings

Credit Quality	Rating				
	Long-term				Short-term
High Grade	PRS Aaa	PRS Aa	PRS A	PRS Baa	PRS 1
					PRS 2
					PRS 3
Standard Grade	PRS Ba	PRS B			PRS 4
Substandard Grade	PRS Caa	PRS Ca			PRS 5
Impaired	PRS C				PRS 6

For debt securities not rated by any rating agency, the Bank performs the credit rating review for the issuers of the debt securities based on quantitative and qualitative analyses, the data of which are provided by the Treasury/Trust Group. Below is the guidance in evaluation if the investment is impaired or not.

Credit Quality	Rating	Assessment
High Grade	1 and 2	Not Impaired
Standard Grade	3	Not Impaired
Substandard Grade	4	Impaired
Impaired	5	Impaired

For loans, the credit quality is generally monitored using the Bank’s internal rating system. It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely: the borrower’s risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses ICRR to classify the credit quality of its receivables portfolio. This is being upgraded, as needed, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivables from customers are as follows:

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Risk Rating 1 – Excellent. The borrower’s ability to meet its financial commitments is extremely strong and there is a very low probability that it will default on payments due in the coming year. The borrower has a high degree of stability, substance and diversity.

A borrower in this category has access to substantial amounts of funds through the public capital market at any time. It has a strong debt service capacity and has conservative balance sheet leverage (the industry in which the borrower operates). The track record in profit terms is very good. The borrower is of the highest quality, operating reliably under virtually any and all economic conditions.

Risk Rating 2 – Strong. The borrower’s ability to meet its financial commitments is very strong and there is a low probability that it will default on payments due in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public capital market to raise funds.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios (vis-à-vis applicable industry) are conservative.

These borrowers herein categorized are described as quality corporations or enterprises, which are adequately capitalized and operating profitably.

Risk Rating 3 – Good. The borrower’s ability to meet its financial commitments is strong. It may be described as a big or small corporation whose access to public capital market or to alternative financial market is easy, may be limited to periods of favorable economic and/or market conditions.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low. However, it may still be susceptible to the negative effects of cyclical business changes.

Typical traits include a combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that industry). The debt service capacity as measured by cash flow analysis is strong.

Risk Rating 4 – Satisfactory. The borrower has adequate capacity to meet its financial commitments. Borrower operates in an environment where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. A borrower in this category normally has limited access to public financial market. It should be able to withstand normal business cycles, but any prolonged unfavorable economic climate may create gradual deterioration in its financial health.

Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profit for the past fiscal year and is expected to report a profit in the current year.

Risk Rating 5 – Acceptable. The borrower is less vulnerable but faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to its inadequate capacity to meet its financial commitments.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

This category will apply where the risk is still acceptable for the following reasons:

- There is sufficient cash flow either historically or expected for the future, in spite of an economic downturn combined with asset protection; or
- There is a new business or project finance transaction.

Risk Rating 6 – Weak. The borrower is more vulnerable but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial requirements.

This category represents the type of borrower for which unfavorable industry or Bank-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Generally, a borrower in this category incurs net losses for one or more years. Normally, there is an expectation that conditions will improve and the rating may be upgraded. Any deterioration, however, will almost certainly result in an automatic downgrade.

In summary, this category includes those borrowers where the credit exposure is not at risk of loss at the moment, but wherein performance has weakened, and unless present trends are reversed, could lead to losses.

Risk Rating 7 – Poor. The borrower is currently vulnerable and is dependent on favorable business, financial and economic conditions to meet its financial obligations.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower's financial condition or creditworthiness.
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity.
- Indications that the borrower's ability or willingness to service debt are in doubt.
- Necessity or strong likelihood for rescheduling of the loan.
- Decline in values of, or adverse developments on, collaterals securing the loan.

Risk Rating 8 – Substandard. The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such may include adverse trends or development of a financial, managerial, economic or political nature or significant weakness in collateral.

Basic characteristics are:

- Past due loan for which there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;
- Current loans to borrowers whose financial statements audited by the SEC-accredited external auditors show impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements without at least 20.0% repayment of the principal before renewal or extension;
- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Past due loans for more than 90 days.

Risk Rating 9 – Doubtful. Borrower is in a state of default, where any of the following factors are present:

- Account is already in "non-performing loan" (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days;
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful; and

- Overdue loans wherein the prospects of fully applying the collaterals are impaired due to material declines in market value, or subject of adverse claim.

The extent of probability of loss cannot be exactly quantified at this time. Although the possibility of loss is significant, there may be certain important and reasonably specific pending factors that can work to the advantage of the Bank and result in a strengthening of assets of the borrower. Pending factors include merger, acquisition, capital injection and additional cover.

Risk Rating 10 – Loss. Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the Bank.

These are loans, or portions thereof, which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is neither practical nor desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

Basic characteristics are:

- Past due clean loans, the interest of which has remained unpaid for a period of six months;
- Loans payable in installments where amortization applicable to interest is past due for a period of six months, unless the loan is fully secured;
- When the borrower's whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;
- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

Collateral and Other Credit Risk Mitigation

The amount and type of collateral required depends on an assessment of the credit risk of the obligor. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or non-financial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Bank monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement.

The following table shows the fair value of collaterals held against the loans and receivables that are neither past due nor impaired:

	2019	2018
Properties	P18,652,924,829	P18,001,267,511
Deposits	1,500,254,148	1,297,989,944
	P20,153,178,977	P19,299,257,455

It is the Bank's policy to sell foreclosed assets through public bidding (only after the assets are appraised anew to determine current market value, and duly bid based on the approved minimum bid price).

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when these become due, without incurring unacceptable losses or costs. Specifically, this pertains to events that may necessitate the Bank to enter into transactions that would realize significant losses or costs in order to meet its obligations when these fall due.

ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

The Bank's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met with minimum sacrifice to market price and by maintaining a balanced loan portfolio, which is re-priced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand within three months.

The Bank's Treasury Department uses liquidity forecast models that estimate the Bank's cash flow requirements based on the Bank's actual contractual obligations under normal circumstances and extraordinary circumstances. RMG prepares a monthly maximum cumulative outflow report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

Aging of Financial Assets and Liabilities by Remaining Contractual Maturities

The tables below summarize the maturity profile of the Bank's financial assets and liabilities used for liquidity management based on contractual undiscounted payments and receipts as at December 31, 2019 and 2018:

	2019						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P899,638,694	P-	P-	P-	P-	P-	P899,638,694
Financial assets at FVOCI	-	-	757,978,101	85,908,080	-	877,239,210	1,721,125,391
Financial assets at amortized cost:							
Cash and other cash items	675,319,948	-	-	-	-	-	675,319,948
Due from BSP	-	3,174,324,418	-	-	-	-	3,174,324,418
Due from other banks	-	3,413,981,051	-	-	-	-	3,413,981,051
Interbank loans receivable	-	532,740,895	-	-	-	-	532,740,895
Government securities	-	76,830	326,432	396,646	923,934	416,131	2,139,973

(Forward)

	2019						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Loans and receivables:							
Receivables from customers	P-	P12,506,247,186	P1,414,453,635	P3,453,585,189	P1,209,230,458	P14,516,766,762	P33,100,283,230
Accrued interest income	-	29,263,061	7,926,261	23,391,430	20,243,883	122,598,313	203,422,948
Accounts receivable	-	24,896,523	541,688	2,681,415	3,677,907	18,100,073	49,897,606
Sales contracts receivable	-	-	-	-	-	18,788,613	18,788,613
Other assets*	483,813	-	-	-	-	27,077,407	27,561,220
	P10,575,442,455	P19,681,529,964	P2,181,226,117	P3,565,962,760	P1,234,076,182	P15,580,986,509	P43,819,223,987
Financial Liabilities							
Deposit liabilities:							
Demand	P9,968,986,302	P-	P-	P-	P-	P-	P9,968,986,302
Savings	-	1,146,983,284	2,240,080	3,158,332	4,152,915,178	-	5,305,296,874
Time	-	17,165,936,855	2,777,596,089	2,383,460,303	714,522,767	635,336,657	23,676,852,671
	9,968,986,302	18,312,920,139	2,779,836,169	2,386,618,635	4,867,437,945	635,336,657	38,951,135,847
Manager's checks	-	173,777,188	-	-	-	-	173,777,188
Accrued interest and other expenses**	83,906,845	8,874,571	1,451,707	1,184,933	139,139,315	-	234,557,371
Unsecured subordinated debt	-	14,250,000	-	14,250,000	28,500,000	1,000,000,000	1,057,000,000
Lease liabilities	-	7,825,146	7,831,961	28,179,190	42,037,614	154,538,634	240,412,545
Other liabilities***	-	864,453,272	-	-	-	-	864,453,272
	P10,052,893,147	P19,382,100,316	P2,789,119,837	P2,430,232,758	P5,077,114,874	P1,789,875,291	P41,521,336,223

*Comprised of refundable deposits and RCOCI.

