REDEFINING JOURNEYS

CROSSING ANOTHER DECADE

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

2019 AUDITED FINANCIAL STATEMENTS


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BALANCE SHEET

Assets

The Bank's total Assets as of December 2019 amounted to PhP224.91 billion, 5.39% lower than the PhP237.73 billion the previous year. The reduction was primarily due to the reduction in regulatory reserve requirements and investment securities.

Loans and Receivables

The Bank's total Loans and Receivables in 2019 rose by 5.20% to PhP164.38 billion, driven by the Bank's Auto and Mortgage loan business. Auto loans increased by 4.36% while Mortgage loans grew by 5.02%.

Securities and Investments

Due from Bangko Sentral ng Pilipinas (BSP) was lower by 55.04% to PhP6.81 billion from PhP15.16 billion in 2018 due to BSP's reduction in reserve requirements. Fair Value through Profit or Loss Investments (FVTPL) decreased to PhP43.67 thousand from PhP10.11 million in 2018. Fair Value through Other Comprehensive Income (FVOCI) were lower by 63.07% to PhP4.78 billion. Investment Securities at Amortized Cost dropped to PhP34.23 billion from PhP35.65 billion previously. These declines were caused by both sale and maturities.

Investment in a Joint Venture was higher by 9.31% to PhP755.78 million. This represents the Bank's 30.00% stake in Sumisho Motor Finance Corporation.

Goodwill and Other Intangible Assets decreased by 26.70% to PhP480.46 million from PhP655.45 million during the period.

Deferred Tax

Deferred Tax Asset rose by 5.31% to PhP1.40 billion due to the increase in retirement liability.

Deposit Liabilities

Total Deposit Liabilities were lower by 14.04% to PhP172.51 billion, as the Bank continues to rebalance its funding mix to focus on retail and alternative sources. Demand deposit was higher by 10.43% to PhP22.49 billion while Savings deposit grew by 6.86% to PhP35.69 billion. Meanwhile, Time deposit decreased by 23.54% to PhP105.91 billion.

Bills Payable

Bills Payable reached PhP4.19 billion, 41.14% more than the PhP2.97 billion level in 2018, mainly due to an increase in Interbank Loans Borrowing. Bills Payable is composed of Interbank Loans Borrowing of PhP1.20 billion and Medium-Term Fixed Rate Notes, net of prepaid expenses, of PhP2.99 billion.

Bonds Payable

As of December 2019, the Bank's Total Bonds Payable, net of prepaid expenses, amounted to PhP6.25 billion. The Bank raised PhP6.30 billion in Peso Fixed Rate Bonds last July 2019. The 2-year bond is priced at 5.60% per annum with interest payments made every quarter and full principal paid out at maturity in 2021. Proceeds from the fund-raising exercise will support PSBank's initiatives in expanding its consumer business.

Subordinated Notes

Last August 2019, the Bank exercised the call option of its PhP3.00 billion Basel III compliant Tier 2 Notes issued in May 2014.

Capital

Total Equity was at PhP34.46 billion, up by 41.25% from the year-ago level of PhP24.39 billion, driven by the stock rights issuance and increase in net income.

MANAGEMENT DISCUSSION AND ANALYSIS

PSBank successfully completed PhP8.00 billion Stock Rights Offer last January 2019. The Offer eligible to shareholders of 142,856,925 common shares was priced at PhP56.00 per share. The PhP8.00 billion Offer was taken up entirely by the Bank's existing shareholders. The additional capital strengthened Common Equity Tier 1 (CET1) Capital, further solidifying the Bank's capital adequacy and financial strength.

We declared quarterly dividends equivalent to PhP3.00 per share in 2019, or PhP0.75 per quarter, consistent with the Bank's dividend policy.

The Bank's Total Capital Adequacy Ratio is at 17.76% while CET1 Ratio is at 16.82%. Both are well above the BSP's minimum required level.

INCOME STATEMENT

Net Income

PSBank registered PhP3.03 billion in Net Income in 2019, up 13.76% from PhP2.66 billion in 2018.

Net Interest Income

The Bank's Net Interest Income grew 0.24% year-on-year, from PhP11.33 billion in 2018 to PhP11.36 billion in 2019. This was mainly due to the 8.50% or PhP1.21 billion increase in Interest Income on Loans and Receivables.

Interest Expense on Deposit Liabilities increased by 10.57% to PhP5.33 billion with a rise in deposit cost of funds. Meanwhile, Interest Expense on Bills Payable was at PhP319.72 million from PhP55.86 million in 2018. Interest Expense on Bonds Payable was at PhP167.60 million in 2019, an increase of 100% due to the Bank's PhP6.30 billion fixed rate bonds issued last July 24, 2019 with interest rate of 5.6% per annum.

Non-Interest Income

The Bank's other Operating Income was higher in 2019 compared with the previous year by 13.14% to PhP3.24 billion in 2019. Net Service Fees and Commission Income increased by 14.63% to PhP1.86 billion from PhP1.63 billion in 2018. We recorded a Gain on Foreclosure and Sale of Investment Properties amounting to PhP611.83 million, PhP189.86 million higher compared with the PhP421.98 million posted during the same period last year. We registered a Gain on Trading and Securities amounting to PhP223.99 million in 2019.

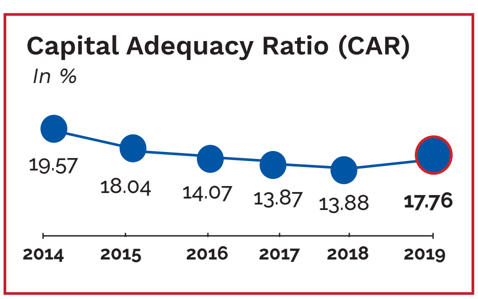
The Bank recorded its Share in Net Income of a Joint Venture in Sumisho Motor Finance Corporation at PhP105.91 million from PhP82.38 million last year. This was higher by 28.56% versus the same period last year.

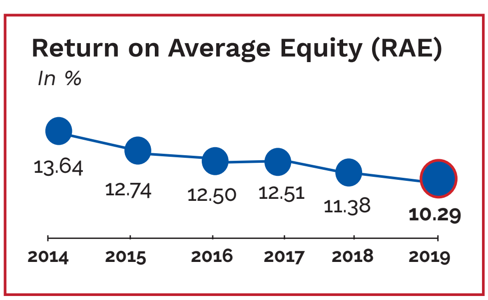
Operating Expenses and Provisions

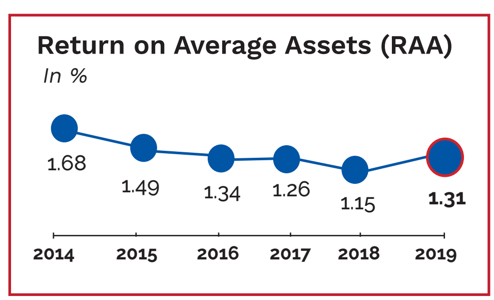
The Bank's total Operating Expenses, excluding Provision for Impairment and Credit Losses, was posted at PhP8.91 billion, 2.80% lower compared with the PhP9.17 billion a year ago. Taxes and Licenses went down by 4.79% to PhP1.55 billion compared to last year due to lower Documentary Stamps Taxes paid in 2019. Security, Messengerial and Janitorial Services dropped to PhP453.06 million. Occupancy and Equipment-related Costs decreased by 57.80% to PhP322.33 million as a result of lower rent expense.

The Bank set aside PhP2.21 billion in Provision for Impairment and Credit Losses in 2019. This is higher than the PhP2.14 billion allocated in 2018.

As of December 2019, we had 250 branches and 557 ATMs.







SUPPLEMENTARY MANAGEMENT DISCUSSION

On January 15, 2013, the Bangko Sentral ng Pilipinas, through its Circular No. 781, issued the Basel III Implementing Guidelines on Minimum Capital Requirements. The guidelines took effect on January 01, 2014 wherein the risk-based capital ratio of the Bank, expressed as a percentage of qualifying capital to risk weighted assets, shall not be less than ten percent (10%) for both solo and consolidated basis. Other minimum capital ratios include Common Equity Tier 1 (CET1) ratio and Tier 1 capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed.

As of December 31, 2019 and 2018, the Bank maintains these ratios above minimum requirements.

The capital-to-risk assets ratio of the Bank as reported to the BSP as of December 31, 2019 and 2018 based on BASEL III are shown in the table below (in millions):

	2019	2018
Common Equity Tier 1 capital	**₱32,807**	₱22,132
Less: Regulatory Adjustments to CET1 capital	**3,146**	3,444
Total Tier 1 Capital	**29,661**	18,688
Tier 2 capital	**1,672**	4,323
Less: Regulatory Adjustments to Tier 2 capital	**-**	-
Total Tier 2 capital	**1,672**	4,323
Total qualifying capital (Note 21)	**₱31,333**	₱23,011
Credit risk-weighted assets	**₱152,642**	₱144,203
Market risk-weighted assets	**147**	196
Operational risk-weighted assets	**23,596**	21,437
Risk weighted-assets (Note 21)	**₱176,385**	₱165,836

	2019	2018
Common equity tier 1 ratio* Common equity tier 1 capital Divided by: Total Risk-weighted assets	**16.82%**	11.27%
Tier 1 capital ratio (Note 21) Adjusted tier 1 capital Divided by: Total risk-weighted assets	**16.82%**	11.27%
Total capital adequacy ratio (Note 21) Total qualifying capital Divided by: Total risk-weighted assets	**17.76%**	13.88%

*As of December 31, 2019 and 2018, the capital conservation buffer was 10.82% and 5.27%, respectively.

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, cumulative foreign currency translation and remeasurements of net defined benefit asset. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred tax assets, goodwill, other intangible assets and significant minority investments in a joint venture.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

SUPPLEMENTARY MANAGEMENT DISCUSSION

The components of Tier 1 capital and regulatory adjustments as follows (in millions):

	December 31	
	2019	2018
	CET1	CET1
Paid-up common stock	**₱3,831**	₱2,403
Additional paid-in capital	**9,288**	2,818
Retained Earnings	**17,133**	15,785
Undivided Profits	**3,062**	2,556
Other comprehensive income		
Net unrealized gains (losses) on AFS securities	**(23)**	(877)
Cumulative foreign currency translation	**(16)**	(8)
Remeasurement Losses on Retirement Plan	**(468)**	(545)
Sub-total	**32,807**	22,132
Less Regulatory adjustments:		
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	**224**	226
Deferred tax asset	**1,707**	1,875
Goodwill	**30**	30
Other intangible assets	**427**	628
Significant minority investments	**758**	685
Total deductions	**3,146**	3,444
Total Common Equity Tier 1 capital	**29,661**	18,688
Additional Tier 1 (AT1) capital	**–**	–
Total Tier 1 capital	**₱29,661**	₱18,688

Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as follows (in millions):

	December 31, 2019			December 31, 2018		
	Common Equity Tier 1 Capital	**Reconciling Items**	**Audited Financial Statements**	Common Equity Tier 1 Capital	Reconciling Items	Audited Financial Statements
Paid-up common stock	**₱3,831**	**₱-**	**₱3,831**	₱2,403	₱-	₱2,403
Additional paid-in capital	**9,288**	**-**	**9,288**	2,818	-	2,818
Retained Earnings	**17,133**	**2,145**	**19,278**	15,785	1,981	17,766
Undivided Profits	**3,062**	**(34)**	**3,028**	2,556	106	2,662
Net unrealized gains on AFS securities	**(23)**	**4**	**(19)**	(877)	94	(783)
Remeasurement Losses on Retirement Plan	**(468)**	**(469)**	**(937)**	(545)	77	(468)
Cumulative foreign currency translation	**(16)**	**4**	**(12)**	(8)	4	(4)
Tier 1 (CET1) Capital/Total Equity	**₱32,807**	**₱1,650**	**₱34,457**	₱22,132	₱2,262	₱24,394

Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP and vice versa.

The components of Tier 2 capital and deductions, as reported to BSP as of December 31, 2019 and 2018 consist of the following (in millions):

	2019	2018
Unsecured subordinated debts	**₱-**	₱2,982
General loan loss provision	**1,672**	1,341
Less: Regulatory adjustments	**-**	-
Total Tier 2 capital	**₱1,672**	₱4,323

In 2017, the General loan loss provision is limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof is deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio.

SUPPLEMENTARY MANAGEMENT DISCUSSION

On August 14, 2018, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 1011 covering guidelines on the adoption of the Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments. Under the said circular, banks shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Banks are not required to provide a one percent (l%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments. Banks shall use Retained Earnings Reserve-Others as temporary account of Retained Earnings-General Provision (RE-GP). As a temporary presentation in CAR reports, the Retained Earnings (RE) included in Common Equity Tier (CET)/Core Tier 1 shall be net of Retained Earnings-General Provision. In computing Tier 2 Capital, the General Loan Loss provision (GLLP), shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected. The Bank is compliant with the BSP Circular No. 1011.