**Excluding accrued gross receipts tax

***Comprised of accounts payable, payment orders, bills purchased-contra and marginal deposit and other liabilities.

	2018						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P311,950,522	P-	P-	P-	P-	P-	P311,950,522
Financial assets at FVOCI	-	-	-	627,771,648	33,818,340	923,290,218	1,584,880,206
Financial assets at amortized cost:							
Cash and other cash items	673,088,622	-	-	-	-	-	673,088,622
Due from BSP	2,654,024,133	-	-	-	-	-	2,654,024,133
Due from other banks	3,538,958,509	-	-	-	-	-	3,538,958,509
Interbank loans receivable	83,115,070	-	-	-	-	-	83,115,070
Loans and receivables:							
Receivables from customers	-	10,007,660,869	2,020,896,916	3,633,978,100	732,332,293	15,612,985,622	32,007,853,800
Accrued interest income	-	19,809,378	7,112,917	19,083,819	13,827,861	99,011,158	158,845,133
Accounts receivable	-	29,081,289	650,536	2,755,384	3,134,697	18,880,097	54,502,003
Sales contracts receivable	-	-	-	-	-	18,682,199	18,682,199
Unquoted debt securities	-	974,843	453,706	1,763,652	429,473	4,114,598	7,736,272
Other assets*	4,612,431	-	-	-	-	27,429,884	32,042,315
	P7,265,749,287	P10,057,526,379	P2,029,114,075	P4,285,352,603	P783,542,664	P16,704,393,776	P41,125,678,784
Financial Liabilities							
Deposit liabilities:							
Demand	P7,957,158,157	P-	P-	P-	P-	P-	P7,957,158,157
Savings	-	1,351,987,478	2,157,871	7,130,440	-	3,725,869,853	5,087,145,642
Time	-	16,182,820,264	3,222,239,285	2,708,739,930	460,742,218	1,085,572,216	23,660,113,913
	7,957,158,157	17,534,807,742	3,224,397,156	2,715,870,370	460,742,218	4,811,442,069	36,704,417,712
Manager's checks	-	128,070,287	-	-	-	-	128,070,287
Accrued interest and other expenses**	66,372,856	6,866,197	1,410,324	1,211,541	189,884	91,047,188	167,097,990
Unsecured subordinated debt	-	14,250,000	-	14,250,000	28,500,000	1,000,000,000	1,057,000,000
Other liabilities**	-	814,847,702	-	-	-	-	814,847,702
	P8,023,531,013	P18,498,841,928	P3,225,807,480	P2,731,331,911	P489,432,102	P5,902,489,257	P38,871,433,691

*Comprised of refundable deposits and RCOCI.

**Excluding accrued gross receipts tax

***Comprised of accounts payable, payment orders, bills purchased-contra and marginal deposit and other liabilities.

Minimum Liquidity Ratio (MLR)

The Bank is subject to a Minimum Liquidity Ratio (MLR) of 20% beginning January 2019. MLR is expressed as a percentage of eligible stock of liquid assets to its total qualifying liabilities. The stock of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments.

The Bank is in compliance with the requirement with MLR at 24.54% as at December 31, 2019.

Market Risk

Market risk is the risk of loss of future earnings, fair values or future cash flows as a result of changes in interest rate, foreign exchange rate, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of debt securities.

ALCO, chaired by the Head of Treasury, is the management level committee responsible for review and management of market risk. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Bank's Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial market. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by RMC. RMG performs regular reporting to ALCO and to the RMC, which is a sub-committee of the BOD.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rate is kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rate, updated monthly. EaR is calculated based on 99.00% confidence level. It is accomplished monthly, with quarterly stress test.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rate of the Bank's net interest income and equity with all other variables held constant:

<i>Amounts in Millions</i>	2019				2018			
	Increase (Decrease) in Basis Points				Increase (Decrease) in Basis Points			
	50	100	(50)	(100)	50	100	(50)	(100)
Changes in net interest income:								
Loans and receivables	₱7.88	₱15.75	(₱7.88)	(₱15.75)	₱7.01	₱14.02	(₱7.01)	(₱14.02)
Deposit liabilities	(16.05)	(32.11)	16.05	32.11	(15.54)	(31.07)	15.54	31.07
As a percentage of the net interest income for the year	-0.4%	-0.9%	0.4%	0.9%	(0.5%)	(1%)	0.5%	1%
Changes in equity* -								
Financial assets at FVOCI	(30.68)	(60.14)	34.06	69.65	(27.31)	(53.20)	28.97	59.60

*The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value erosion due to an adverse movement in foreign exchange rate. It arises due to a mismatch in the Bank's foreign currency-denominated assets and liabilities.

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, the BSP requires 100% asset coverage for its FCDU liabilities, 30% of which should be in the form of liquid assets. As at December 31, 2019 and 2018, the Bank is in compliance with the said regulation.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table summarizes the Bank's foreign currency-denominated financial assets and liabilities as at December 31, 2019 and 2018. Included in the table are assets and liabilities at carrying amounts in Philippine Peso equivalent, categorized by currency.

	2019			2018		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and other cash items	₱58,387,945	₱724	₱58,388,669	₱77,774,604	₱-	₱77,774,604
Due from other banks	2,832,123,168	43,696,984	2,875,820,152	2,995,099,180	47,273,134	3,042,372,314
Interbank loans receivable	-	72,747,246	72,747,246	5,459,894	77,655,176	83,115,070
Investment securities	1,010,528,265	-	1,010,528,265	629,942,577	-	629,942,577
Loans and receivables	506,350,000	-	506,350,000	536,820,768	-	536,820,768
	4,407,389,378	116,444,954	4,523,834,332	4,245,097,023	124,928,310	4,370,025,333
Financial Liabilities						
Deposit liabilities	4,393,815,369	9,736,605	4,403,551,974	4,179,945,550	5,994,505	4,185,940,055
Net Exposure	₱13,574,009	₱106,708,349	₱120,282,358	₱65,151,473	₱118,933,805	₱184,085,278

*Consist of Euro, United Kingdom Pound, Canadian Dollar, Australian Dollar, Hong Kong Dollar, New Zealand Dollar, Singapore Dollar, Japanese Yen, Swiss Franc and Chinese Yuan.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate on the Bank's net income:

Amounts in Millions	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD				
2019	₱0.45	₱0.89	(₱0.45)	(₱0.89)
2018	0.61	1.22	(0.61)	(1.22)

The increase in USD exchange rate represents depreciation of Philippine Peso while the decrease in USD exchange rate represents an appreciation of Philippine Peso. The increase or decrease in exchange rate of other currencies is not significant.

There is no other impact in the Bank's equity other than those already affecting the net income.

Market Risk in the Trading Book

The Bank is exposed to the potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rate. The trading activities of the Bank include investments in fixed income securities and foreign exchange trading, which exposes the Bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by a daily analysis of the Value-at-Risk (VaR) of financial instruments under normal market conditions.

Objectives and Limitations of the VaR Methodology

The Bank uses the VaR approach in assessing possible changes in the market value of the trading portfolio based on historical data for a rolling one year period. The Bank employs the use of historical methodology in calculating the VaR. This model assumes that the exact distribution of past returns does not apply during sudden changes in market condition. The use of historical VaR model has limitations and requires a significant amount of risk factor history. It does not capture probabilities that have not yet occurred while it captures irregularities present in the historical database.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs the hypothetical and actual backtesting procedures for both RBU and FCDU securities. Likewise, to complement VaR measurement, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios.

VaR Assumptions/Parameters

The VaR that the Bank measures is an estimate which uses actual historical rates and revalues positions for each change in the market. It is appropriate for all types of instruments, linear and non-linear, with stable risk factors for which there is a rich historical database. Since VaR is an integral part of the Bank’s market risk management, VaR limits have been established annually for all financial trading activities and exposures against the limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank.

The Market Risk Officer of the Bank prepares a daily VaR report containing details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any. This report is submitted to the traders concerned, the Treasury Head, Chief Risk Officer, Treasury Operations Head, and the President. Moreover, the VaR results are discussed and reported in the monthly Risk Management Committee meetings.

The following table provides the VaR summary of the Bank for the years ended December 31, 2019 and 2018:

<i>Amounts in Thousands</i>	2019		2018	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 28	₱839	₱9,101	₱1,429	₱1,633
Average Daily	1,087	9,719	853	2,146
Highest	2,872	18,470	1,677	5,909
Lowest	793	25	1	9

Fixed income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Peso. VaR, being a measure of risk in the trading book, only includes held for trading portfolio.

The Bank’s trading in fixed income securities is exposed to movements in interest rate. The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The VaR of foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, does not consider the correlation effects between the two risks.

Capital Management

The primary objectives of the Bank’s capital management are to ensure that it complies with externally-imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders’ value.

The Bank manages its capital structure and makes adjustments to it where there are changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital

Under the existing BSP regulations, the determination of compliance with regulatory requirements and ratios is based on the amount of the “qualifying capital” (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets (RWA) are computed based on the BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letter of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The details of CAR as at December 31, as reported to the BSP are as follows:

<i>Amounts in Thousands</i>	2019	2018
Common Equity Tier 1 (CET1) capital	₱2,709,554	₱2,636,151
Additional Tier 1 (AT1) capital	–	–
Tier 1 capital	2,709,554	2,636,151
Required deductions	16,691	13,755
	2,692,863	2,622,396
Excess from Tier 2 deducted from Tier 1 Capital*	–	–
Net Tier 1 Capital	2,692,863	2,622,396
Tier 2 capital	1,591,633	1,565,351
Required deductions	–	–
	1,591,633	1,565,351
Excess of Tier 2 deducted from Tier 1 Capital*	–	–
Net Tier 2 Capital	1,591,633	1,565,351
Total Qualifying Capital	₱4,284,496	₱4,187,747

*Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.