Risk weighted assets by type of exposure as of December 31, 2019 and 2018 consist of the following (in millions):

	December 31, 2019			December 31, 2018		
	Credit Risk	**Market Risk**	**Operational Risk**	Credit Risk	Market Risk	Operational Risk
On-Balance Sheet	**₱152,605**	**₱-**	**₱-**	₱144,137	₱-	₱-
Off-Balance Sheet	**37**	**-**	**-**	30	-	-
Counterparty in the Banking Book	**-**	**-**	**-**	-	-	-
Counterparty in the Trading Book	**-**	**-**	**-**	36	-	-
Interest Rate Exposures	**-**	**-**	**-**	-	99	-
Foreign Exchange Exposures	**-**	**147**	**-**	-	97	-
Basic Indicator	**-**	**-**	**23,596**	-	-	21,437
Total	**₱152,642**	**₱147**	**₱23,596**	₱144,203	₱196	₱21,437
Capital Requirements	**₱15,264**	**₱15**	**₱2,360**	₱14,420	₱20	₱2,144

In 2017, the credit-risk weighted assets is net of General loan loss provision, in excess of the amount permitted to be included in Tier 2. Meanwhile, in 2018, the computation of GLLP is in compliance with BSP Circular No. 1011, wherein the Bank developed ECL parameters and methodologies for each portfolio of its loans and receivables, using historical data as well as forward-looking inputs and assumptions.

Risk-weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government (PNG) and those guarantors and exposures with highest credit rating. 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 no exposures to securitization structures. Further, it has no structured products issued or purchased.

The Bank uses the standardized approach to compute the market risk exposures for the Capital Adequacy Ratio. For each separate risk area (credit, market, operational, interest rate risk), the details of risk exposures and assessments are disclosed in Note 5 of the audited financial statements.

The Bank uses the Basic Indicator Approach in computing for the operational risk capital charge.

The description of the main features of capital instruments issued on common shares and those eligible as Tier 2 capital are presented in Note 21 and Note 17 of the audited financial statements, respectively.

SUPPLEMENTARY MANAGEMENT DISCUSSION

The Bank's total risk-weighted on-balance sheet assets, net of specific provision broken down by type of exposures as follows (in millions):

December 31, 2019				Risk Weights						
	Exposures, Net of Specific Provisions	Exposures Covered by CRM, Gross of Materiality Threshold	Exposures, not covered by CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand	₱2,282	₱–	₱2,282	₱2,282	₱–	₱–	₱–	₱–	₱–	₱2,282
Due from Bangko Sentral ng Pilipinas (BSP)	6,815	–	6,815	6,815	–	–	–	–	–	6,815
Due from Other Banks	1,134	–	1,134	–	–	409	–	725	–	1,134
Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	4,794	–	4,794	1,876	2,691	–	–	227	–	4,794
Debt Securities Measured at Amortized Cost	34,770	–	34,770	28,182	2,403	3,106	–	1,079	–	34,770
Loans and Receivables										
Interbank Loans Receivable	–	–	–	–	–	–	–	–	–	–
Loans and Receivables – Others	163,135	20,563	142,572	–	3,625	8,420	–	126,414	4,113	142,572
Loans and Receivables Arising from Repurchase Agreements	–	–	–	–	–	–	–	–	–	–
Sales Contract Receivable	41	–	41	–	–	–	–	23	18	41
Real and Other Properties Acquired	2,937	–	2,937	–	–	–	–	–	2,937	2,937
Total Exposures, Excluding Other Assets	215,908	20,563	195,345	39,155	8,719	11,935	–	128,468	7,068	195,345
Other Assets	5,823	–	5,823	–	–	–	–	5,823	–	5,823
Total Exposures, Including Other Assets	₱221,731	₱20,563	₱201,168	₱39,155	₱8,719	₱11,935	₱–	₱134,291	₱7,068	₱201,168
Total Risk-weighted On-Balance Sheet Assets not covered by CRM				–	1,744	5,968	–	134,291	10,602	152,605
Total risk-weighted On-Balance Sheet Assets covered by CRM				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				–	1,744	5,968	–	134,291	10,602	152,605
Total Risk-weighted Off-Balance Sheet Assets				–	–	–	–	37	–	37
Total Gross Risk-weighted Assets				–	1,744	5,968	–	134,328	10,602	152,642
Addition:										
Counterparty Risk-weighted Assets in the Banking Book				–	–	–	–	–	–	–
Counterparty Risk-weighted Assets in the Trading Book				–	–	–	–	–	–	–
Deduction:										
General loan loss provision				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				₱–	₱1,744	₱5,968	₱–	₱134,328	₱10,602	₱152,642

December 31, 2018				Risk Weights						
	Exposures, Net of Specific Provisions	Exposures Covered by CRM, Gross of Materiality Threshold	Exposures, not covered by CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand	₱3,776	₱–	₱3,776	₱3,776	₱–	₱–	₱–	₱–	₱–	₱3,776
Due from Bangko Sentral ng Pilipinas (BSP)	15,159	–	15,159	15,159	–	–	–	–	–	15,159
Due from Other Banks	1,678	–	1,678	–	4	565	–	1,109	–	1,678
Financial Assets Measured at Fair Value Through Other Comprehensive Income (FVOCI)	13,043	–	13,043	5,105	3,479	3,980	–	479	–	13,043
Debt Securities Measured at Amortized Cost	36,229	–	36,229	28,634	2,842	3,484	–	1,269	–	36,229
Loans and Receivables										
Interbank Loans Receivable	–	–	–	–	–	–	–	–	–	–
Loans and Receivables – Others	154,831	23,936	130,895	–	3,259	6,432	–	116,719	4,485	130,895
Loans and Receivables Arising from Repurchase Agreements	1,893	–	1,893	1,893	–	–	–	–	–	1,893
Sales Contract Receivable	38	–	38	–	–	–	–	38	–	38
Real and Other Properties Acquired	2,985	–	2,985	–	–	–	–	–	2,985	2,985
Total Exposures, Excluding Other Assets	229,632	23,936	205,696	54,567	9,584	14,461	–	119,614	7,470	205,696
Other Assets	4,170	–	4,170	–	–	–	–	4,170	–	4,170
Total Exposures, Including Other Assets	₱233,802	₱23,936	₱209,866	₱54,567	₱9,584	₱14,461	₱–	₱123,784	₱7,470	₱209,866
Total Risk-weighted On-Balance Sheet Assets not covered by CRM				–	1,917	7,231	–	123,784	11,205	144,137
Total risk-weighted On-Balance Sheet Assets covered by CRM				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				–	1,917	7,231	–	123,784	11,205	144,137
Total Risk-weighted Off-Balance Sheet Assets				–	–	–	–	30	–	30
Total Gross Risk-weighted Assets				–	1,917	7,231	–	123,814	11,205	144,167
Addition:										
Counterparty Risk-weighted Assets in the Banking Book				–	–	–	–	–	–	–
Counterparty Risk-weighted Assets in the Trading Book				–	–	–	–	36	–	36
Deduction:										
General loan loss provision				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				₱–	₱1,917	₱7,231	₱–	₱123,850	₱11,205	₱144,203

SUPPLEMENTARY MANAGEMENT DISCUSSION

The total other assets are computed as follows (in millions):

	December 31	
	2019	2018
Total Assets	**₱224,108**	₱236,775
General Loan Loss Provisions	**769**	482
Deductions:		
Total Exposures Excluding Other Assets	**215,908**	229,632
Financial Assets Held for Trading	**0**	0
Unsecured DOSRI	**224**	226
Deferred Tax Assets	**1,707**	1,875
Goodwill	**30**	30
Other Intangible Assets	**427**	629
Significant minority investments	**758**	685
Derivatives with positive fair value held for trading	**–**	10
Total Deductions	**219,054**	233,087
Total Other Assets	**₱5,823**	₱4,170

The Bank's total risk-weighted off-balance sheet assets broken down by type of exposures as follows (in millions):

December 31, 2019				**Risk Weights**						
	Notional Principal Amount	**Credit Conversion Factor (CCF)**	**Credit Equivalent Amount**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Total**
Stand-by LCs										
Trade-related contingencies arising from movement of goods	**₱18**	**20%**	**₱4**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4**	**₱–**	**₱4**
Transaction-related contingencies	**66**	**50%**	**33**	**–**	**–**	**–**	**–**	**33**	**–**	**33**
Spot foreign exchange contracts sold	**51**	**0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other Commitments										
Late deposits/payments received	**10**	**0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Trust Department accounts	**7,073**	**0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**0**	**0%**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total Notional Principal Amount	**₱7,218**									
Total Risk-Weighted Off-Balance Sheet Assets				**₱–**	**₱–**	**₱–**	**₱–**	**₱37**	**₱–**	**₱37**

December 31, 2018	Notional Principal Amount	Credit Conversion Factor (CCF)	Credit Equivalent Amount	Risk Weights 0%	20%	50%	75%	100%	150%	Total
Stand-by LCs										
Trade-related contingencies arising from movement of goods	₱18	20%	₱4	₱–	₱–	₱–	₱–	₱4	₱–	₱4
Transaction-related contingencies	53	50%	26					26		26
Other Commitments										
Late deposits/payments received	10	0%	–	–	–	–	–	–	–	–
Trust Department accounts	6,400	0%	–	–	–	–	–	–	–	–
Others	1	0%	–	–	–	–	–	–	–	–
Total Notional Principal Amount	₱6,482	0%								
Total Risk-Weighted Off-Balance Sheet Assets				₱–	₱–	₱–	₱–	₱30	₱–	₱30

The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage. The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidiary financial allied undertakings but excluding insurance companies). As of December 31, 2019 and 2018, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

	2019	2018
A. Capital Measure	**₱29,661**	₱18,688
B. Exposure Measure	**221,774**	234,510
C. Basel III Leverage Ratio (A/B)	**13.37%**	7.97%

Summary Comparison of Accounting Assets and Common Disclosure vs. Leverage Ratio Exposures as of December 31, 2019 and 2018 are shown in the table below (in millions):

Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure	**2019**	2018	**Common Disclosure vs. Leverage Ratio Exposure**	**2019**	2018
Total consolidated assets	**₱224,108**	₱236,775	On-balance sheet exposures	**₱221,732**	₱231,911
Adjustments for derivative financial instruments	**–**	26	Derivative exposures	**–**	36
Adjustments for securities financial transactions	**–**	–	Securities financing transaction exposures	**–**	1,892
Adjustments for off-balance sheet items	**43**	671	Other off-balance sheet exposures	**43**	671
Other adjustments	**(2,377)**	(2,962)	Tier 1 capital	**29,661**	18,688
			Total Leverage Ratio exposures	**₱221,774**	₱234,510
Leverage ratio exposures	**₱221,774**	₱234,510	Basel III Leverage Ratio	**13.37%**	7.97%

Meanwhile, the reconciliation requirement that details the source(s) of material differences between Banks' total balance sheet assets in its financial statements and on-balance sheet exposures in the common disclosure template is disclosed in the Bank's Annual Report (SEC 17-A).

SUPPLEMENTARY MANAGEMENT DISCUSSION

On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. On March 15, 2019, the BSP issued Circular No. 1035 which approved the: (1) extension of the observation period of the minimum Basel III Liquidity Coverage Ratio (LCR) requirement to December 31, 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (UBs/KBs), (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period, (3) minimum requirement of one hundred (100%) starting January 1, 2020.

As of December 31, 2019, the LCR in single currency as reported to the BSP is shown in the table below (in millions):

	2019
A. Total Stock of High-Quality Liquid Assets	**₱45,849**
B. Total Net Cash Outflows	**35,210**
C. Liquidity Coverage Ratio [A/B]	**130.22%**

On June 6, 2018, the BSP issued Circular No. 1007, implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on and off balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Bank's liquidity profile. The covered bank shall maintain an NSFR of at least 100.0 percent at all times. Compliance with this requirement was phased-in effective July 1, 2018, with full implementation of the minimum NSFR on January 1, 2019.

On March 15, 2019, the BSP issued Circular No. 1034 which approved the extension of the observation period for the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs). Subsidiary banks/QBs of UBs/KBs shall be subject to an NSFR floor of seventy percent (70%) during the observation period. Starting January 1, 2020, the minimum NSFR for subsidiary banks/QBs of UBs/KBs shall be 100%.

As of December 31, 2019, the NSFR as reported to the BSP is shown in the table below (in millions):

	2019
A. Available Stable Funding	**₱173,998**
B. Required Stable Funding	**152,224**
C. Net Stable Funding Ratio [A/B]	**114.30%**

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
G/F, Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City, 1307

The management of **Philippine Savings Bank** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, 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 company'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 company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

JOSE T. PARDO	**JOSE VICENTE L. ALDE**	**LEAH M. ZAMORA**
Chairman of the Board	President	Controller

Signed this day of February 20, 2020.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

REPUBLIC OF THE PHILIPPINES
CITY OF MAKATI)S.S.

MAKATI CITY

SUBSCRIBED AND SWORN TO before me this FEB 21 2020 affiants exhibiting to me their passports as follows:

Name	Passport No.	Date of Issue	Place of Issue
Jose T. Pardo			Manila
Jose Vicente L. Alde			Manila
Leah M. Zamora			Manila

ATTY. GERVACIO B. ORTIZ, JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2020
PTR NO. 7335104/01-03-2019 MAKATI
IBP NO 656155 LIFETIME MEMBER
APPT. NO. M-104/2017/ROLL NO. 4009
MCLE COMPLIANCE NO V-0006934
GROUND FLOOR 8747 PASEO DE
ROXAS, LEPANTO BLDG.

Doc. No. 119
Page No. 25
Book No. XVI
Series of 2020.

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank
777 PSBank Center, Paseo de Roxas corner Sedeno Streets
Makati City 1226

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Savings Bank ("the Bank"), which comprise the statements of condition as at December 31, 2019 and 2018 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the 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 our 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Adoption of PFRS 16, Leases
Effective January 1, 2019, the Bank adopted PFRS 16, *Leases*, under the modified retrospective approach and resulted in significant changes in the Bank's accounting policy for leases. The Bank's adoption of PFRS 16 is significant to our audit because the Bank has high volume of lease agreements; the recorded amounts are material to the financial statements; and adoption involves application of significant

judgment and estimation in determining the lease term, including evaluating whether the Bank is reasonably certain to exercise options to extend or terminate the lease and determining the incremental borrowing rate. This resulted in the recognition of right of use assets and lease liability amounting to ₱1.4 billion and ₱1.6 billion, respectively, as of January 1, 2019 and the recognition of depreciation expense of ₱373.1 million and interest expense of ₱113.6 million , for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 applied by the Bank, are included in Notes 2, 11, 19 and 25 to the financial statements.

Audit response
We obtained an understanding of the Bank's process in implementing the new standard, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemptions, the selection of the transition approach and any election of available practical expedients. We tested the completeness of the population of lease agreements by comparing the number of leases per operational report against the master lease schedule. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements) from the master lease schedule, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Bank will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Adequacy of allowance for credit losses
The Bank's application of the Expected Credit Loss (ECL) model in calculating the allowance for credit losses is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Bank's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

Allowance for credit losses as of December 31, 2019 for the Bank amounted to ₱3.9 billion. Provision for credit losses of the Bank in 2019 using the ECL model amounted to ₱2.2 billion.

Refer to Note 15 of the financial statements for the disclosure on the details of the allowance for credit losses using the ECL model.

Audit response

We obtained an understanding of the board-approved methodologies and models used for the Bank's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information. We also inspected and considered the results of PFRS 9 model validation performed by management's specialist.

We (a) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place; (b) tested the Bank's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (c) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (d) tested exposure at default considering outstanding commitments and repayment scheme; and (e) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Bank's lending portfolios and broader industry knowledge.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 17-A, SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditor's report thereon. The SEC Form 17-A, SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's 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 audits, 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 PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with PSAs, 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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 audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Veronica Mae A. Arce.

SYCIP GORRES VELAYO & CO.

Veronica Arce

Veronica Mae A. Arce
Partner
CPA Certificate No. 0117208
SEC Accreditation No. 1740-A (Group A),
February 7, 2019, valid until February 6, 2022
BIR Accreditation No. 08-001998-135-2018,
December 17, 2018, valid until December 16, 2021
PTR No. 8125206, January 7, 2020, Makati City

February 20, 2020

STATEMENTS OF CONDITION

	December 31	
	2019	2018
ASSETS		
Cash and Other Cash Items	**₱2,281,813,055**	₱3,776,087,269
Due from Bangko Sentral ng Pilipinas (Note 16)	**6,814,865,832**	15,156,184,418
Due from Other Banks (Note 29)	**1,138,642,148**	1,682,806,080
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**–**	1,891,820,000
Fair Value Through Profit or Loss (FVTPL) Investments (Note 8)	**43,674**	10,107,022
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 8)	**4,775,388,467**	12,931,601,524
Investment Securities at Amortized Cost (Note 8)	**34,233,974,816**	35,646,765,264
Loans and Receivables (Note 9)	**164,384,202,213**	156,260,362,775
Investment in a Joint Venture (Notes 10 and 29)	**755,781,369**	691,425,681
Property and Equipment (Note 11)	**3,312,836,126**	2,257,379,905
Investment Properties (Note 12)	**3,765,748,696**	4,036,317,716
Deferred Tax Assets (Note 27)	**1,398,136,782**	1,327,667,084
Intangible Assets and Goodwill (Note 13)	**480,456,498**	655,446,833
Other Assets (Note 14)	**1,564,931,514**	1,405,320,467
	₱224,906,821,190	₱237,729,292,038

LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Note 16)		
Demand	**₱22,490,617,234**	₱20,367,043,344
Savings	**35,691,639,304**	33,399,725,991
Time	**105,912,878,349**	138,525,888,196
Long-term Negotiable Certificates of Deposits	**8,409,975,273**	8,395,281,852
	172,505,110,160	200,687,939,383
Bills Payable (Note 17)	**4,189,736,932**	2,968,567,431
Bonds Payable (Note 17)	**6,254,701,780**	–
Subordinated Notes (Note 17)	**–**	2,981,673,382
Treasurer's, Cashier's and Manager's Checks	**1,297,680,147**	1,615,520,188
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,409,451,987**	2,014,522,713
Financial Liabilities at FVTPL (Note 8)	**–**	2,895,073
Income Tax Payable	**374,977**	637,607
Other Liabilities (Note 19)	**4,792,491,744**	3,063,388,051
	190,449,547,727	213,335,143,828

(Forward)

	December 31	
	2019	2018
Equity		
Common Stock (Note 21)	**₱3,831,094,160**	₱2,402,524,910
Capital Paid in Excess of Par Value (Note 21)	**9,287,650,873**	2,818,083,506
Surplus Reserves (Note 30)	**1,037,214,639**	1,035,899,409
Surplus (Note 21)	**21,269,544,274**	19,391,850,112
Fair Value Reserves on Financial Assets at FVOCI (Note 8)	**(18,931,431)**	(782,896,279)
Remeasurement Losses on Retirement Plan (Note 24)	**(937,954,589)**	(470,611,677)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	**941,681**	3,131,435
Cumulative Translation Adjustment	**(12,286,144)**	(3,833,206)
	34,457,273,463	24,394,148,210
	₱224,906,821,190	₱237,729,292,038

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Years Ended December 31		
	2019	2018	2017
INTEREST INCOME			
Loans and receivables (Note 9)	**₱15,481,189,433**	₱14,268,805,623	₱12,477,133,237
Financial assets at FVOCI/AFS investments and investment securities at amortized cost/HTM investments (Note 8)	**1,896,257,446**	1,985,357,651	1,773,020,358
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**30,140,459**	89,723,370	61,037,150
Due from other banks	**4,066,446**	4,338,859	2,608,271
Due from Bangko Sentral ng Pilipinas	**831,792**	16,662,587	179,406,826
FVTPL investments (Note 8)	**2,152**	9,088,886	50,570,958
	17,412,487,728	16,373,976,976	14,543,776,800
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**5,327,625,405**	4,818,493,359	3,214,665,720
Bills payable (Note 17)	**319,718,630**	55,857,635	58,953,437
Bonds payable (Note 17)	**167,596,354**	–	–
Subordinated notes (Note 17)	**125,118,285**	167,675,686	191,058,261
Lease liabilities	**113,560,729**	–	–
	6,053,619,403	5,042,026,680	3,464,677,418
NET INTEREST INCOME	**11,358,868,325**	11,331,950,296	11,079,099,382
Service fees and commission income (Note 22)	**1,951,941,673**	1,721,745,423	1,470,202,440
Service fees and commission expense (Note 22)	**88,437,296**	96,107,664	94,428,291
NET SERVICE FEES AND COMMISSION INCOME	**1,863,504,377**	1,625,637,759	1,375,774,149
OTHER OPERATING INCOME (CHARGES)			
Gain on foreclosure and sale of investment properties - net (Note 12)	**611,833,898**	421,975,957	348,813,362
Gain (loss) on foreclosure and sale of chattel mortgage properties – net (Note 14)	**(84,902,195)**	232,063,012	584,947,874
Trading and securities gains (losses) - net (Note 8)	**223,992,445**	(133,297,506)	(65,237,826)
Foreign exchange gain - net	**65,884,165**	88,032,388	56,483,920
Gain on sale of property and equipment (Note 11)	**8,132,940**	7,918,569	1,731,001
Miscellaneous (Notes 12, 23 and 25)	**554,897,890**	624,299,435	507,510,359
	1,379,839,143	1,240,991,855	1,434,248,690
TOTAL OPERATING INCOME	**14,602,211,845**	14,198,579,910	13,889,122,221
OTHER EXPENSES			
Compensation and fringe benefits (Notes 24 and 29)	**3,520,613,973**	3,363,828,408	3,260,605,852
Provision for credit and impairment losses (Note 15)	**2,214,989,857**	2,137,972,532	2,270,178,805
Taxes and licenses	**1,549,754,043**	1,627,741,446	1,268,907,979
Depreciation (Note 11)	**910,341,824**	622,182,083	635,436,103
Security, messengerial and janitorial services	**453,062,842**	493,737,524	477,533,030
Occupancy and equipment-related costs (Note 25)	**322,330,030**	763,766,590	740,050,501
Amortization of intangible assets (Note 13)	**135,054,994**	159,089,068	135,432,343
Miscellaneous (Notes 12 and 26)	**2,023,191,282**	2,140,897,722	2,251,333,506
	11,129,338,845	11,309,215,373	11,039,478,119

(Forward)

	Years Ended December 31		
	2019	2018	2017
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**₱3,472,873,000**	₱2,889,364,537	₱2,849,644,102
SHARE IN NET INCOME OF A JOINT VENTURE (Notes 10 and 29)	**105,905,423**	82,376,569	71,836,533
INCOME BEFORE INCOME TAX	**3,578,778,423**	2,971,741,106	2,921,480,635
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**414,828,340**	381,369,781	394,082,636
Deferred	**135,612,443**	(71,774,541)	(127,021,129)
	550,440,783	309,595,240	267,061,507
NET INCOME	**₱3,028,337,640**	₱2,662,145,866	₱2,654,419,128
Basic/Diluted Earnings Per Share (Note 28)	**₱8.03**	₱10.51*	₱10.48*

*Restated to show the effect of stock rights issued in January 2019

See accompanying Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2019	2018	2017
NET INCOME	**₱3,028,337,640**	₱2,662,145,866	₱2,654,419,128
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Fair value reserves on debt securities at FVOCI (Note 8)	**762,418,992**	(713,972,048)	–
Cumulative translation adjustment	**(8,452,938)**	242,833	(5,518,027)
Net unrealized gain (loss) from Available-for-sale investments (Note 8)	**–**	–	431,398,146
	753,966,054	(713,729,215)	425,880,119
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement plan (Note 24)	**(667,632,731)**	106,829,806	(5,273,354)
Equity in remeasurement gains (losses) on retirement plan of a joint venture (Note 10)	**(2,189,754)**	1,886,291	(198,455)
Fair value reserves on equity securities at FVOCI (Note 8)	**1,545,856**	222,501	–
Income tax effect (Note 27)	**200,289,819**	(32,048,942)	1,582,006
	(467,986,810)	76,889,656	(3,889,803)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**285,979,244**	(636,839,559)	421,990,316
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱3,314,316,884**	₱2,025,306,307	₱3,076,409,444

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value (Note 21)	Surplus Reserves (Note 30)	Surplus (Note 21)	Fair Value Reserves on Financial Assets at FVOCI / Net Unrealized Loss on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	Cumulative Translation Adjustment	Total
Balance at January 1, 2019	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,899,409**	**₱19,391,850,112**	**(₱782,896,279)**	**(₱470,611,677)**	**₱3,131,435**	**(₱3,833,206)**	**₱24,394,148,210**
Issuance of stock rights (Note 21)	**1,428,569,250**	**6,469,567,367**	–	–	–	–	–	–	**7,898,136,617**
Total comprehensive income (loss) for the year	–	–	–	**3,028,337,640**	**763,964,848**	**(467,342,912)**	**(2,189,754)**	**(8,452,938)**	**3,314,316,884**
Cash dividends (Note 21)	–	–	–	**(1,149,328,248)**	–	–	–	–	**(1,149,328,248)**
Appropriation of surplus to trust business (Note 30)	–	–	**1,315,230**	**(1,315,230)**	–	–	–	–	–
Balance at December 31, 2019	**₱3,831,094,160**	**₱9,287,650,873**	**₱1,037,214,639**	**₱21,269,544,274**	**(₱18,931,431)**	**(₱937,954,589)**	**₱941,681**	**(₱12,286,144)**	**₱34,457,273,463**
Balance at January 1, 2018	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱17,097,046,504	(₱411,510,218)	(₱545,392,541)	₱1,245,144	(₱4,076,039)	₱22,393,324,167
Effect of the adoption of PFRS 9	–	–	–	353,911,723	342,363,486	–	–	–	696,275,209
Balance at January 1, 2018, as restated	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱17,450,958,227	(₱69,146,732)	(₱545,392,541)	₱1,245,144	(₱4,076,039)	₱23,089,599,376
Total comprehensive income (loss) for the year	–	–	–	2,662,145,866	(713,749,547)	74,780,864	1,886,291	242,833	2,025,306,307
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	(720,757,473)
Appropriation of surplus to trust business (Note 30)	–	–	496,508	(496,508)	–	–	–	–	–
Balance at December 31, 2018	₱2,402,524,910	₱2,818,083,506	₱1,035,899,409	₱19,391,850,112	(₱782,896,279)	(₱470,611,677)	₱3,131,435	(₱3,833,206)	₱24,394,148,210
Balance at January 1, 2017	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,163,512,433	(₱842,908,364)	(₱541,701,193)	₱1,443,599	₱1,441,988	₱20,037,672,196
Total comprehensive income (loss) for the year	–	–	–	2,654,419,128	431,398,146	(3,691,348)	(198,455)	(5,518,027)	3,076,409,444
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	(720,757,473)
Appropriation of surplus to trust business (Note 30)	–	–	127,584	(127,584)	–	–	–	–	–
Balance at December 31, 2017	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱17,097,046,504	(₱411,510,218)	(₱545,392,541)	₱1,245,144	(₱4,076,039)	₱22,393,324,167