	2019	2018
Credit RWA	₱34,557,063	₱34,125,943
Market RWA	693,154	275,636
Operational RWA	2,601,786	2,325,196
Total RWA	₱37,852,003	₱36,726,775
CET1/Tier 1 capital ratio	7.11%	7.14%
Total capital ratio	11.32%	11.40%

The Bank’s regulatory qualifying capital consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, and cumulative foreign currency translation less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. Certain adjustments are made to results and reserves based on PFRS, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes paid-up preferred stock, unsecured subordinated debt and general loan loss provision (GLLP).

Under the existing BSP regulations, the Bank set up GLLP equivalent to 1% of all current loans (after excluding accounts considered as credit risk-free under existing regulations). In cases when the computed allowance for ECL on current loans is less than the 1% GLLP required by the BSP, the difference should be appropriated from the retained earnings using the account “Retained earnings - general provision” for prudential reporting.

Appropriation of retained earnings for the excess of 1% GLLP over ECL amounted to ₱123.6 million and ₱90.7 million as at December 31, 2019 and 2018, respectively.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations and Corporates.

The Bank has complied with all externally imposed capital requirements in 2019 and 2018.

5. Fair Value Measurement

The following table presents the carrying amounts and fair values of the Bank's assets measured at fair value and for which fair values are disclosed, and the corresponding hierarchy.

	2019			
	Carrying Amount	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVPL -				
Government securities	₱873,050,255	₱873,050,255	₱-	₱-
Private bonds	26,588,439	26,588,439	-	-
	899,638,694	899,638,694	-	-
Financial assets at FVOCI:				
Government securities	1,505,475,976	1,505,475,976	-	-
Private bonds	199,575,952	-	199,575,952	-
	1,705,051,928	1,505,475,976	199,575,952	-
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Consumer loans	15,148,679,337	-	-	17,267,934,150
Corporate loans	17,257,076,506	-	-	17,328,988,550
Sales contracts receivable	17,756,977	-	-	36,130,571
	32,423,512,820	-	-	34,633,053,271
Assets held for sale	488,968,117	-	522,977,193	-
Refundable deposits	27,077,407	-	27,077,407	-
Total Assets	₱35,544,248,966	₱2,405,114,670	₱749,630,552	₱34,633,053,271
Liabilities for which Fair Values are Disclosed				
Time deposits	₱23,676,852,671	₱-	₱23,676,852,671	₱-
Unsecured subordinated debt	1,000,000,000	-	1,000,000,000	-
Lease liabilities	277,062,586	-	-	277,062,586
Total Liabilities	₱24,953,915,257	₱-	₱24,676,852,671	₱277,062,586

	2018			
	Carrying Amount	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVPL:				
Government securities	₱286,000,562	₱286,000,562	₱-	₱-
Private bonds	25,949,960	25,949,960	-	-
	311,950,522	311,950,522	-	-

(Forward)

	2018			
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets at FVOCI:				
Government securities	₱1,192,770,448	₱1,192,770,448	₱-	₱-
Private bonds	376,036,295	-	376,036,295	-
	1,568,806,743	1,192,770,448	376,036,295	-
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Consumer loans	16,016,411,554	-	-	17,916,012,821
Corporate loans	15,348,176,379	-	-	15,454,153,771
Sales contracts receivable	17,650,563	-	-	17,650,563
	31,382,238,496	-	-	33,387,817,155
Assets held for sale	54,189,758	-	461,903,232	-
Refundable deposits	27,429,884	-	27,429,884	-
Total Assets	₱33,344,615,403	₱1,504,720,970	₱865,369,411	₱33,387,817,155
Liabilities for which Fair Values are Disclosed				
Time deposits	₱23,660,113,913	₱-	₱23,660,113,913	₱-
Unsecured subordinated debt	1,000,000,000	-	1,000,000,000	-
Total Liabilities	₱24,660,113,913	₱-	₱24,660,113,913	₱-

There were no transfers between levels/hierarchies of fair value measurements in 2019 and 2018.

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value and those whose fair values are disclosed are as follows.

Investments in Debt Securities. Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated by either using values obtained from adjusted quoted market prices of comparable investments.

Loans and Receivables. Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rate for similar types of loans.

Significant Unobservable Inputs	Range (weighted average)	
	2019	2018
TPR	5.20% - 8.79%	4.53% - 8.63%
Credit spread	0.53% - 4.85%	0.94% - 3.80%

Certain loans are subject to quarterly repricing. Hence, the carrying amounts of these loans approximate fair values.

Sensitivity Analysis. Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Assets Held for Sale. Fair value is based on valuation using the market data approach, as determined by an independent and/or in-house appraiser.

Refundable Deposits. Fair value is based on discounted cash flows using the prevailing credit-adjusted interest rate.

Time Deposits and Unquoted Debt Obligations. Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued.

Lease Liabilities. Fair values are estimated using the discounted cash flow methodology, using the Bank's incremental borrowing rates upon commencement of leases.

Sensitivity Analysis. Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Other Financial Liabilities. For financial liabilities other than time deposits, the carrying amounts approximate fair values considering that these are due and demandable or payable within 30 days.

The table below presents the financial assets and liabilities of the Bank, whose carrying amounts approximate fair values due to the short-term nature of the transactions:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	₱675,319,948	₱675,319,948	₱673,088,622	₱673,088,622
Due from BSP	3,174,324,418	3,174,324,418	2,654,024,133	2,654,024,133
Due from other banks	3,413,981,051	3,413,981,051	3,538,958,509	3,538,958,509
Interbank loans receivable	532,740,895	532,740,895	83,115,070	83,115,070
Loans and receivables:				
Bills purchased	13,025,052	13,025,052	4,884,180	4,884,180
Accrued interest income	203,422,948	203,422,948	158,845,133	158,845,133
Accounts receivable	49,897,606	49,897,606	54,502,003	54,502,003
Unquoted debt securities	–	–	7,736,272	7,736,272
	₱8,062,711,918	₱8,062,711,918	₱7,175,153,922	₱7,175,153,922
Financial Liabilities				
Deposit liabilities				
Demand	₱9,968,986,302	₱9,968,986,302	₱7,957,158,157	₱7,957,158,157
Savings	5,305,296,874	5,305,296,874	5,087,145,642	5,087,145,642
	15,274,283,176	15,274,283,176	13,044,303,799	13,044,303,799
Accrued interest expense	143,143,659	143,143,659	100,725,134	100,725,134
Other liabilities*	803,750,508	803,750,508	791,258,403	791,258,403
	₱16,221,177,343	₱16,221,177,343	₱13,936,287,336	₱13,936,287,336

*Comprised of accounts payable, payment orders, bills payable, bills purchased-contra and marginal deposits.

6. Interbank Loans Receivable

This account pertains to short-term loans to local and foreign banks maturing up to three months. Interbank loans receivable amounted to ₱532.7 million and ₱83.1 million as at December 31, 2019 and 2018, respectively.

Interbank loans receivables bear interest rates as follows:

	2019	2018
Local banks	3.50% to 4.25%	3.00% to 4.97%
Foreign banks	1.52% to 2.50%	1.10% to 2.38%

Interest income on interbank loans receivable amounted to ₱78.7 million and ₱33.4 million in 2019 and 2018, respectively.

7. Investment Securities

This account consists of:

	2019			
	Financial assets at			Total
	FVPL	FVOCI	Amortized cost	
Balances at beginning of year	₱311,950,522	₱1,584,880,206	₱–	₱1,896,830,728
Additions	48,091,628,505	4,137,800,000	2,082,805	52,231,511,310
Disposals	(47,515,301,527)	(210,340,000)	–	(47,725,641,527)
Matured investments	(1,292,000)	(3,935,260,000)	–	(3,936,552,000)
Net unrealized fair value gain	12,653,194	120,112,121	–	132,765,315
Amortization of premium and discount	–	23,933,064	57,168	23,990,232
	₱899,638,694	₱1,721,125,391	₱2,139,973	₱2,622,904,058

	2018		
	Financial assets at		Total
	FVPL	FVOCI	
Balances at beginning of year	₱158,685,215	₱1,174,250,651	₱1,332,935,866
Additions	38,407,101,820	1,138,600,000	39,545,701,820
Disposals	(38,249,475,745)	–	(38,249,475,745)
Matured investments	–	(607,500,000)	(607,500,000)
Net unrealized fair value loss	(4,360,768)	(105,005,023)	(109,365,791)
Amortization of premium and discount	–	(15,465,422)	(15,465,422)
Balances at end of year	₱311,950,522	₱1,584,880,206	₱1,896,830,728

Financial Assets at FVPL

Financial assets at FVPL are comprised of the following:

	2019	2018
Government securities	₱873,050,255	₱286,000,562
Private bonds	26,588,439	25,949,960
	₱899,638,694	₱311,950,522

Financial assets at FVPL bear effective interest rates as follows:

	2019	2018
Philippine Peso-denominated	4.38% to 5.09%	5.22% to 6.93%
Foreign currency-denominated	2.43% to 3.70%	–

In 2019 and 2018, total consideration for the sale of financial assets at FVPL amounted to ₱47,569.2 million and ₱38,213.6 million resulting to gain on disposal amounting to ₱53.9 million and loss on disposal amounting to ₱35.9 million, respectively.