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,578,778,423**	₱2,971,741,106	₱2,921,480,635
Adjustments to reconcile income before income tax to net cash provided by operations:			
Provision for credit and impairment losses (Note 15)	**2,214,989,857**	2,137,972,532	2,270,178,805
Depreciation (Note 11)	**910,341,824**	622,182,083	635,436,103
Amortization of premium (discount) on financial assets at fair value through other comprehensive income and investment securities at amortized cost	**1,038,248,791**	(565,582,794)	–
Loss (Gain) on foreclosure and sale of:			
Investment properties (Note 12)	**(611,833,898)**	(421,975,957)	(348,813,361)
Chattel mortgage properties (Note 14)	**84,902,195**	(232,063,012)	(584,947,873)
Amortization of:			
Intangible assets (Note 13)	**135,054,994**	159,089,068	135,432,343
Debt issuance costs (Note 17)	**51,072,480**	12,466,263	3,265,585
Accretion of lease liabilities (Note 25)	**113,560,729**	–	–
Realized loss (gain) on sale of financial assets at fair value through other comprehensive income (FVOCI) (Note 8)	**(224,424,552)**	92,278,733	–
Share in net income of a joint venture (Note 10)	**(105,905,423)**	(82,376,569)	(71,836,533)
Fair value loss (gains) on fair value through profit or loss investments (Note 8)	**(9,784)**	16,941,771	(12,181,153)
Gain on sale of property and equipment (Note 11)	**(8,132,940)**	(7,918,569)	(1,731,001)
Amortization of premium (discount) on available-for-sale investments and held-to-maturity investments	**–**	–	345,911,497
Realized loss on sale of available-for-sale investments (Note 8)	**–**	–	49,756,366
Loss on sale of a joint venture	**–**	–	2,052,642
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**7,178,059**	1,512,257,295	941,420,934
Loans and receivables	**(13,941,308,215)**	(15,682,534,934)	(22,428,511,076)
Other assets	**9,737,244**	(177,995,072)	(35,731,437)
Increase (decrease) in:			
Deposit liabilities	**(28,187,004,930)**	11,765,973,830	30,523,557,488
Treasurer's, cashier's and manager's checks	**(317,840,041)**	(598,349,515)	453,363,881
Accrued taxes, interest and other expenses	**(415,997,141)**	356,099,813	464,596,545
Other liabilities	**(338,670,707)**	(500,120,437)	329,104,407
Cash generated from (used in) operations	**(36,007,263,035)**	1,378,085,635	15,591,804,797
Income taxes paid	**(415,090,970)**	(381,107,451)	(394,158,858)
Dividends received from joint venture investment (Note 10)	**39,359,981**	–	–
Net cash provided by (used in) operating activities	**(36, 382,994,024)**	996,978,184	15,197,645,939
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Financial assets at FVOCI	**(1,924,784,626)**	(6,318,566,676)	–
Property and equipment (Note 11)	**(124,268,752)**	(182,350,588)	(227,119,984)
Other intangible assets (Note 13)	**(44,356,459)**	(99,611,845)	(345,190,531)
Investment securities at amortized cost	**–**	(1,863,449,350)	–
Available-for-sale investments	–	–	(9,380,635,227)
Held-to-maturity investments	–	–	(6,917,136,761)

(Forward)

	Years Ended December 31		
	2019	2018	2017
Proceeds from sale/maturities of:			
Financial assets at FVOCI (Note 8)	**₱10,879,133,032**	₱4,919,018,184	₱–
Chattel mortgage properties (Note 14)	**2,688,067,819**	2,346,032,425	2,146,956,711
Investment properties (Note 12)	**1,276,797,669**	701,479,408	784,512,544
Investment securities at amortized cost	**557,776,500**	–	–
Property and equipment (Note 11)	**47,736,237**	45,609,973	24,120,404
Available-for-sale investments (Note 8)	**–**	–	5,879,947,979
Held to maturity investments (Note 8)	**–**	–	324,545,000
Investment in a joint venture (Note 10)	**–**	–	189,960,000
Net cash provided by (used in) investing activities	**13,356,101,420**	(451,838,469)	(7,520,039,865)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable (Note 32)	**382,498,646,855**	87,840,542,536	–
Settlement of bills payable (Note 32)	**(381,298,646,855)**	(86,365,497,487)	(4,601,585,608)
Issuance of stock rights (Note 21)	**7,898,136,617**	–	–
Issuance of bonds payable (Note 17 and 32)	**6,243,125,419**	–	–
Settlement of subordinated notes (Note 17 and 32)	**(3,000,000,000)**	–	(3,000,000,000)
Dividends paid (Note 21)	**(1,149,328,248)**	(720,757,473)	(720,757,473)
Payment of lease liabilities (Notes 25 and 32)	**(439,476,020)**	–	–
Net cash provided by (used in) financing activities	**10,752,457,768**	754,287,576	(8,322,343,081)
Effect of exchange rate differences	**(180,999)**	6,116	(225,564)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(12,274,615,835)**	1,299,433,407	(644,962,571)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**3,776,087,269**	2,596,872,801	2,778,009,185
Due from Bangko Sentral ng Pilipinas (Note 16)	**15,159,012,316**	15,265,387,772	13,986,784,696
Due from other banks	**1,685,106,753**	1,508,489,309	1,838,630,022
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**1,892,000,000**	1,842,023,049	3,254,311,599
	22,512,206,338	21,212,772,931	21,857,735,502
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**2,281,813,055**	3,776,087,269	2,596,872,801
Due from Bangko Sentral ng Pilipinas (Note 16)	**6,816,092,181**	15,159,012,316	15,265,387,772
Due from other banks	**1,139,685,267**	1,685,106,753	1,508,489,309
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**–**	1,892,000,000	1,842,023,049
	₱10,237,590,503	₱22,512,206,338	₱21,212,772,931

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱6,468,552,306**	₱4,669,014,050	₱5,012,646,483
Interest received	**18,507,292,047**	15,413,717,174	10,936,013,646

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2019 and 2018, the Bank had 250 branches. In 2019, the Bank had 288 Automated Tellering Machines (ATMs) in Metro Manila and 269 in provincial locations, bringing its total number of ATMs to 557 as of December 31, 2019 and 575 as of December 31, 2018.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock, the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9) has been approved. This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2019 and 2018, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-eight percent (88%) and eighty-three percent (83%) of the Bank, respectively. The increase was due to the stock rights offering of the Bank last January 11, 2019.

2. Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

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 RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its statements of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 20.

Financial assets and financial liabilities are offset and the net amount is reported in the statements of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statements of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2019. Unless otherwise indicated, these new and revised accounting standards have no impact to the Bank.

- PFRS 16, *Leases*
  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases - Incentives*, and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Bank is the lessor.

  The Bank adopted PFRS 16 using the modified retrospective approach with certain transition reliefs with the date of initial application of January 1, 2019 and applied the following practical expedients wherein it:
  - Applied the standard only to contracts that were previously identified as leases, applying the old standards at the date of initial application;
  - Used the recognition exemptions for short-term leases and lease contracts for low value assets;

- o Relied on its assessment of whether leases are onerous immediately before the date of initial application; and
- o Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

The reconciliation of the operating lease commitments to the total gross lease payments used in the measurement of the lease liabilities are as follows:

Operating lease commitments as at 31 December 2018	**₱2,044,036,855**
Weighted average incremental borrowing rate at 1 January 2019	7.52%
Discounted operating lease commitments at 1 January 2019	**1,631,376,370**
Less: Commitments relating to short term leases	–
Commitments relating to leases of low-value assets	–
Add: Commitments relating to leases previously classified as finance leases	–
Payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	–
Lease liabilities recognized as at 1 January 2019	**₱1,631,376,370**

The Bank has lease contracts for office branches, warehouses, spaces for Automated Teller Machines (ATMs), and office equipment. Before the adoption of PFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. All leases (as lessee) were classified as operating leases. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense under 'Occupancy and equipment-related cost' in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under 'Prepaid expenses' lodged in 'Other assets', and 'Accrued other expenses' lodged in 'Accrued taxes, interest and other expenses', respectively.

Upon adoption of PFRS 16, the Bank applied a single recognition and measurement approach for all leases (as lessee) except for short-term leases and leases of low-value assets. The Bank recognized lease liabilities representing lease payments and right-of-use (ROU) assets representing the right to use the underlying assets. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at the date of initial application. ROU assets were recognized based on the amount equal to the lease liabilities adjusted for any related prepaid and accrued lease payments previously recognized.

The effect of adoption of PFRS 16 as at January 1, 2019 follows:

	Increase (Decrease)
ASSETS	
Right-of-use Assets under 'Property and Equipment (Note 11)'	₱1,442,283,639
LIABILITIES	
Lease Liabilities under 'Other Liabilities' (Note 19)	₱1,631,376,370
Accrued Taxes, Interest and Other Expenses*	(189,092,731)
	₱1,442,283,639

**Pertains to accrued rent recognized under PAS 17*

The adoption of PFRS 16 had no impact on the Bank's retained earnings and CET 1 ratio as at January 1, 2019.

Amounts recognized in the statement of condition and statement of income
Set out below are the carrying amounts of the Bank's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use Assets (Note 11)	Lease Liabilities (Note 19)
As at January 1, 2019	₱1,442,283,639	₱1,631,376,370
Additions	186,062,195	186,062,195
Depreciation during the period	(373,133,483)	–
Accretion during the period	–	113,560,729
Expiry/termination	(7,105,035)	(24,419,449)
Payments	–	(439,476,020)
As at December 31, 2019	₱1,248,107,316	₱1,467,103,825

Set out below are the amounts recognized in the statement of income:

	December 31, 2019
Depreciation expense of right-of-use assets	₱373,133,483
Interest expense on lease liabilities	113,560,729
Rent expense - leases of low-value assets	94,131,623
Total amounts recognized in the statement of income	₱580,825,835

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Bank has assessed whether it has any uncertain tax position. The Bank applies significant judgement in identifying uncertainties over its income tax treatments. The Bank determined, based on its assessment, in consultation with its tax counsel, that it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the financial statements of the Bank.

- Amendments to PFRS 9, *Financial Instruments*, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Investment in Associates and Joint Ventures, Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
    - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
    - Amendments to PAS 12, *Income Taxes*, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
    - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Summary of Significant Accounting Policies

Foreign Currency Translation

The financial statements are presented in PHP, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in PHP, while those of the FCDU are maintained in USD.

RBU

As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in PHP based on the Bankers Association of the Philippines (BAP) closing rate (for 2019 and 2018) and Philippine Dealing System (PDS) closing rate (for 2017) prevailing at the statement of condition date, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. 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 reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (PHP) at the BAP closing rate (for 2019 and 2018) and PDS closing rate (for 2017) prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statements of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statements of comprehensive income is recognized in the statements of income.

Fair Value Measurement

The Bank measures financial instruments, such as FVTPL investments, financial assets at FVOCI and derivative financial instruments, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 4.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets 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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash which have original maturities of three months or less from date of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivative financial instruments are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities at FVTPL, the initial measurement of financial instruments includes transaction costs.

Day 1' difference
Where the transaction price in a non-active market is different from the fair value from 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 fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income 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 amount.

Investments at FVTPL
Financial assets or financial liabilities at FVTPL
Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

Financial instruments held-for-trading
Financial assets or financial liabilities held for trading (HFT) are recorded in the statements of condition at fair value. Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Derivatives recorded at FVTPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statements of income and are included in 'Foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2019 and 2018, derivatives consist of foreign exchange swaps, forwards and

Republic of the Philippines (ROP) paired warrants acquired to manage the Bank's foreign currency risk, lower the risk-weighted assets and improve the capital adequacy ratio of the Bank.

Financial Instruments – Classification and Subsequent Measurement

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Bank may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test).