Financial Assets at FVOCI

Financial assets at FVOCI assets are comprised of the following:

	2019	2018
Government securities	₱1,505,475,976	₱1,192,770,448
Private bonds	199,575,952	376,036,295
Unquoted equity security	16,073,463	16,073,463
	₱1,721,125,391	₱1,584,880,206

Financial assets at FVOCI bear effective interest rates as follows:

	2019	2018
Philippine Peso-denominated	3.18% to 5.01%	5.61% to 8.12%
Foreign currency-denominated	1.53% to 1.85%	2.36% to 3.49%

In 2019, total consideration for the sale of financial assets at FVOCI amounted to ₱212.5 million resulting to gain on disposal amounting to ₱2.2 million.

Movements in cumulative unrealized losses on fair value changes are as follows:

	2019	2018
Balance at beginning of year	(₱184,339,694)	(₱79,334,671)
Net unrealized gain (loss)	120,112,121	(105,005,023)
Provision for impairment losses	1,907,892	-
Balance at end of year	(₱62,319,681)	(₱184,339,694)

The unquoted equity security pertains to the Bank's investment in shares of stock of Bancnet, Inc. (Bancnet), which the Bank intends to hold for long-term. Dividend income amounted to ₱1.3 million in 2019 and 2018.

Financial Assets at Amortized Cost

Financial assets at amortized cost consist of ₱2.1 million government securities, bearing effective interest rate of 3.25% as at December 31, 2019.

Interest income on investment securities are as follows:

	2019	2018
Financial assets at:		
FVOCI	₱65,050,056	₱11,811,340
FVPL	42,421,577	64,145,573
Amortized cost	19,749	-
	₱107,491,382	₱75,956,913

Net trading and securities gains (losses) from investment securities are as follows:

	2019	2018
Financial assets at FVPL:		
Realized trading gains (losses)	₱53,878,432	(₱35,896,453)
Unrealized fair value gains (losses)	12,653,194	(4,360,768)
	66,531,626	(40,257,221)
Financial assets at FVOCI -		
Realized trading gains	2,166,517	-
	₱68,698,143	(₱40,257,221)

8. Loans and Receivables

This account consists of:

	2019	2018
Receivables from customers	₱33,100,283,230	₱32,007,853,800
Accrued interest	203,422,948	158,845,133
Accounts receivable	49,897,606	54,502,003
Sales contracts receivable	18,788,613	18,682,199
Unquoted debt securities	–	7,736,272
	33,372,392,397	32,247,619,407
Allowance for credit and impairment losses	(682,533,971)	(639,413,323)
	₱32,689,858,426	₱31,608,206,084

Receivables from customers consist of:

	Note	2019	2018
Loans and discounts:			
Corporate loans		₱17,502,542,995	₱15,598,698,470
Consumer loans		15,592,730,268	16,409,831,024
Bills purchased	16	13,025,052	4,884,180
		33,108,298,315	32,013,413,674
Unearned discounts and capitalized interest		(8,015,085)	(5,559,874)
		₱33,100,283,230	₱32,007,853,800

The following table shows information relating to receivables from customers, gross of unearned discounts and capitalized interests, by collateral.

	2019		2018	
	Amount	%	Amount	%
Secured by:				
Chattel mortgage	₱11,452,726,652	34.59%	₱12,504,235,384	39.06%
Real estate mortgage	5,433,220,351	16.41%	5,447,015,687	17.01%
Deposits	1,476,554,153	4.46%	1,125,412,501	3.52%
Others	330,562,729	1.00%	180,108,167	0.56%
	18,693,063,885	56.46%	19,256,771,739	60.15%
Unsecured	14,415,234,430	43.54%	12,756,641,935	39.85%
	₱33,108,298,315	100.00%	₱32,013,413,674	100.00%

As at December 31, 2019 and 2018, information on the concentration of credit, gross of unearned discounts and capitalized interests, as to industry follows.

	2019		2018	
	Amount	%	Amount	%
Other community, social and personal activities	₱15,324,459,834	46.29%	₱15,027,629,717	46.94%
Wholesale and retail trade	5,810,298,243	17.55%	5,456,012,560	17.04%
Real estate	5,029,230,938	15.19%	4,403,658,169	13.76%
Manufacturing	3,056,184,330	9.23%	2,778,695,493	8.68%
Financial intermediaries	2,636,207,756	7.96%	2,600,149,285	8.12%

(Forward)

	2019		2018	
	Amount	%	Amount	%
Transportation, storage and communication	₱671,682,237	2.03%	₱1,288,721,641	4.03%
Construction	249,275,886	0.75%	210,219,754	0.66%
Mining and quarrying	154,074,400	0.47%	154,409,736	0.48%
Hotel and restaurants	90,482,208	0.27%	59,220,355	0.18%
Agricultural, hunting and forestry	82,156,082	0.25%	32,249,248	0.10%
Electricity, gas and water supply	4,246,401	0.01%	2,447,716	0.01%
	₱33,108,298,315	100.00%	₱32,013,413,674	100.00%

Exposures under the community, social and personal activities which exceeded the 30% concentration limit, as prescribed by the BSP, are mostly retail loan exposures which do not cover a specific industry. Hence, the Bank does not have a concentration of credit risk to particular industries as at December 31, 2019 and 2018.

Non-performing Loan (NPL) pertains to loan accounts even without any missed contractual payments, that are (a) deemed impaired under existing applicable accounting standards, (b) classified as doubtful or loss, (c) in litigation, and/or (d) there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, in the case of secured accounts.

All other loan accounts, even if not considered impaired, should be considered non-performing if any contractual principal and/or interest are not paid for more than 90 days after contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Details of the Bank's gross and net NPL follow:

	2019		2018	
	Amount	%	Amount	%
Gross	₱1,757,654,168	5.23%	₱1,479,597,308	4.61%
Net	1,291,117,324	3.84%	1,116,253,546	3.48%

As at December 31, 2019 and 2018, breakdown of the secured and unsecured NPL follows.

	2019	2018
Secured	₱849,131,563	₱835,493,277
Unsecured	908,522,605	644,104,031
	₱1,757,654,168	₱1,479,597,308

Restructured loans, which do not meet the requirements to be treated as performing receivables, are also considered as NPL. Restructured loans amounted to ₱162.4 million and ₱50.4 million as at December 31, 2019 and 2018, respectively. Interest income on restructured receivables amounted to ₱1.3 million and ₱2.1 million in 2019 and 2018, respectively.

Accounts receivable include receivables from officers relating to the car lease amounting to ₱36.7 million and ₱33.2 million as at December 31, 2019 and 2018, respectively, and withdrawals made by depositors of other banks to the Bank's ATM machines (see Note 23).

Sales contracts receivable pertain to receivables from buyers of real properties classified as assets held for sale, bearing 10% nominal interest, with terms of 10 or 15 years.

The details of interest income on loans and receivables are as follows:

	2019	2018
Consumer loans	₱1,475,773,299	₱1,417,441,690
Corporate loans	1,424,492,574	1,000,538,494
Bills discounted	38,114,511	34,612,610
Sales contracts receivable	11,088,774	1,114,068
Unquoted debt securities	-	4,392,514
	₱2,949,469,158	₱2,458,099,376

Of the total loans and receivables as at December 31, 2019 and 2018, 61.82% and 58.60%, respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 3.00% to 24.00% in 2019 and 3.00% to 15.75% in 2018.

The movements in the allowance for credit and impairment losses on loans and receivables in 2019 and 2018 follow:

	2019			Total
	Consumer Loans	Corporate Loans	Sales Contract Receivable	
Balances at beginning of year	₱393,419,470	₱244,962,217	₱1,031,636	₱639,413,323
Provision (reversal)	50,631,461	(7,510,813)	-	43,120,648
Balances at end of year	₱444,050,931	₱237,451,404	₱1,031,636	₱682,533,971

	2018			Total
	Consumer Loans	Corporate Loans	Sales Contract Receivable	
Balances at beginning of year:	₱483,079,769	₱149,903,158	₱1,031,636	₱634,014,563
Provision	8,042,168	95,059,059	-	103,101,227
Write-offs	(97,702,467)	-	-	(97,702,467)
Balances at end of year	₱393,419,470	₱244,962,217	₱1,031,636	₱639,413,323

Below is the analysis of movements of consumer loans.

	2019			Total
	Stage 1	Stage 2	Stage 3	
Gross Amount				
Balances at beginning of year	₱15,143,562,486	₱770,438,702	₱495,829,836	₱16,409,831,024
Loan releases	4,334,028,580	-	-	4,334,028,580
Payments or reclassifications upon foreclosure	(4,780,157,219)	(304,291,460)	(66,680,657)	(5,151,129,336)
Transfers to stage 1	83,864,700	(83,018,341)	(846,359)	-
Transfers to stage 2	(501,164,990)	504,201,961	(3,036,971)	-
Transfers to stage 3	(217,243,647)	(211,631,988)	428,875,635	-
Balances at end of year	14,062,889,910	675,698,874	854,141,484	15,592,730,268
Allowance for Credit and Impairment Losses				
Balances at beginning of year	155,849,742	48,726,271	188,843,457	393,419,470
Provisions (reversals)	(48,796,186)	42,527,022	56,900,625	50,631,461
Transfers to stage 1	107,605	(103,004)	(4,601)	-
Transfers to stage 2	(1,699,228)	1,704,036	(4,808)	-
Transfers to stage 3	(36,413,838)	(85,866,921)	122,280,759	-
Balances at end of year	69,048,095	6,987,404	368,015,432	444,050,931
Carrying Amount	₱13,993,841,815	₱668,711,470	₱486,126,052	₱15,148,679,337

	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱14,291,255,715	₱286,286,091	₱459,687,319	₱15,037,229,125
Loan releases	6,032,074,723	5,095,529	–	6,037,170,252
Payments or reclassifications upon foreclosure (excluding write-offs)	(4,446,962,434)	(77,922,185)	(41,981,267)	(4,566,865,886)
Transfers to stage 1	12,540,354	(11,861,725)	(678,629)	–
Transfers to stage 2	(651,736,047)	687,335,858	(35,599,811)	–
Transfers to stage 3	(93,609,825)	(104,404,094)	198,013,919	–
Write-offs	–	(14,090,772)	(83,611,695)	(97,702,467)
Balances at end of year	15,143,562,486	770,438,702	495,829,836	16,409,831,024
Allowance for Credit and Impairment Losses				
Balances at beginning of year	238,781,889	23,732,612	220,565,268	483,079,769
Provisions (reversals)	(45,891,200)	55,019,844	(1,086,476)	8,042,168
Transfers to stage 1	143,388	(133,793)	(9,595)	–
Transfers to stage 2	(25,732,307)	34,834,581	(9,102,274)	–
Transfers to stage 3	(11,452,028)	(50,636,201)	62,088,229	–
Write-offs	–	(14,090,772)	(83,611,695)	(97,702,467)
Balances at end of year	155,849,742	48,726,271	188,843,457	393,419,470
Carrying Amount	₱14,987,712,744	₱721,712,431	₱306,986,379	₱16,016,411,554

Below is the analysis of corporate loans and bills purchased.

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱15,127,114,330	₱–	₱476,468,320	₱15,603,582,650
Loan releases	31,101,257,527	–	–	31,101,257,527
Payments or reclassifications upon foreclosure	(29,196,697,486)	–	(5,599,696)	(29,202,297,182)
Transfers to stage 3	(138,844,992)	–	138,844,992	–
Balances at end of year	16,892,829,379	–	609,713,616	17,502,542,995
Allowance for Credit and Impairment Losses				
Balances at beginning of year	67,517,601	–	177,444,616	244,962,217
Provisions (reversals)	22,270,933	–	(29,781,746)	(7,510,813)
Transfers to stage 3	(18,912,730)	–	18,912,730	–
Balances at end of year	70,875,804	–	166,575,600	237,451,404
Carrying Amount	₱16,821,953,575	₱–	₱443,138,016	₱17,265,091,591

	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱13,735,305,686	₱–	₱411,354,007	₱14,146,659,693
Loan releases	3,285,804,208	–	–	3,285,804,208
Payments or reclassifications upon foreclosure	(1,763,640,156)	–	(65,241,095)	(1,828,881,251)
Transfers to stage 3	(130,355,408)	–	130,355,408	–
Balances at end of year	15,127,114,330	–	476,468,320	15,603,582,650
Allowance for Credit and Impairment Losses				
Balances at beginning of year	₱31,171,155	₱–	₱118,732,003	₱149,903,158
Provisions (reversals)	53,983,912	–	41,075,147	95,059,059
Transfers to stage 3	(17,637,466)	–	17,637,466	–
Balances at end of year	67,517,601	–	177,444,616	244,962,217
Carrying Amount	₱15,059,596,729	₱–	₱299,023,704	₱15,358,620,433

Below is the analysis of sales contract receivable.

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱6,699,788	₱11,982,411	₱-	₱18,682,199
Additions	4,940,687	-	-	4,940,687
Payments	(1,266,290)	(3,567,983)	-	(4,834,273)
Transfers to stage 2	(3,719,948)	3,719,948	-	-
Balances at end of year	6,654,237	12,134,376	-	18,788,613
Allowance for Credit and Impairment Losses				
Balances at beginning and end of year	-	1,031,636	-	1,031,636
Carrying Amount	₱6,654,237	₱11,102,740	₱-	₱17,756,977

	2018			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱4,816,793	₱18,078,555	₱-	₱22,895,348
Payments	(672,264)	(3,540,885)	-	(4,213,149)
Transfers to stage 1	2,555,259	(2,555,259)	-	-
Balances at end of year	6,699,788	11,982,411	-	18,682,199
Allowance for Credit and Impairment Losses				
Balances at beginning and end of year	-	1,031,636	-	1,031,636
Carrying Amount	₱6,699,788	₱10,950,775	₱-	₱17,650,563

In 2018, there are no transfers of allowance for credit and impairment losses on accrued sales contract receivables between stages.

9. Assets Held for Sale

This account consists of properties foreclosed in settlement of loans and receivables aggregating ₱489.0 million and ₱445.7 million, net of allowance for impairment losses, as at December 31, 2019 and 2018, respectively.

In 2019 and 2018, loans with an aggregate carrying amount of ₱414.1 million and ₱412.6 million, respectively, were derecognized in exchange for foreclosed properties.

Details of net losses from assets sold or acquired are as follows:

	Note	2019	2018
Assets held for sale:			
Loss on foreclosure		(₱66,231,606)	(₱53,580,273)
Loss on sale		(32,332,195)	(17,401,794)
Gain on sale of property and equipment	10	756,093	517,611
		(₱97,807,708)	(₱70,464,456)

As at December 31, 2019 and 2018, cumulative unrealized loss on foreclosure amounted to ₱44.9 million and ₱32.5 million, respectively.

Proceeds from sale amounted to ₱259.6 million and ₱159.6 million as at December 31, 2019 and 2018, respectively.

Movements of allowance for impairment losses of assets held for sale is as follows:

	2019	2018
Balance at beginning of year	P13,681,893	P13,681,893
Provisions	12,681,009	-
	P26,362,902	P13,681,893

10. Property and Equipment

Movements in this account are as follows:

	2019					Total
	Land	Building and Condominium Units	ROU Assets (see Note 18)	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost						
Balances at beginning of year	P164,344,500	P249,201,548	P233,677,278	P375,309,286	P297,356,630	P1,319,889,242
Additions	-	814,000	98,279,246	37,235,174	837,010	137,165,430
Disposals	-	(629,688)	-	(10,659,549)	(19,287,612)	(30,576,849)
Balances at end of year	164,344,500	249,385,860	331,956,524	401,884,911	278,906,028	1,426,477,823
Accumulated Depreciation and Amortization						
Balances at beginning of year	-	106,791,579	-	282,076,949	262,907,920	651,776,448
Depreciation and amortization	-	6,747,605	73,103,837	37,428,959	15,015,794	132,296,195
Disposals	-	(214,130)	-	(9,285,359)	(19,282,945)	(28,782,434)
Balances at end of year	-	113,325,054	73,103,837	310,220,549	258,640,769	755,290,209
Carrying Amount	P164,344,500	P136,060,806	P258,852,687	P91,664,362	P20,265,259	P671,187,614

	Note	2018				Total
		Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost						
Balances at beginning of year		P164,344,500	P249,307,316	P378,537,159	P291,135,637	P1,083,324,612
Additions		-	-	36,780,544	6,722,116	43,502,660
Reclassification	11	-	-	(23,040,971)	-	(23,040,971)
Disposals		-	(105,768)	(16,967,446)	(501,123)	(17,574,337)
Balances at end of year		164,344,500	249,201,548	375,309,286	297,356,630	1,086,211,964
Accumulated Depreciation and Amortization						
Balances at beginning of year		P-	P99,931,609	P286,675,763	P244,253,841	P630,861,213
Depreciation and amortization		-	6,883,087	32,959,420	19,138,772	58,981,279
Reclassification	11	-	-	(22,335,771)	-	(22,335,771)
Disposals		-	(23,117)	(15,222,463)	(484,693)	(15,730,273)
Balances at end of year		-	106,791,579	282,076,949	262,907,920	651,776,448
Carrying Amount		P164,344,500	P142,409,969	P93,232,337	P34,448,710	P434,435,516

Gain on sale of property and equipment included under "Net losses from assets sold or acquired" in the statements of income amounted to P756,093 and P517,611 in 2019 and 2018, respectively (see Note 9). Proceeds from sale amounted to P2.6 million and P2.4 million as at December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018, the cost of fully depreciated assets, which are still being used in the operations amounted to P439.9 million and P356.2 million, respectively.

Details of depreciation and amortization are as follows:

	Note	2019	2018
Property and equipment		₱132,296,195	₱58,981,279
Computer software	11	18,495,726	13,157,675
		₱150,791,921	₱72,138,954

11. Intangible Assets

This account consists of:

	2019	2018
Branch licenses	₱225,390,000	₱225,390,000
Computer software	101,556,303	89,695,543
	₱326,946,303	₱315,085,543

Branch licenses, recognized from business combination, include branch licenses from CSB amounting to ₱128.0 million, and licensing fees incurred in opening additional branches.