Financial Assets at FVOCI
Financial assets at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of financial assets at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statements of comprehensive income as 'Fair value reserves on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatements on foreign currency-denominated debt securities at FVOCI, is reported in the statements of income. Interest earned on holding debt securities at FVOCI are reported as 'Interest income' using the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statements of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statements of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statements of income.

Equity securities designated at FVOCI are those that the Bank made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statements of income as 'Dividends' when the right to receive payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statements of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statements of condition captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. 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 (EIR). The amortization is included in 'Interest income' in the statements of income. Gains and losses are recognized in statements of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statements of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency denominated investments are recognized in the statements of income.

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVTPL and comprises deposit liabilities, bills payable, subordinated notes, treasurer's, cashier's and manager's checks, accrued interest payable, accrued other expenses payable, accounts payable, bills purchased-contra, other credits, dividends payable, deposits for keys-safety deposit boxes (SDB), and overages, where 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 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.

After initial measurement, financial liabilities not qualified and not designated as FVTPL are subsequently measured at amortized cost using the effective interest amortization 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 EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Financial Guarantees and Undrawn Loan Commitments
The Bank issues financial guarantees and loan commitments. Financial guarantees are those issued by the Bank to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and undrawn loan commitments is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.

Derecognition of Financial Assets and Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  a. the Bank has transferred substantially all the risks and rewards of the asset, or
  b. the Bank has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor is transferred control over the asset, the asset recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recovery on charged-off assets' under 'Miscellaneous income' in the statements of income.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where 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 the statement of income.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statements of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statements of condition as a loan to the Bank under 'Bills payable', reflecting the economic substance of such transaction.

Conversely, SPURA at a specified future date ('reverse repos') are not recognized in the statements of condition. The consideration paid, including accrued interest, is recognized in the statements of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

Reclassification of Financial Assets

The Bank reclassifies its financial assets when there is a change in its business model for managing financial assets. A change in business model occurs when the Bank either begins or ceases to perform an activity that is significant to its operations. The Bank applies the reclassification prospectively from the reclassification date and does not restate any previously recognized gains, losses or interest.

Impairment of Financial Assets

Policies applicable beginning January 1, 2018

PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Expected credit loss methodology

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Definition of "default" and "cure"

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection thru payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

Significant increase in credit risk (SICR)
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative models, the borrower or counterparty's credit rating has deteriorated by at least 2 notches. On the other hand, if based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses, then credit risk may have significantly increased as well. Moreover, if contractual payments are more than 30 days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which amortized payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Restructuring
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that results in an extension in the loan maturity. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are initially moved to Stage 3.

The Bank implements a curing policy for restructured accounts compliant with BSP Circular No. 1011. Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months of full payments.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD) with each of the parameter independently modelled.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

Economic overlays and multiple economic scenarios
The Bank incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to multiple future macroeconomic atmosphere expectations. A broad range of economic indicators were considered for the economic inputs, such as GDP, GIR change, CPI change, PSE indices, foreign exchange rates and other BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank's loans and receivables consist of different portfolios, such as consumption, real estate, commercial and personal loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

Policies applicable prior January 1, 2018
The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, which includes loans and receivables, due from banks and investment securities at amortized cost, the Bank first assesses individually at each statement of condition date whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. Assets individually assessed for impairment for which no impairment loss was measured are also collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery of charged-off assets' under 'Miscellaneous income' in the statements of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry and age of receivables.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statements of income.

AFS investments
For AFS investments, the Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statements of income.

Future interest income continues to be accrued based on the reduced carrying amount using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statements of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statements of income.

In the case of equity investments classified as AFS investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as longer than twelve (12) months. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statements of income - is removed from equity and recognized in the statements of income. Impairment losses on equity investments are not reversed through the statements of income. Increases in fair value after impairment are recognized in the statements of comprehensive income.

Investment in a Joint Venture
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each statement of condition date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net income of a joint venture' in the statements of income.

Upon loss of joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment

Land is stated at cost less any impairment in value, while depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years, depending on the type of assets
Leasehold improvements	5 years or the term of the related lease, whichever is shorter

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the 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 the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount.

Leases

Bank as lessee

Policies applicable beginning January 1, 2019

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, 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 applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. *Right-of-use assets*

The Bank recognizes ROU assets (included in 'Property and Equipment') at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight line basis over the shorter of the lease term and estimated useful lives of the assets as follows:

Office space and warehouses	1 to 20 years
ATM space	1 to 3 years

ii. *Lease liabilities*

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Leases previously classified as operating leases

The Bank recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Determining the lease term of contracts with renewal options
The Bank determines 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 any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank's lease liabilities are included in 'Other Liabilities' (Note 19)

iii. Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATMs and office equipment that are considered of low value (i.e. ₱250,000 and below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

<u>*Policies applicable prior to January 1, 2019*</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or 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 that 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 a substantial change to the asset.

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

Bank as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as rent expense under 'Occupancy and equipment-related cost' in the statements of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under 'Prepayments' lodged in other assets and 'Accrued other expenses payable', lodged in accrued taxes, interest and other expenses, respectively.

Bank as lessor
Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. The difference between the fair value of the asset received and the carrying amount of the asset given up is recorded as 'Gain on foreclosure of real assets and other properties acquired' under 'Gain on foreclosure and sale of investment properties'. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Gain on foreclosure and sale of investment properties - net' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Chattel Mortgage Properties

Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Chattel mortgage properties are derecognized when they have either been disposed of or when the chattel mortgage property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on disposal of chattel mortgage properties are recognized in the statements of income under 'Gain (loss) on foreclosure and sale of chattel mortgage properties- net' in the year of disposal.

Intangible Assets

The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statements of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of income under 'Amortization of intangible assets'.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition 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 the statements of income when the asset is derecognized.

Branch licenses
Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

<u>Impairment of Non-financial Assets</u>
Property and equipment, investment properties and chattel mortgage properties
At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell 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 groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU 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 assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition 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 Bank estimates the asset's or CGU's recoverable amount. 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. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statements of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment in a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the joint venture and the carrying amount and recognizes such amount in the statements of income.

<u>Common Stock</u>
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital paid in excess of par value' in the statements of condition. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

<u>Revenue Recognition</u>
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements.

Service fees and commission income
Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include remittance fees, commissions, deposit-related and other credit-related fees.

<u>*Revenues outside the scope of PFRS 15*</u>

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVOCI and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Income from sale of property and equipment, investment property and chattel mortgage properties
Income from sale of property and equipment, investment property and chattel mortgage properties is included in the profit or loss when the property is derecognized. The gain or loss arising from the derecognition of the property is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

Trading and securities gains (losses) - net
Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of FVTPL investments. It also includes gains and losses realized from sale of debt securities at FVOCI and AFS investments.

Realized gains and losses on disposals of FVTPL investments are calculated using weighted average method. It represents the difference between an instrument's initial carrying amount and disposal amount.

Rental income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statements of income under 'Miscellaneous' in other operating income.

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statements of income using the EIR of the financial liabilities to which they relate.

Other expense
Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Bank. Expenses are recognized when incurred.

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill.

If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statements of income in the year of acquisition.

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the CGU or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Retirement Cost
Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the statement of condition date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation is calculated annually by an independent actuary. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual

reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

Contingent Liabilities and Contingent Assets

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

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

Income Taxes

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to OCI items recognized directly in the statements of comprehensive income.

Current tax

Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date 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, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date 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 reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

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

Current income tax and deferred income tax relating to items recognized directly in OCI is also recognized in OCI and not in the statements of income.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statements of condition date are dealt with as subsequent events.

Segment Reporting

The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank's assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities

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

Subsequent Events

Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*
  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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:

(a) Fair value of financial instruments

When the fair values of financial assets and financial liabilities in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Bank's financial instruments are disclosed in Note 4.

(b) Classification of financial assets

The Bank classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Bank performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

(c) Leases

Bank as lessor

The Bank has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee

The Bank determines 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 any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Extension and termination options

The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimating the IBR for lease liabilities

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities 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 asset in a similar economic environment. The Bank estimates the IBR for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).

The carrying values of the Bank's right-of-use assets and lease liability are disclosed in Notes 11, 19 and 25, respectively.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) *Credit losses on financial assets*
The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- The criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The gross carrying amounts of financial assets subject to ECL as of December 31, 2019 and the related allowance for credit losses are disclosed in Notes 5 and 15, respectively.

(b) *Impairment of investment properties and chattel mortgage properties*
The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include 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; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's investment properties and chattel mortgage properties are disclosed in Notes 12 and 14, respectively.

(c) *Present value of retirement obligation*
The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of condition date.

In determining the appropriate discount rate, management considers the interest rates of Philippine 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.

The details of assumptions used in the actuarial valuation and carrying value of the net pension liability are disclosed in Note 24.

(d) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast, tax strategies and expected future market or economic conditions.

Estimates of future taxable income indicate that temporary differences will be realized in the future. The carrying values of net deferred tax assets are disclosed in Note 27.

(e) *Contingent liabilities*
The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements are disclosed in Note 31.

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4. **Fair Value Measurement**

Financial Instruments
The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities. The discount rates used range from 3.00% to 9.50% and from 2.47% to 8.14% in 2019 and 2018, respectively.

Equity investments - Fair values are based on quoted prices published in markets.

Derivative instruments (included under investments and financial liabilities under FVTPL) - Fair values are estimated based on quoted market prices provided by independent parties or derived using acceptable valuation models. The models utilize published underlying rates (e.g., foreign exchange (FX) rates and forward FX rates).

Receivable from customers, sales contract receivables and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans. The discount rates used range from 5.58% to 30.26% and 6.00% to 36.10% in 2019 and 2018, respectively.

Demand deposits, savings deposits, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Bills payable, bonds payable, subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used are the following:

Financial Instrument	**Discount Rates**	
	2019	2018
Bills payable	**3.94% to 7.07%**	7.32%
Bonds payable	**5.60%**	–
Subordinated note	**5.50%**	–
Time deposits	**0.25% to 6.00%**	0.50% to 3.50%

Lease liabilities - Fair values are estimated using the discounted cash flow methodology using the sum of BVAL tenor rate and credit spread rate as the discount rate, ranging from 3.89% to 5.56%.

The inputs used in the fair value measurement based on Level 2 are as follows:

Derivative assets and liabilities - fair values are calculated by reference to the prevailing spot exchange rate as of statement of condition date.

Government securities - interpolated rates based on market rates of benchmark securities as of statement of condition date.

The inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

<u>Non-financial Assets</u>
Investment properties - Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the Bank's financial instruments and investment properties, analyzed based on the hierarchy described in Note 2 (in thousands):

	December 31, 2019				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	**₱44**	**₱44**	**₱–**	**₱–**	**₱44**
Financial assets at FVOCI					
Government debt securities	**1,855,048**	**410,230**	**1,444,818**	**–**	**1,855,048**
Private debt securities	**2,908,569**	**2,685,319**	**223,250**	**–**	**2,908,569**
Equity securities	**11,771**	**10,599**	**1,172**	**–**	**11,771**
	₱4,775,432	**₱3,106,192**	**₱1,669,240**	**₱–**	**₱4,775,432**
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	**₱30,784,498**	**₱19,577,728**	**₱11,922,925**	**₱–**	**₱31,500,653**
Private	**3,449,477**	**2,208,118**	**1,213,212**	–	**3,421,330**
Loans and receivables					
Receivables from customers					
Consumption loans	**92,395,284**	–	–	**107,287,359**	**107,287,359**
Real estate loans	**52,115,714**	–	–	**60,228,494**	**60,228,494**
Commercial loans	**13,460,577**	–	–	**14,402,769**	**14,402,769**
Personal loans	**3,129,085**	–	–	**4,048,107**	**4,048,107**
Sales contract receivable	**42,225**	–	–	**46,097**	**46,097**
Security deposits	**185,170**	–	–	**257,162**	**257,162**
Non-Financial Assets		–	–		
Investment properties	**3,765,749**	–	–	**5,794,685**	**5,794,685**
	₱199,327,779	**₱21,785,846**	**₱13,136,137**	**₱192,064,673**	**₱226,986,656**
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	**₱105,912,878**	**₱–**	**₱–**	**₱108,006,266**	**₱108,006,266**
Deposit liabilities – LTNCD	**8,409,975**	**–**	**–**	**8,586,674**	**8,586,674**
Bills payable	**4,189,737**	**–**	**–**	**4,409,440**	**4,409,440**
Bonds payable	**6,254,702**	**–**	**–**	**6,434,550**	**6,434,550**
Lease Liability	**1,467,104**	**–**	**–**	**1,475,748**	**1,475,748**
	₱126,234,396	**₱–**	**₱–**	**₱128,912,678**	**₱128,912,678**

	December 31, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	₱34	₱34	₱–	₱–	₱34
Derivative assets	10,073	–	10,073	–	10,073
AFS investments					
Government debt securities	8,956,764	6,500,415	2,456,349	–	8,956,764
Private debt securities	3,964,612	3,964,612	–	–	3,964,612
Quoted equity securities	10,225	9,143	1,082	–	10,225
	₱12,941,708	₱10,474,204	₱2,467,504	₱–	₱12,941,708
Liabilities measured at fair value:					
Financial Liabilities					
Financial liabilities at FVTPL	2,895	–	2,895	–	2,895
Assets for which fair values are disclosed:					

(Forward)

	December 31, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Financial Assets					
Investment securities at amortized cost					
Government	₱31,580,028	₱28,024,025	₱–	₱–	₱28,024,025
Private	4,066,737	3,804,104	–	–	3,804,104
Loans and receivables					
Receivables from customers					
Consumption loans	87,864,557	–	–	108,704,174	108,704,174
Real estate loans	49,579,245	–	–	70,892,858	70,892,858
Commercial loans	12,770,619	–	–	15,483,984	15,483,984
Personal loans	2,954,408	–	–	4,217,287	4,217,287
Sales contract receivable	70,543	–	–	78,449	78,449
Security deposits	205,925	–	–	313,724	313,724
Non-Financial Assets					
Investment properties	4,036,318	–	–	5,898,975	5,898,975
	₱193,128,380	₱31,828,129	₱–	₱205,589,451	₱237,417,580
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	₱138,525,888	₱–	₱–	₱139,187,100	₱139,187,100
Deposit liabilities – LTNCD	8,395,282	–	–	7,634,981	7,634,981
Subordinated notes	2,981,673	–	–	2,242,507	2,242,507
Bills payable	2,968,567	–	–	3,009,851	3,009,851
	₱152,871,410	₱–	₱–	₱152,074,439	₱152,074,439

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any adjustments for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models. Instruments included in Level 3 include those for which there is currently no active market.