Of the total 47 branches of the Bank, 18 branches are in restricted areas.

The impairment test on branch licenses is based on value-in-use calculations determined using a discounted cash flow model. The recoverable amount of the CGU has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rates applied to cash flow projections are 4.06% and 7.04% in 2019 and 2018, respectively, and cash flows beyond the five year-period are extrapolated using a steady growth rate of 20% in 2019 and 2018, which does not exceed the long-term average growth rate for the industry.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rate;
- Steady growth rate used to extrapolate cash flows beyond the projection period; and
- Local inflation rate.

The key assumptions are consistent with information from external sources. With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the foregoing key assumptions would cause the carrying amount of the branch licenses to materially exceed its recoverable amount.

Movements of computer software are as follows:

	Note	2019	2018
Cost			
Balance at beginning of year		₱336,704,508	₱284,917,636
Additions		30,356,486	28,745,901
Reclassification	10	-	23,040,971
Balance at end of year		367,060,994	336,704,508

(Forward)

	Note	2019	2018
Accumulated Amortization			
Balance at beginning of year		₱247,008,965	₱211,515,519
Amortization	10	18,495,726	13,157,675
Reclassification	10	–	22,335,771
Balance at end of year		265,504,691	247,008,965
Carrying Amount		₱101,556,303	₱89,695,543

12. Other Assets

This account consists of:

	Note	2019	2018
Prepaid expenses		₱55,489,207	₱48,343,197
Refundable deposits	18	27,077,407	27,429,884
Documentary stamp taxes		12,586,288	1,736,607
Other investments		3,663,333	3,663,333
Deferred lease	18	2,140,611	1,752,489
Stationary and supplies		1,899,901	1,773,230
RCOCI		483,813	4,612,431
CWT		–	9,335,123
Others		14,614,625	5,317,265
		₱117,955,185	₱103,963,559

Prepaid expenses include prepaid rentals, group life insurance and employee benefits related to the car plan for the officers of the Bank (see Note 23).

Other investments represent membership fees in Bancnet and Credit Management Association of the Philippines.

Others mainly consist of deposit with a health care agency for the Bank's employee health plan.

13. Deposit Liabilities

This account is consists of:

	2019	2018
Time	₱23,676,852,671	₱23,660,113,913
Demand	9,968,986,302	7,957,158,157
Savings	5,305,296,874	5,087,145,642
	₱38,951,135,847	₱36,704,417,712

In accordance with the BSP requirements, the reserve requirement for peso deposit liabilities and deposit substitutes as at December 31, 2019 and 2018 are 4% and 8%, respectively.

As mandated by the BSP, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirements do not earn interest.

As at December 31, 2019 and 2018, the Bank is compliant with the foregoing BSP regulations. The available reserves, which form part of “Due from Bangko Sentral ng Pilipinas”, as at December 31, 2019 and 2018 amounted to ₱3,199.4 million and ₱2,654.0 million, respectively.

As at December 31, 2019 and 2018, 57.69% and 61.65% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rates as follows:

	2019	2018
Philippine Peso-denominated	0.25% to 6.50%	0.25% to 7.20%
Foreign currency-denominated	0.25% to 2.25%	0.25% to 2.25%

Interest expense is as follows:

	Note	2019	2018
Deposit liabilities:			
Time		₱1,202,777,924	₱761,013,523
Demand		19,935,865	19,885,342
Savings		16,919,037	16,792,882
		1,239,632,826	797,691,747
Unsecured subordinated debt	15	57,000,000	57,000,000
Lease liabilities	18	19,630,669	-
Others		5,721,669	1,327,249
		₱1,321,985,164	₱856,018,996

14. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2019	2018
Accrued expenses:		
Interest	₱150,650,616	₱100,725,134
Compensation and other benefits	32,257,542	27,006,657
Security, messengerial and janitorial	9,334,060	7,447,338
Utilities and leased line	4,057,987	1,755,994
Automated teller machine related expenses	2,356,227	1,124,768
Rent	-	8,905,107
Others	35,900,939	20,132,992
	234,557,371	167,097,990
Accrued gross receipts tax (GRT)	12,416,551	12,749,302
	₱246,973,922	₱179,847,292

Accrual for other expenses pertains to expenses for insurance, publications, repairs and maintenance.

15. Unsecured Subordinated Debt

On June 1, 2017, the MB of the BSP, in its Resolution No. 900, approved the Bank's issuance of unsecured subordinated debt with principal amount aggregating ₱1.0 billion, which was issued on July 18, 2017 and bears 5.70% interest per annum, payable quarterly.

The unsecured subordinated debt will mature after 10 years from issuance date but may be called by the Bank on any interest payment date after the 5th year of issuance at principal amount plus accrued interest.

Interest expense on unsecured subordinated debt amounted to ₱57.0 million in 2019 and 2018 (see Note 13).

16. Other Liabilities

This account consists of:

	Note	2019	2018
Accounts payable		₱766,699,288	₱774,437,686
Due to PDIC		37,561,915	35,758,369
Withholding taxes		21,973,523	28,652,413
Payment orders		18,908,638	7,282,134
Bills purchased - contra	8	13,025,052	4,884,180
Marginal deposits		5,117,530	4,654,403
Statutory obligations		3,358,638	2,926,728
Others		60,702,764	23,589,299
		₱927,347,348	₱882,185,212

Accounts payable pertain to payables for cash cards, chattel mortgage, insurance and loan service fees, Bancnet and VISA, stale checks, incoming dollar remittances to the Bank for payment to various payees as part of its intermediary services, and remaining balances on purchases of property and equipment. Accounts payable are noninterest-bearing and normally settled within one year.

Due to PDIC pertains to the Bank's insurance premium on deposit liabilities payable one month after reporting year.

Payment orders refer to inward and outward remittances of funds by telegraphic transfers, demand drafts, or mail transfer orders received by the Bank pending payment/disposition to designated beneficiaries or application/disposition to appropriate accounts.

Marginal deposits are noninterest-bearing deposits made by borrowers upon opening letters of credit.

Others mainly consist of dormant deposit accounts.

17. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities as at December 31, 2019 and 2018 analyzed according to whether these are expected to be recovered or settled within or over 12 months from the reporting year.

	Note	2019			2018		
		Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial Assets							
Financial assets at FVPL	7	₱899,638,694	₱-	₱899,638,694	₱311,950,522	₱-	₱311,950,522
Financial assets at FVOCI	7	843,886,181	877,239,210	1,721,125,391	661,589,988	923,290,218	1,584,880,206
Financial assets at amortized cost:							
Cash and other cash items		675,319,948	-	675,319,948	673,088,622	-	673,088,622
Due from BSP		3,174,324,418	-	3,174,324,418	2,654,024,133	-	2,654,024,133
Due from other banks		3,413,981,051	-	3,413,981,051	3,538,958,509	-	3,538,958,509
Interbank loans receivable	6	532,740,895	-	532,740,895	83,115,070	-	83,115,070
Government securities	7	1,732,842	407,131	2,139,973	-	-	-
Loans and receivables - gross	8	18,696,138,636	14,684,268,846	33,380,407,482	17,385,367,162	14,867,812,119	32,253,179,281
Other assets ¹	12	483,813	27,077,407	27,561,220	32,042,315	-	32,042,315
		28,238,246,478	15,588,992,594	43,827,239,072	25,340,136,321	15,791,102,337	41,131,238,658
Nonfinancial Assets							
Assets held for sale	9	515,331,019	-	515,331,019	459,425,561	-	459,425,561
Property and equipment	10	-	1,426,477,823	1,426,477,823	-	1,086,211,964	1,086,211,964
Intangible assets	11	-	592,450,994	592,450,994	-	562,094,508	562,094,508
Deferred tax assets	21	28,539,985	-	28,539,985	-	16,663,522	16,663,522
Other assets	12	4,408,912	85,985,053	90,393,965	-	71,921,244	71,921,244
		548,279,916	2,104,913,870	2,653,193,786	459,425,561	1,736,891,238	2,196,316,799
		28,786,526,394	17,693,906,464	46,480,432,858	25,799,561,882	17,527,993,575	43,327,555,457
Less:							
Allowance for credit and impairment losses on:							
Loans and receivables	8	-	682,533,971	682,533,971	-	639,413,323	639,413,323
Assets held for sale	9	26,362,902	-	26,362,902	13,681,893	-	13,681,893
Accumulated depreciation and amortization of:							
Property and equipment	10	-	755,290,209	755,290,209	-	651,776,448	651,776,448
Computer software	11	-	265,504,691	265,504,691	-	247,008,965	247,008,965
Unearned discounts and capitalized interest	8	-	8,015,085	8,015,085	-	5,559,874	5,559,874
		26,362,902	1,711,343,956	1,737,706,858	13,681,893	1,543,758,610	1,557,440,503
		₱28,760,163,492	₱15,982,562,508	₱44,742,726,000	₱25,785,879,989	₱15,984,234,965	₱41,770,114,954
Financial Liabilities							
Deposit liabilities	13	₱38,315,799,190	635,336,657	₱38,951,135,847	₱36,704,417,712	₱-	₱36,704,417,712
Manager's checks		173,777,188	-	173,777,188	128,070,287	-	128,070,287
Accrued interest and other expenses	14	234,557,371	-	234,557,371	167,097,990	-	167,097,990
Unsecured subordinated debt	15	-	1,000,000,000	1,000,000,000	-	1,000,000,000	1,000,000,000
Lease liabilities		68,840,363	208,222,223	277,062,586	-	-	-
Other liabilities	16	864,453,272	-	864,453,272	850,606,071	-	850,606,071
		39,657,427,384	1,843,558,880	41,500,986,264	37,850,192,060	1,000,000,000	38,850,192,060
Nonfinancial Liabilities							
Accrued GRT	14	12,416,551	-	12,416,551	12,749,302	-	12,749,302
Retirement liability		-	62,271,457	62,271,457	-	72,439,948	72,439,948
Income tax payable		23,150,047	-	23,150,047	2,275,290	-	2,275,290
Other liabilities ²	16	25,332,161	37,561,915	62,894,076	31,579,141	-	31,579,141
		60,898,759	99,833,372	160,732,131	46,603,733	72,439,948	119,043,681
		₱39,718,326,143	₱1,943,392,252	₱41,661,718,395	₱37,896,795,793	₱1,072,439,948	₱38,969,235,741

¹Other financial assets pertain to refundable deposits and RCOCI (see Note 12).

²Other non-financial liabilities pertain to due to PDIC, withholding taxes and statutory obligations (see Note 16).

18. Lease Commitments

The Bank has existing non-cancellable lease agreements for the lease of its branch premises for a period of one to 10 years, renewable upon mutual agreement of both parties. The rentals are subject to annual escalation rates ranging from 2.5% to 8.0%.

Outstanding rental and security deposits on lease commitments, which are refundable in cash upon termination of lease agreements, amounted to ₱27.1 million and ₱27.4 million as at December 31, 2019 and 2018, respectively (see Note 12).

Deferred lease, which pertains to the difference between the nominal value of the refundable deposit and its fair value at inception of the lease that is amortized as expense on a straight-line basis over the lease term, amounted to ₱2.1 million and ₱1.8 million as at December 31, 2019 and 2018, respectively (see Note 12).

ROU assets pertain to leased branch premises. Movements in the ROU assets in 2019 are presented below (see Note 10):

	Note	
Balance as at January 1, 2019 upon adoption of PFRS 16	2	₱233,677,278
Additions		98,279,246
Amortization		(73,103,837)
Balance at end of year		₱258,852,687

Movements in the lease liabilities in 2019 are presented below.

	Note	
Balance as at January 1, 2019 upon adoption of PFRS 16	2	₱242,768,377
Additions		98,279,246
Payments		(83,615,706)
Interest expense	13	19,630,669
		277,062,586
Current portion		68,840,363
Noncurrent portion		₱208,222,223

Additions to ROU assets and lease liabilities pertain to lease agreements that are renewed in 2019.

Lease-related expenses are presented below.

	2019	2018
Amortization of ROU assets	₱73,103,837	₱—
Rent expense	25,893,457	98,904,408
Interest expense on lease liabilities	19,630,669	—
	₱118,627,963	₱98,904,408

Rent expense, which pertains to short-term leases of branch premises in 2019, is presented under "Occupancy" in the statements of income.

Lease commitments are as follows:

	2019	2018
Not later than one year	₱85,873,912	₱84,526,167
Later than one year but not later than five years	180,288,353	193,054,451
Later than five years	59,582,333	19,023,214
	₱325,744,598	₱296,603,832

19. Retirement Benefits

The Bank has a funded, noncontributory defined benefit retirement plan covering all of its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. An independent actuary, using the projected credit method, conducted an actuarial valuation of the retirement liability as at December 31, 2019.

The retirement fund of the Bank is placed under the management of the Bank's Trust Group with oversight from the Bank's Retirement Fund Committee, as appointed by the BOD. The Retirement Plan Trustee, as appointed by the Bank, in the Trust Agreement, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund.

The retirement benefits recognized in the statements of income follow:

	2019	2018
Current service cost	₱13,471,621	₱16,767,061
Net interest cost	2,444,541	3,186,036
	₱15,916,162	₱19,953,097

Details of cumulative remeasurement gains follow:

	2019		
	Cumulative Remeasurement Gains (Losses)	Deferred Tax (see Note 21)	Net
Balance at beginning of year	₱22,295,008	₱6,688,502	₱15,606,506
Remeasurement loss	(5,212,111)	(1,563,633)	(3,648,478)
Balance at end of year	₱17,082,897	₱5,124,869	₱11,958,028

	2018		
	Cumulative Remeasurement Gains	Deferred Tax (see Note 21)	Net
Balance at beginning of year	₱23,468,738	₱7,040,621	₱16,428,117
Remeasurement loss	(1,173,730)	(352,119)	(821,611)
Balance at end of year	₱22,295,008	₱6,688,502	₱15,606,506

Retirement liability is as follows:

	2019	2018
Present value of retirement obligation	₱123,203,304	₱102,040,894
Fair value of plan assets	(60,931,847)	(29,600,946)
	₱62,271,457	₱72,439,948

Movements in the present value of retirement obligation follow:

	2019	2018
Balance at beginning of year	₱102,040,894	₱80,629,570
Current service cost	13,471,621	16,767,061
Interest cost	5,877,556	4,644,263
Remeasurement gain (loss):		
Changes in financial assumptions	8,614,118	-
Changes in demographic assumptions	(4,482,130)	-
Experience adjustment	(1,021,991)	-
Benefits paid	(1,296,764)	-
Balance at end of year	₱123,203,304	₱102,040,894

Movements in the fair value of the plan assets follow:

	2019	2018
Balance at beginning of year	₱29,600,946	₱13,316,449
Contributions made	30,000,000	16,000,000
Interest income	3,433,014	1,458,227
Remeasurement loss (excluding amount included in net interest)	(2,102,113)	(1,173,730)
Balance at end of year	₱60,931,847	₱29,600,946

The plan assets are carried at fair value. All equity, debt instruments and investments of the pooled funds held have quoted prices in active market. The fair value of other assets and liabilities, which include deposits in banks, BSP's special deposit account, accrued interest and other receivables and trust fee payables, approximate carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments. Those in short-term placements will be further invested depending on the market direction.

The composition of plan assets by class as at December 31, 2019 and 2018 follows:

	2019	2018
Time certificates	56%	19%
Debt instruments:		
Private bonds	27%	6%
Government securities	7%	71%
	34%	77%
Equity instruments	2%	1%
Investments in Unit Investment Trust Funds (UITF)	-	2%
Receivables	8%	1%
Fair value of plan assets	100%	100%

The principal actuarial assumptions used in determining the retirement liability as at December 31, 2019 are shown below:

Discount rate	4.94%
Salary increase	3.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2019, assuming all other assumptions were held constant:

	Basis Points	Amount
Discount rate	+100 bps	₱112,472,979
	-100 bps	134,880,272
Salary increase rate	+100 bps	135,513,535
	-100 bps	111,776,140

The average duration of the defined benefit obligation at the end of the reporting year is 17.18 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2019:

Less than one year	₱29,366,448
One to less than five years	20,823,360
Five to less than 10 years	85,479,135
10 to less than 15 years	122,010,565
15 to less than 20 years	104,878,029
20 years and beyond	254,568,459
	<u>₱617,125,996</u>

20. Other Operating Expenses

This account consists of:

	2019	2018
Repairs and maintenance	₱63,265,914	₱53,916,883
Postage	49,527,839	45,505,240
Litigation cost	45,471,831	30,698,558
Fees and commissions	43,934,833	45,191,595
Fines and penalties	29,794,144	323,352
Appraisal fees	25,423,152	33,386,485
Transportation and travel	14,683,672	15,805,006
Supervision fees	14,369,020	13,201,544
Management and other professional fees	11,523,908	7,994,763
Promotions and advertising	3,227,344	4,379,943
Others	20,683,761	27,229,317
	<u>₱321,905,418</u>	<u>₱277,632,686</u>

Others include office supplies and membership fees and dues.

21. Income and Other Taxes

Current income tax expense consists of:

	2019	2018
Regular corporate income tax (RCIT)	₱80,034,178	₱65,210,570
Final tax	33,340,083	13,260,130
	₱113,374,261	₱78,470,700

Under Philippine tax laws, the Bank is subject to percentage and other taxes, presented as “Taxes and licenses” in the statements of income, as well as income taxes. Percentage and other taxes paid consist principally of GRT and documentary stamp tax.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate is 30% and interest expense allowed as deductible expense is reduced by 33% of interest income subjected to final tax.

RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units*, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, offshore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% onshore income tax.