As of December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

As of December 31, 2019 and 2018, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices.

5. Financial Risk Management Policies and Objectives

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

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

Board of Directors (BOD)
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

Risk Oversight Committee (ROC)
The ROC is composed of at least three members of the Board, the majority of whom are independent directors including its Chairperson. The ROC Chairperson is not the Chairperson of the Board or of any other committee. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, another Independent Director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

Risk Management Office (RMO)
The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:

- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:

- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;

- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management
The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI) and related party transactions, and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Head of Credit and Collections together with the Credit Risk Manager.

Borrower Eligibility

The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure

The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management

The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS 9.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

In 2018, the Bank transitioned to using PFRS 9-compliant models to meet the requirements set forth under BSP Circular No. 912 and 1011. This mandated all Philippine banks to adopt a forward-looking ECL model approach in measuring credit impairment. In response to this, the Bank created quantitative models thru statistical, economic, financial and mathematical techniques to calculate credit impairment provisions. These models were implemented effective January 1, 2018. Furthermore, policies and governance over the new models were updated accordingly.

In 2019, the Bank enhanced its consumer loan acquisition scoring models. This allowed the Bank to optimize its return whilst maintaining its risk appetite. Moreover, the Bank implemented the enhancements to the PFRS 9 ECL models as a result of the regular governance and validation of the models. This aims credit models to remain accurate, effective and regulatory compliant.

Maximum Exposure to Credit Risk

The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2019			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱1,138,642**	**₱2,915,612**	**₱382,979**	**₱755,663**
Receivables from customers				
Consumption loans	**92,395,284**	**137,311,674**	**2,342,869**	**90,052,415**
Real estate loans	**52,253,777**	**67,482,137**	**14,332,905**	**37,920,872**
Commercial loans	**13,322,514**	**6,537,019**	**10,276,388**	**3,046,126**
Other receivables				
Accrued interest receivable	**1,848,330**	**1,713,763**	**134,567**	**1,713,763**
Sales contract receivable	**42,225**	**43,118**	**19,425**	**22,800**
Total credit exposure	**₱161,000,772**	**₱216,003,323**	**₱27,489,133**	**₱133,511,639**

	2018			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱1,682,806	₱2,601,234	₱542,984	₱1,139,822
Interbank loans receivable and SPURA	1,891,820	1,883,225	8,595	1,883,225
Receivables from customers				
Consumption loans	87,864,557	122,910,470	45,918	87,818,639
Real estate loans	49,579,245	88,139,827	9,625,425	39,953,820
Commercial loans	12,770,619	16,641,755	6,403,206	6,367,413
Other receivables				
Accrued interest receivable	1,949,715	1,936,820	12,895	1,936,820
Sales contract receivable	70,543	207,185	25,953	44,590
Total credit exposure	₱155,809,305	₱234,320,516	₱16,664,976	₱139,144,329

An analysis of the maximum credit risk exposure relating to financial assets under Stage 3 as of December 31, 2019 and 2018 is shown below:

	2019			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Receivables from customers				
Consumption loans	**₱2,533,355**	**₱4,430,838**	**₱58,479**	**₱2,474,876**
Real estate loans	**1,728,430**	**2,103,065**	**606,860**	**1,121,570**
Commercial loans	**274,345**	**250,029**	**175,662**	**98,683**
Other receivables				
Accrued interest receivable	**64,544**	**352,272**	**–**	**64,544**
Sales contract receivable	**19,319**	**16,326**	**10,922**	**8,397**
Total credit exposure	**₱4,619,993**	**₱7,152,530**	**₱851,923**	**₱3,768,070**

	2018			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Receivables from customers				
Consumption loans	₱2,770,196	₱5,316,765	₱256	₱2,769,940
Real estate loans	1,462,410	2,555,014	412,669	1,049,741
Commercial loans	129,732	192,911	–	129,732
Other receivables				
Accrued interest receivable	60,837	514,118	–	60,837
Sales contract receivable	26,346	62,185	–	26,346
Total credit exposure	₱4,449,521	₱8,640,993	₱412,925	₱4,036,596

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:

- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral is usually not held against holdings in investment securities, and no such collateral was held as of December 31, 2019 and 2018.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2019 and 2018, the maximum credit exposure to any borrower, before taking into account any collateral or other credit enhancement amounted to ₱1.9 billion and ₱1.8 billion, respectively.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2019				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Luzon	**₱143,566,455**	**₱7,955,777**	**₱39,034,932**	**₱298,231**	**₱190,855,395**
Visayas	**11,849,260**	**–**	**–**	**–**	**11,849,260**
Mindanao	**12,900,392**	**–**	**–**	**–**	**12,900,392**
	168,316,107	**7,955,777**	**39,034,932**	**298,231**	**215,605,047**
Less allowance for credit and impairment losses	**3,931,905**	**2,269**	**25,525**	**–**	**3,959,699**
Total	**₱164,384,202**	**₱7,953,508**	**₱39,009,407**	**₱298,231**	**₱211,645,348**

* Composed of due from BSP and due from other banks.

** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱84.0 million.

	2018				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱137,515,389	₱18,736,119	₱48,617,520	₱277,840	₱205,146,868
Visayas	11,060,264	–	–	13,209	11,073,473
Mindanao	12,034,412	–	–	5,146	12,039,558
	160,610,065	18,736,119	48,617,520	296,195	228,259,899
Less allowance for credit and impairment losses	4,349,702	5,309	29,046	–	4,384,057
Total	₱156,260,363	₱18,730,810	₱48,588,474	₱296,195	₱223,875,842

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.

** Composed of FVPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱70.5 million.

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2019 and 2018 (in thousands):

	2019				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	**₱99,430,419**	**₱–**	**₱–**	**₱–**	**₱99,430,419**
Real estate activities	**47,809,592**	**–**	**–**	**–**	**₱47,809,592**
Financial and insurance activities	**3,149,739**	**7,955,777**	**39,034,932**	**214,231**	**50,354,679**
Wholesale and retail trade; repair of motor vehicles and motorcycles	**2,941,130**	**–**	**–**	**–**	**2,941,130**
Electricity, gas, steam and air-conditioning supply	**1,897,393**	**–**	**–**	**–**	**1,897,393**
Transportation and storage	**1,049,382**	**–**	**–**	**–**	**1,049,382**
Manufacturing	**811,145**	**–**	**–**	**–**	**811,145**
Construction	**754,287**	**–**	**–**	**53,000**	**807,287**
Administrative and support service activities	**709,873**	**–**	**–**	**–**	**709,873**
Information and communication	**547,246**	**–**	**–**	**–**	**547,246**
Accommodation and food service activities	**335,984**	**–**	**–**	**–**	**335,984**
Human health and social work activities	**252,290**	**–**	**–**	**–**	**252,290**
Water supply, sewage, waste management and remediation activities	**246,735**	**–**	**–**	**–**	**246,735**
Education	**175,171**	**–**	**–**	**–**	**175,171**
Professional, scientific and technical services	**160,628**	**–**	**–**	**–**	**160,628**
Arts, entertainment and recreation	**79,879**	**–**	**–**	**–**	**79,879**
Agricultural, forestry and fishing	**75,280**	**–**	**–**	**–**	**75,280**
Mining and quarrying	**13,281**	**–**	**–**	**–**	**13,281**
Other service activities	**7,876,654**	**–**	**–**	**31,000**	**7,907,654**
	168,316,108	**7,955,777**	**39,034,932**	**298,231**	**215,605,048**
Less allowance for credit and impairment losses	**3,931,906**	**2,269**	**25,525**	**–**	**3,959,700**
Total	**₱164,384,202**	**₱7,953,508**	**₱39,009,407**	**₱298,231**	**₱211,645,348**

* Composed of due from BSP and due from other banks

** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱84.0 million.

	2018				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	₱96,744,990	₱–	₱–	₱–	₱96,744,990
Real estate activities	45,387,781	–	–	–	45,387,781
Financial and insurance activities	1,391,987	18,736,119	48,617,520	225,695	68,971,321
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,975,766	–	–	–	2,975,766
Electricity, gas, steam and air-conditioning supply	1,974,413	–	–	–	1,974,413
Transportation and storage	1,185,771	–	–	–	1,185,771
Manufacturing	980,150	–	–	–	980,150
Construction	880,713	–	–	53,000	933,713
Administrative and support service activities	833,096	–	–	–	833,096
Information and communication	566,813	–	–	–	566,813
Accommodation and food service activities	352,248	–	–	–	352,248
Human health and social work activities	288,099	–	–	–	288,099
Water supply, sewage, waste management and remediation activities	237,473	–	–	–	237,473
Education	218,540	–	–	–	218,540

(Forward)

	2018				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Professional, scientific and technical services	₱142,147	₱–	₱–	₱–	₱142,147
Agricultural, forestry and fishing	91,150	–	–	–	91,150
Arts, entertainment and recreation	87,772	–	–	–	87,772
Mining and quarrying	16,169	–	–	–	16,169
Other service activities	6,254,987	–	–	17,500	6,272,487
	160,610,065	18,736,119	48,617,520	296,195	228,259,899
Less allowance for credit and impairment losses	4,349,702	5,309	29,046	–	4,384,057
Total	₱156,260,363	₱18,730,810	₱48,588,474	₱296,195	₱223,875,842

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱70.5 million.

Credit Quality
The Bank uses the standard below in defining credit quality.

High Grade exposures show low levels of expected loss. For loans, these accounts should neither be past due nor impaired. The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2).

Standard Grade exposures show moderate levels of expected loss. For loans, these accounts should neither be past due nor impaired.

Sub Standard Grade requires a special degree of attention given the increased risk of default. For loans, these accounts should neither be past due nor impaired.

Past Due but Not Credit Impaired are applicable to loan accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date.

Past Due and Credit Impaired. These include loan accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941.

Description of the internal credit rating system for loans, receivables and stand-by credit lines:

Internal Credit Rating System (ICRS)
The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved credit ratings which utilize the expected credit loss and qualitative assessments. ICRS rating assessment considers both borrower and facility features.

Neither Past Due nor Impaired
The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2) having the following credit ratings:

High Grade (ICRS Rating 1 - 4)
1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and/or low loss given default. The Bank's internal rating system has given an outstanding rating to the borrower, indicative of excellent ability to meet credit obligation in full and consistently meet payment commitments. Accounts with excellent rating may have collateral, further diminishing any losses in case of a default.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year with low to moderate loss given default. The Bank's internal rating system has given a high rating to the borrower. The borrower has the ability to meet credit obligation in full, except that the borrower may have a history of missing a payment.

3 – Good
This rating is given to borrowers with low to moderate probability of going into default in the coming year with moderate loss given default. These are largely characterized by borrowers with good rating and have historically missed several payments.

4 – Satisfactory
A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater with moderate to high loss given default. These are characterized by borrowers with good rating with a history of default.

Standard Grade (ICRS Rating 5 - 6)
5 – Acceptable
An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be expected to meet their credit obligations in full. These are characterized by borrowers with moderate rating.

6 - Loan Especially Mentioned
An account assessed to have potential weaknesses which when left uncorrected, may affect the repayment of the account and thus increase credit risk to the Bank, will be assigned this rating.

Substandard Grade (ICRS Rating 7 - 8)
7 - 8 Substandard
These accounts or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These accounts show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the account liquidation.

Past Due but Not Credit Impaired
These are accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date regardless of ICRS rating.

Past Due and Credit Impaired
These include accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941 regardless of ICRS rating. The following credit ratings will always be classified as credit impaired:

9 - Doubtful
Given to an account assessed to have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
Given to an account assessed to loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

The credit quality of receivables from customers, gross of allowance for credit losses, as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Consumption Loans:							
High Grade	**₱–**	**₱79,374,254**	**₱–**	**₱5,066,818**	**₱–**	**₱–**	**₱84,441,072**
Standard Grade	**–**	**23,912**	**–**	**2,503,990**	**–**	**–**	**2,527,902**
Sub-standard Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Past due but not Impaired	**–**	**–**	**–**	**4,039,059**	**–**	**–**	**4,039,059**
Non-performing							
Individually Impaired	**–**	**–**	**–**	**–**	**3,217,461**	**–**	**3,217,461**
	–	**79,398,166**	**–**	**11,609,867**	**3,217,461**	**–**	**94,225,494**
Real Estate Loans:							
High Grade	**–**	**41,049,925**	**–**	**7,239,979**	**–**	**–**	**48,289,904**
Standard Grade	**–**	**–**	**–**	**583,491**	**–**	**–**	**583,491**
Sub-standard Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Past due but not Impaired	**–**	**–**	**–**	**1,733,587**	**–**	**–**	**1,733,587**
Non-performing							
Individually Impaired	**–**	**–**	**–**	**–**	**1,872,205**	**–**	**1,872,205**
	–	**41,049,925**	**–**	**9,557,057**	**1,872,205**	**–**	**52,479,187**
Commercial Loans:							
High Grade	**–**	**11,380,725**	**–**	**570,364**	**–**	**–**	**11,951,089**
Standard Grade	**–**	**776,863**	**–**	**463,733**	**–**	**–**	**1,240,596**
Sub-standard Grade	**–**	**26,849**	**–**	**–**	**–**	**–**	**26,849**
Past due but not Impaired	**–**	**–**	**–**	**98,373**	**–**	**–**	**98,373**
Non-performing							
Individually Impaired	**–**	**–**	**–**	**–**	**369,079**	**–**	**369,079**
	–	**12,184,437**	**–**	**1,132,470**	**369,079**	**–**	**13,685,986**
Personal Loans:							
High Grade	**–**	**773,850**	**–**	**237,921**	**–**	**–**	**1,011,771**
Standard Grade	**–**	**2,099**	**–**	**2,109,273**	**–**	**–**	**2,111,372**
Sub-standard Grade	**–**	**47,646**	**–**	**54,845**	**–**	**–**	**102,491**
Past due but not Impaired	**–**	**–**	**–**	**39,207**	**–**	**–**	**39,207**
Non-performing							
Individually Impaired	**–**	**–**	**–**	**–**	**458,350**	**–**	**458,350**
	–	**823,595**	**–**	**2,441,246**	**458,350**	**–**	**3,723,191**
Total Receivables from Customer:							
High Grade	**–**	**132,578,754**	**–**	**13,115,082**	**–**	**–**	**145,693,836**
Standard Grade	**–**	**802,874**	**–**	**5,660,487**	**–**	**–**	**6,463,361**
Sub-standard Grade	**–**	**74,495**	**–**	**54,845**	**–**	**–**	**129,340**
Past due but not Impaired	**–**	**–**	**–**	**5,910,226**	**–**	**–**	**5,910,226**
Non-performing							
Individually Impaired	**–**	**–**	**–**	**–**	**5,917,095**	**–**	**5,917,095**
	₱–	**₱133,456,123**	**₱–**	**₱24,740,640**	**₱5,917,095**	**₱–**	**₱164,113,858**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans:							
High Grade	₱–	₱67,561,479	₱–	₱8,102,918	₱–	₱–	₱75,664,397
Standard Grade	–	33,906	–	5,892,126	–	–	5,926,032
Sub-standard Grade	–	6,462	–	1,557,240	–	–	1,563,702
Past due but not Impaired	–	–	–	3,300,992	–	–	3,300,992
Non-performing							
Individually Impaired	–	–	–	–	3,836,615	–	3,836,615
	–	67,601,847	–	18,853,276	3,836,615	–	90,291,738
Real Estate Loans:							
High Grade	–	39,421,912	–	6,181,000	–	–	45,602,912
Standard Grade	–	32,809	–	784,797	–	–	817,606
Sub-standard Grade	–	–	–	69,703	–	–	69,703
Past due but not Impaired	–	–	–	1,855,478	–	–	1,855,478
Non-performing							
Individually Impaired	–	–	–	–	1,626,947	–	1,626,947
	–	39,454,721	–	8,890,978	1,626,947	–	49,972,646

(Forward)

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Commercial Loans:							
High Grade	₱–	₱10,902,499	₱–	₱–	₱–	₱–	₱10,902,499
Standard Grade	–	794,963	–	758,261	–	–	1,553,224
Sub-standard Grade	–	528	–	198,359	–	–	198,887
Past due but not Impaired	–	–	–	32,823	–	–	32,823
Non-performing							
Individually Impaired	–	–	–	–	215,534	–	215,534
	–	11,697,990	–	989,443	215,534	–	12,902,967
Personal Loans:							
High Grade	–	859,055	–	344,658	–	–	1,203,713
Standard Grade	–	1,664	–	1,434,140	–	–	1,435,804
Sub-standard Grade	–	6,325	–	419,598	–	–	425,923
Past due but not Impaired	–	–	–	71,285	–	–	71,285
Non-performing							
Individually Impaired	–	–	–	–	389,198	–	389,198
	–	867,044	–	2,269,681	389,198	–	3,525,923
Total Receivables from Customer:							
High Grade	–	118,744,943	–	14,628,575	–	–	133,373,518
Standard Grade	–	863,342	–	8,869,327	–	–	9,732,669
Sub-standard Grade	–	13,315	–	2,244,900	–	–	2,258,215
Past due but not Impaired	–	–	–	5,260,578	–	–	5,260,578
Non-performing							
Individually Impaired	–	–	–	–	6,068,294	–	6,068,294
	₱–	₱119,621,600	₱–	₱31,003,380	₱6,068,294	₱–	₱156,693,274

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Accrued Interest Receivable:							
High Grade	**₱–**	**₱1,438,603**	**₱–**	**₱134,006**	**₱–**	**₱–**	**₱1,572,609**
Standard Grade	**–**	**62,753**	**–**	**148,797**	**–**	**–**	**211,550**
Sub-standard Grade	**–**	**295**	**–**	**4,001**	**–**	**–**	**4,296**
Past due but not Impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Non-performing							
Individually Impaired	**–**	**84**	**–**	**–**	**460,955**	**–**	**461,039**
	–	**1,501,735**	**–**	**286,804**	**460,955**	**–**	**2,249,494**
Accounts Receivable:							
High Grade	**–**	**63,417**	**–**	**11,097**	**–**	**–**	**74,514**
Standard Grade	**–**	**28,615**	**–**	**3,772**	**–**	**–**	**32,387**
Sub-standard Grade	**–**	**5,912**	**–**	**484**	**–**	**–**	**6,396**
Past due but not Impaired	**–**	**–**	**–**	**11,232**	**–**	**–**	**11,232**
Non-performing							
Individually Impaired	**–**	**–**	**–**	**–**	**1,776,781**	**–**	**1,776,781**
	–	**97,944**	**–**	**26,585**	**1,776,781**	**–**	**1,901,310**
Sales Contract Receivable:							
High Grade	**–**	**22,921**	**–**	**–**	**–**	**–**	**22,921**
Standard Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sub-standard Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Past due but not Impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Non-performing							
Individually Impaired	**–**	**–**	**–**	**–**	**19,726**	**–**	**19,726**
	–	**22,921**	**–**	**–**	**19,726**	**–**	**42,647**
Bills Purchased:							
High Grade	**–**	**8,799**	**–**	**–**	**–**	**–**	**8,799**
Standard Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Sub-standard Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Past due but not Impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Non-performing							
Individually Impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	–	**8,799**	**–**	**–**	**–**	**–**	**8,799**

(Forward)

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Total Other Receivables:							
High Grade	**₱–**	**₱1,533,740**	**₱–**	**₱145,103**	**₱–**	**₱–**	**₱1,678,843**
Standard Grade	**–**	**91,368**	**–**	**152,569**	**–**	**–**	**243,937**
Sub-standard Grade	**–**	**6,207**	**–**	**4,485**	**–**	**–**	**10,692**
Past due but not Impaired	**–**	**–**	**–**	**11,232**	**–**	**–**	**11,232**
Non-performing							
Individually Impaired	**–**	**84**	**–**	**–**	**2,257,462**	**–**	**2,257,546**
	₱–	**₱1,631,399**	**₱–**	**₱313,389**	**₱2,257,462**	**₱–**	**₱4,202,250**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable:							
High Grade	₱–	₱1,548,576	₱–	₱120,223	₱–	₱–	₱1,668,799
Standard Grade	–	3,649	–	98,554	–	–	102,203
Sub-standard Grade	–	65	–	25,573	–	–	25,638
Past due but not Impaired	–	–	–	95,255	–	–	95,255
Non-performing							
Individually Impaired	–	–	–	–	414,154	–	414,154
	–	1,552,290	–	339,605	414,154	–	2,306,049
Accounts Receivable:							
High Grade	–	1,030,278	–	9,693	–	–	1,039,971
Standard Grade	–	15	–	2,630	–	–	2,645
Sub-standard Grade	–	1,307	–	652	–	–	1,959
Past due but not Impaired	–	–	–	21,950	–	–	21,950
Non-performing							
Individually Impaired	–	–	–	–	459,631	–	459,631
	–	1,031,600	–	34,925	459,631	–	1,526,156
Sales Contract Receivable:							
High Grade	–	44,600	–	–	–	–	44,600
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing							
Individually Impaired	–	–	–	–	26,908	–	26,908
	–	44,600	–	–	26,908	–	71,508
Bills Purchased:							
High Grade	–	13,078	–	–	–	–	13,078
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing							
Individually Impaired	–	–	–	–	–	–	–
	–	13,078	–	–	–	–	13,078
Total Other Receivables:							
High Grade	–	2,636,531	–	129,917	–	–	2,766,448
Standard Grade	–	3,664	–	101,184	–	–	104,848
Sub-standard Grade	–	1,372	–	26,225	–	–	27,597
Past due but not Impaired	–	–	–	117,205	–	–	117,205
Non-performing							
Individually Impaired	–	–	–	–	900,693	–	900,693
	₱–	₱2,641,567	₱–	₱374,531	₱900,693	₱–	₱3,916,791

NOTES TO FINANCIAL STATEMENTS

The credit quality of other financial assets which include RCOCI, security deposits and shortage, gross of allowance for credit losses amounting as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Other Financial Assets							
High Grade	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**
Standard Grade	**–**	**298,231**	**–**	**–**	**–**	**–**	**298,231**
Sub-standard Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Past due but not Impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Non-performing Individually Impaired	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**₱–**	**₱298,231**	**₱–**	**₱–**	**₱–**	**₱–**	**₱298,231**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Other Financial Assets							
High Grade	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Standard Grade	–	296,195	–	–	–	–	296,195
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	–
Total	₱–	₱296,195	₱–	₱–	₱–	₱–	₱296,195

Movements of receivables from customers as of December 31, 2019 and 2018 follow (in thousands):

	2019						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Consumption Loans							
Balance as of January 1, 2019	**₱–**	**₱67,601,847**	**₱–**	**₱18,853,276**	**₱3,836,615**	**₱–**	**₱90,291,738**
New assets originated	**–**	**33,761,304**	**–**	**1,130,553**	**750,727**	**–**	**35,642,584**
Assets derecognized or repaid	**–**	**(20,290,720)**	**–**	**(8,389,391)**	**(2,138,047)**	**–**	**(30,818,158)**
Amounts written off	**–**	**(887)**	**–**	**(96,334)**	**(793,449)**	**–**	**(890,670)**
Transfers to Stage 1	**–**	**8,318,780**	**–**	**(8,031,786)**	**(286,994)**	**–**	**–**
Transfers to Stage 2	**–**	**(8,990,013)**	**–**	**9,624,255**	**(634,242)**	**–**	**–**
Transfers to Stage 3	**–**	**(1,002,145)**	**–**	**(1,480,706)**	**2,482,851**	**–**	**–**
Balance at December 31, 2019	**–**	**79,398,166**	**–**	**11,609,867**	**3,217,461**	**–**	**94,225,494**
Real Estate Loans							
Balance as of January 1, 2019	**–**	**39,454,721**	**–**	**8,890,978**	**1,626,947**	**–**	**49,972,646**
New assets originated	**–**	**9,696,243**	**–**	**313,396**	**62,745**	**–**	**10,072,384**
Assets derecognized or repaid	**–**	**(4,856,753)**	**–**	**(2,196,036)**	**(513,054)**	**–**	**(7,565,843)**
Amounts written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 1	**–**	**2,427,300**	**–**	**(2,328,290)**	**(99,010)**	**–**	**–**
Transfers to Stage 2	**–**	**(5,257,588)**	**–**	**5,600,145**	**(342,557)**	**–**	**–**
Transfers to Stage 3	**–**	**(413,998)**	**–**	**(723,136)**	**1,137,134**	**–**	**–**
Balance at December 31, 2019	**–**	**41,049,925**	**–**	**9,557,057**	**1,872,205**	**–**	**52,479,187**
Commercial Loans							
Balance as of January 1, 2019	**–**	**11,697,990**	**–**	**989,443**	**215,534**	**–**	**12,902,967**
New assets originated	**–**	**8,917,394**	**–**	**60,822**	**11,423**	**–**	**8,989,639**
Assets derecognized or repaid	**–**	**(7,904,145)**	**–**	**(220,067)**	**(82,408)**	**–**	**(8,206,620)**
Amounts written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 1	**–**	**186,641**	**–**	**(183,010)**	**(3,631)**	**–**	**–**
Transfers to Stage 2	**–**	**(596,200)**	**–**	**596,200**	**–**	**–**	**–**
Transfers to Stage 3	**–**	**(117,243)**	**–**	**(110,918)**	**228,161**	**–**	**–**
Balance at December 31, 2019	**–**	**12,184,437**	**–**	**1,132,470**	**369,079**	**–**	**13,685,986**