The reconciliation between the statutory income tax and effective income tax follows:

	2019	2018
Statutory income tax	₱81,156,350	₱53,450,825
Tax effects of:		
Nondeductible expenses	73,684,282	61,684,829
Nontaxable income	(52,352,759)	(22,755,513)
Interest income subject to final tax	(45,662,393)	(35,531,709)
Final taxes	33,340,083	13,260,130
Changes in unrecognized deferred tax assets	12,895,868	2,805,557
	₱103,061,431	₱72,914,119

Net deferred tax benefit (expense) is recognized as follows:

	Note	2019	2018
Through:			
Profit or loss		₱33,878,776	₱23,565,946
Other comprehensive income	19	(5,338,791)	(6,902,424)
		₱28,539,985	₱16,663,522

Movements of net deferred tax benefit (expense) are recognized as follows:

	Note	2019	2018
Through:			
Profit or loss		₱10,312,830	₱5,556,581
Other comprehensive income	19	1,563,633	352,119
		₱11,876,463	₱5,908,700

Deferred tax assets and liabilities consist of:

	2019	2018
Deferred tax assets on:		
Allowance for credit and impairment losses	P45,425,325	P45,425,325
Cumulative unrealized losses on foreclosure of acquired assets	13,481,610	9,764,521
Allowance for impairment losses on assets held for sale	7,908,871	4,104,568
Excess of amortization of ROU assets and interest expense on lease liabilities over lease payments	5,462,970	-
Accrued rent	-	2,671,532
	72,278,776	61,965,946
Deferred tax liabilities on:		
Fair value adjustment on branch licenses acquired in business combination	(38,400,000)	(38,400,000)
Cumulative remeasurement gains on retirement liability	(5,338,791)	(6,902,424)
	(43,738,791)	(45,302,424)
Net deferred tax assets	P28,539,985	P16,663,522

As at December 31, 2019 and 2018, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences:

	2019	2018
Allowance for credit and impairment losses	P531,116,221	P487,995,573
Retirement liability	80,067,426	95,412,497
Unamortized past service cost	20,810,650	5,600,000
	P631,994,297	P589,008,070

Management assessed that it is not probable that sufficient future taxable profit will be available to allow the unrecognized deferred tax assets to be utilized.

22. Capital Stock

As at December 31, 2019 and 2018, this account consists of:

	Number of Shares	Amount
Authorized - P10 par value		
Common stock	300,000,000	P3,000,000,000
Perpetual preferred stock	100,000,000	1,000,000,000
Issued and outstanding:		
Common stock	207,000,000	P2,070,000,000
Perpetual preferred stock	30,000,000	300,000,000

The perpetual preferred stock, which has an annual dividend rate of 4.375%, is cumulative and has no voting rights. As at December 31, 2019 and 2018, cumulative preference dividends amounted to P73.0 million and P59.9 million, respectively.

23. Related Party Transactions and Balances

In the ordinary course of business, the Bank enters into loan and other transactions with its related parties and with certain DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

The significant transactions and account balances with respect to related parties that are included in the financial statements follow:

Nature of Transactions	2019		2018	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱4,700,000	₱8,872,182	₱3,943,448	₱7,298,671
Interest income	604,298	–	506,307	–
Deposit liabilities	145,744,532	18,959,844	210,140,448	35,473,921
Interest expense	815,022	30,018	573,892	77,868
Accounts receivable	14,809,386	36,747,860	12,740,697	33,218,777
Subsidiaries of the Parent Company				
Loans and receivables	377,856,000	241,211,187	211,879,500	149,303,036
Accrued interest income	19,261,740	1,322,882	10,793,744	915,393
Deposit liabilities	2,927,406,698	4,783,318	4,242,872,852	34,490,038
Accrued interest expense	53,563	–	424,437	29,018
Unsecured subordinated debt	–	1,000,000,000	–	1,000,000,000
Interest expense	57,000,000	–	57,000,000	–
Trust fee	1,792,333	–	1,649,598	–
Lease liabilities	38,728,995	35,177,951	–	–
Interest expense	1,161,607	–	–	–
ROU assets	38,589,812	34,072,602	–	–
Amortization	4,517,210	–	–	–
Rent expense	–	–	6,740,413	–
Parent Company				
Deposit liabilities	56,915,127	1,298	61,466,038	1,294
Interest expense	3,811	–	5,486	–
Stockholders				
Loans and receivables	380,000	–	–	–
Interest income	892	–	–	–
Deposit liabilities	238,628,701	18,397,754	122,221,986	19,382,708
Accrued interest expense	806,870	38,478	268,524	48,696

Terms and Conditions

Loans and receivables are secured by chattel mortgages, deposits and real estate properties, having terms ranging from one to 18 years, and bearing interests from 3% to 12% in 2019 and 2018. Allowance for credit and impairment losses on receivables from related parties amounted to ₱1.3 million and ₱1.5 million as at December 31, 2019 and 2018, respectively.

Accounts receivable include receivables from officers relating to the car lease amounting to ₱36.7 million and ₱33.2 million as at December 31, 2019 and 2018, respectively (see Note 8). Prepaid expenses relating to the employee car lease amounted to ₱25.5 million and ₱25.0 million as at December 31, 2019 and 2018, respectively.

Deposits have interest ranging from 0.25% to 1.50% for 2019 and 2018.

Unsecured subordinated debt is a transaction with the the trust unit of the Bank, under the supervision of the Trust Committee (see Note 15).

Trust fees pertain to fees charged for trust operations. These are included under “Other expenses” in the statements of income.

Lease liabilities, ROU assets and rent expense pertain to leases of branch premises and automated teller machines.

Compensation of key management personnel included under “Compensation and fringe benefits” in the statements of income follows:

	2019	2018
Short-term employee benefits	₱97,656,396	₱85,567,718
Post-employment retirement benefits	1,435,460	2,199,035
	₱99,091,856	₱87,766,753

Transactions with Retirement Plan

The retirement plan of the Bank is considered as a related party. The retirement plan is in the form of a trust administered by the Trust Unit under the supervision of the Retirement Fund Committee.

The values of the assets of the fund are as follows (see Note 19):

	2019	2018
Investments in:		
Time deposit	₱34,073,018	₱5,559,488
UITF	555,638	519,942
Debt instruments	20,699,307	23,009,669
Equity instruments	1,330,400	267,000
Others	4,273,484	244,847
	₱60,931,847	₱29,600,946

24. Trust Operations

On May 21, 2008, the Bank was granted a license by the BSP to conduct its trust operations. The Bank started its trust operations on June 2, 2008.

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank’s Trust Group amounted to ₱7,048.7 million and ₱6,943.3 million as at December 31, 2019 and 2018, respectively.

In compliance with current banking regulations relative to the Bank's trust operations, government securities included under financial assets at FVOCI with a total face value of ₱87.0 million as at December 31, 2019 and 2018, are deposited with the BSP. In addition, 10% of the Bank's net income realized from its trust operations is appropriated to surplus reserve until such reserve for trust operations amounts to 20% of the Bank's regulatory capital.

25. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingencies such as guarantees and commitments to extend credit, which are not reflected in the financial statements. The Bank does not anticipate significant losses as a result of these transactions.

As at December 31, 2019 and 2018, the Bank is involved in various legal proceedings relating to uncollected loans and acquired properties. Based on the opinion of its legal counsels, the Bank is in a good position to secure favorable judgment in most of these cases. Management therefore believes that the outcome of these proceedings will not have material adverse effect on the financial position and performance of the Bank.

The following is a summary of the commitments and contingencies at their equivalent contractual amounts:

	2019	2018
Investment management account	₱6,845,163,664	₱6,778,942,936
Spot exchange	381,392,878	985,698,646
Trust Bank accounts	197,015,082	166,748,825
Domestic letters of credit (LC)	32,000,000	26,800,000
Inward bills for collection	22,314,028	13,576,897
Sight/usance foreign LC	22,209,063	30,723,506
Late payment deposit/payment received	11,648,907	1,595,801
Outstanding guarantees issued - others	8,519,491	12,874,234
Sight/usance domestic LC	3,337,570	22,687,360
Items held for safekeeping	94,505	97,388
Items held as collateral	20,640	13,583

26. Events after the Reporting Period

The country is currently experiencing a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country. While the financial impact is considered a non-adjusting subsequent event as at December 31, 2019, the effect on Bank operations, financial performance and compliances with the requirements of the BSP, however, cannot be reasonably determined as at our report date.

27. Supplementary Information Required under the BSP Circular No. 1074, Series of 2020, Amendments to Regulations on Financial Audit of Banks

The following supplementary information is required by Appendix 55 – Disclosure Requirements to the Audited Financial Statements to Section 174 of the MORB of the BSP, issued through the BSP Circular No. 1074.

A. Financial Performance Indicators

The following basic ratios measure the financial performance of the Bank:

	2019	2018
Return on average equity	5.69%	3.68%
Return on average assets	0.39%	0.26%
Net interest margin on average earning assets	4.44%	4.40%

B. DOSRI/Related Party Loans

Based on the requirements of the BSP, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates should not exceed 10% of a bank's net worth, the unsecured portion should not exceed 5% of such net worth. Further, the total outstanding exposures should not exceed 20% of the net worth of the lending bank.

The following table shows information relating to DOSRI and related party loans:

	DOSRI		Related Parties	
	2019	2018	2019	2018
Total outstanding DOSRI/related party loans	₱241,211,187	₱149,303,036	₱250,083,369	₱156,601,707
Percent of DOSRI/related party loans to total loan portfolio	0.73%	0.47%	0.76%	0.49%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	0.01%	0.00%	0.01%	0.00%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	0.00%	0.00%	0.00%	0.00%
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	0.00%	0.00%	0.00%	0.00%

Total interest income on DOSRI accounts amounted to ₱19.3 million and ₱10.8 million in 2019 and 2018, respectively.

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

C. Assets Pledged to Secure Liabilities

No asset is pledged by the Bank to secure outstanding liabilities as at December 31, 2019 and 2018.

Other required information are disclosed in Notes 8, 22 and 25 to the financial statements.