(Forward)

	2019						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Personal Loans							
Balance as of January 1, 2019	**₱–**	**₱866,969**	**₱–**	**₱2,269,682**	**₱389,272**	**₱–**	**₱3,525,923**
New assets originated	**–**	**386,313**	**–**	**937,524**	**29,349**	**–**	**1,353,186**
Assets derecognized or repaid	**–**	**(507,349)**	**–**	**(464,548)**	**(31,305)**	**–**	**(1,003,202)**
Amounts written off	**–**	**(1,084)**	**–**	**(44,782)**	**(106,850)**	**–**	**(152,716)**
Transfers to Stage 1	**–**	**201,953**	**–**	**(200,954)**	**(999)**	**–**	**–**
Transfers to Stage 2	**–**	**(111,590)**	**–**	**113,010**	**(1420)**	**–**	**–**
Transfers to Stage 3	**–**	**(11,617)**	**–**	**(168,686)**	**180,303**	**–**	**–**
Balance at December 31, 2019	**–**	**823,595**	**–**	**2,441,246**	**458,350**	**–**	**3,723,191**
Total Receivable from Customer							
Balance at January 1, 2019	**–**	**119,621,527**	**–**	**31,003,379**	**6,068,368**	**–**	**156,693,274**
New assets originated	**–**	**52,761,254**	**–**	**2,442,295**	**854,244**	**–**	**56,057,793**
Assets derecognized or repaid	**–**	**(33,558,967)**	**–**	**(11,270,042)**	**(2,764,814)**	**–**	**(47,593,823)**
Amounts written off	**–**	**(1,971)**	**–**	**(141,116)**	**(900,299)**	**–**	**(1,043,386)**
Transfers to Stage 1	**–**	**11,134,674**	**–**	**(10,744,040)**	**(390,634)**	**–**	**–**
Transfers to Stage 2	**–**	**(14,955,391)**	**–**	**15,933,610**	**(978,219)**	**–**	**–**
Transfers to Stage 3	**–**	**(1,545,003)**	**–**	**(2,483,446)**	**4,028,449**	**–**	**–**
Balance at December 31, 2019	**₱–**	**₱133,456,123**	**₱–**	**₱24,740,640**	**₱5,917,095**	**₱–**	**₱164,113,858**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance as of January 1, 2018	₱–	₱66,453,274	₱–	₱14,489,537	₱3,333,643	₱–	₱84,276,454
New assets originated	–	27,181,775	–	7,414,477	608,224	–	35,204,476
Assets derecognized or repaid	–	(18,657,485)	–	(7,650,644)	(2,422,237)	–	(28,730,366)
Amounts written off	–	–	–	(12,088)	(446,738)	–	(458,826)
Transfers to Stage 1	–	4,676,363	–	(4,519,004)	(157,359)	–	–
Transfers to Stage 2	–	(10,707,703)	–	11,125,263	(417,560)	–	–
Transfers to Stage 3	–	(1,344,377)	–	(1,994,265)	3,338,642	–	–
Balance at December 31, 2018	–	67,601,847	–	18,853,276	3,836,615	–	90,291,738
Real Estate Loans							
Balance as of January 1, 2018	–	36,429,563	–	8,662,410	1,502,102	–	46,594,075
New assets originated	–	9,518,100	–	649,312	72,752	–	10,240,164
Assets derecognized or repaid	–	(4,397,697)	–	(2,016,221)	(447,675)	–	(6,861,593)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	2,534,278	–	(2,436,788)	(97,490)	–	–
Transfers to Stage 2	–	(4,296,965)	–	4,595,056	(298,091)	–	–
Transfers to Stage 3	–	(332,558)	–	(562,791)	895,349	–	–
Balance at December 31, 2018	–	39,454,721	–	8,890,978	1,626,947	–	49,972,646
Commercial Loans							
Balance as of January 1, 2018	–	10,900,908	–	920,702	154,095	–	11,975,705
New assets originated	–	4,296,949	–	145,216	18,086	–	4,460,251
Assets derecognized or repaid	–	(3,285,259)	–	(205,755)	(41,975)	–	(3,532,989)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	94,625	–	(94,625)	–	–	–
Transfers to Stage 2	–	(232,635)	–	234,465	(1,830)	–	–
Transfers to Stage 3	–	(76,598)	–	(10,560)	87,158	–	–
Balance at December 31, 2018	–	11,697,990	–	989,443	215,534	–	12,902,967
Personal Loans							
Balance as of January 1, 2018	–	824,536	–	2,005,831	655,701	–	3,486,068
New assets originated	–	239,357	–	884,333	30,616	–	1,154,306
Assets derecognized or repaid	–	(371,521)	–	(384,709)	(130,168)	–	(886,398)
Amounts written off	–	(1,875)	–	(65,983)	(160,195)	–	(228,053)
Transfers to Stage 1	–	259,095	–	(249,242)	(9,853)	–	–
Transfers to Stage 2	–	(72,015)	–	163,232	(91,217)	–	–
Transfers to Stage 3	–	(10,608)	–	(83,780)	94,388	–	–
Balance at December 31, 2018	–	866,969	–	2,269,682	389,272	–	3,525,923

(Forward)

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Total Receivable from Customer							
Balance at January 1, 2018	₱–	₱114,608,281	₱–	₱26,078,480	₱5,645,541	₱–	₱146,332,302
New assets originated	–	41,236,181	–	9,093,338	729,678	–	51,059,197
Assets derecognized or repaid	–	(26,711,962)	–	(10,257,329)	(3,042,055)	–	(40,011,346)
Amounts written off	–	(1,875)	–	(78,071)	(606,933)	–	(686,879)
Transfers to Stage 1	–	7,564,361	–	(7,299,659)	(264,702)	–	–
Transfers to Stage 2	–	(15,309,318)	–	16,118,016	(808,698)	–	–
Transfers to Stage 3	–	(1,764,141)	–	(2,651,396)	4,415,537	–	–
Balance at December 31, 2018	₱–	₱119,621,527	₱–	₱31,003,379	₱6,068,368	₱–	₱156,693,274

Movements of other receivables as of December 31, 2019 and 2018 follow (in thousands):

	2019						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Accrued Interest Receivable							
Balance as of January 1, 2019	**₱–**	**₱1,552,290**	**₱–**	**₱339,605**	**₱414,154**	**₱–**	**₱2,306,049**
New assets originated	**–**	**600,714**	**–**	**119,949**	**337,023**	**–**	**1,057,686**
Assets derecognized or repaid	**–**	**(640,761)**	**–**	**(145,345)**	**(328,135)**	**–**	**(1,114,241)**
Amounts written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 1	**–**	**99,677**	**–**	**(96,697)**	**(2,980)**	**–**	**–**
Transfers to Stage 2	**–**	**(96,995)**	**–**	**103,196**	**(6,201)**	**–**	**–**
Transfers to Stage 3	**–**	**(13,190)**	**–**	**(33,904)**	**47,094**	**–**	**–**
Balance at December 31, 2019	**–**	**1,501,735**	**–**	**286,804**	**460,955**	**–**	**2,249,494**
Sales Contract Receivable							
Balance at January 1, 2019	**–**	**44,600**	**–**	**–**	**26,908**	**–**	**71,508**
New assets originated	**–**	**22,475**	**–**	**–**	**–**	**–**	**22,475**
Assets derecognized or repaid	**–**	**(46,030)**	**–**	**–**	**(5,306)**	**–**	**(51,336)**
Amounts written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 1	**–**	**5,320**	**–**	**–**	**(5,320)**	**–**	**–**
Transfers to Stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 3	**–**	**(3,444)**	**–**	**–**	**3,444**	**–**	**–**
Balance at December 31, 2019	**–**	**22,921**	**–**	**–**	**19,726**	**–**	**42,647**
Total Other Receivables							
Balance at January 1, 2019	**–**	**1,596,890**	**–**	**339,605**	**441,062**	**–**	**2,377,557**
New assets originated	**–**	**623,189**	**–**	**119,949**	**337,023**	**–**	**1,080,161**
Assets derecognized or repaid	**–**	**(686,791)**	**–**	**(145,345)**	**(333,441)**	**–**	**(1,165,577)**
Amounts written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 1	**–**	**104,997**	**–**	**(96,697)**	**(8,300)**	**–**	**–**
Transfers to Stage 2	**–**	**(96,995)**	**–**	**103,196**	**(6,201)**	**–**	**–**
Transfers to Stage 3	**–**	**(16,634)**	**–**	**(33,904)**	**50,538**	**–**	**–**
Balance at December 31, 2019	**₱–**	**₱1,524,656**	**₱–**	**₱286,804**	**₱480,681**	**₱–**	**₱2,292,141**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2018	₱–	1,475,109	₱–	296,665	139,598	₱–	₱1,911,372
New assets originated	–	263,010	–	96,041	359,381	–	718,432
Assets derecognized or repaid	–	(123,177)	–	(45,950)	(154,358)	–	(323,485)
Amounts written off	–	–	–	–	(270)	–	(270)
Transfers to Stage 1	–	62,942	–	(60,408)	(2,534)	–	–
Transfers to Stage 2	–	(104,109)	–	110,595	(6,486)	–	–
Transfers to Stage 3	–	(21,485)	–	(57,338)	78,823	–	–
Balance at December 31, 2018	–	1,552,290	–	339,605	414,154	–	2,306,049
Sales Contract Receivable							
Balance at January 1, 2018	–	84,465	–	10,308	11,955	–	106,728
New assets originated	–	–	–	–	(1,230)	–	(1,230)
Assets derecognized or repaid	–	(26,480)	–	(7,510)	–	–	(33,990)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	27	–	(27)	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(13,412)	–	(2,771)	16,183	–	–
Balance at December 31, 2018	–	44,600	–	–	26,908	–	71,508

(Forward)

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Total Other Receivables							
Balance at January 1, 2018	₱–	₱1,559,574	₱–	₱306,973	151,553	–	2,018,100
New assets originated	–	263,010	–	96,041	358,151	–	717,202
Assets derecognized or repaid	–	(149,657)	–	(53,460)	(154,628)	–	(357,745)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	62,969	–	(60,435)	(2,534)	–	–
Transfers to Stage 2	–	(104,109)	–	110,595	(6,486)	–	–
Transfers to Stage 3	–	(34,897)	–	(60,109)	95,006	–	–
Balance at December 31, 2018	₱–	₱1,596,890	₱–	₱339,605	₱441,062	₱–	₱2,377,557

External Ratings

For investment securities, in ensuring quality investment portfolio, the Bank uses the credit risk rating from published data providers like Moody's, Standard & Poor's (S&P) or other reputable rating agencies.

Presented here is Moody's rating – equivalent S&P rating and other rating agencies applies:

Credit Quality					**External Rating**					
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.
Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

As of December 31, 2019 and 2018 the following tables show the credit quality of loans and advances to banks (in thousands).

	2019						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Due from BSP							
High Grade	**₱6,816,092**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱6,816,092**
Due from other banks							
High Grade	**1,139,685**	**–**	**–**	**–**	**–**	**–**	**1,139,685**
Interbank loans receivable							
High Grade	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total Loans and Advances to Banks							
High Grade	**₱7,955,777**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱7,955,777**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
High Grade	₱15,159,012	₱–	₱–	₱–	₱–	₱–	₱15,159,012
Due from other banks							
High Grade	1,685,107	–	–	–	–	–	1,685,107
Interbank loans receivable							
High Grade	1,892,000	–	–	–	–	–	1,892,000
Total Loans and Advances to Banks							
High Grade	₱18,736,119	₱–	₱–	₱–	₱–	₱–	₱18,736,119

As of December 31, 2019 and 2018, the following table shows the credit quality of the Bank's investment securities (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
FVTPL – Government Debt Securities							
High Grade	**₱44**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱44**
FVTPL – Derivative Asset							
High Grade	**10,073**	**–**	**–**	**–**	**–**	**–**	**10,073**
	10,107	**–**	**–**	**–**	**–**	**–**	**10,107**
FVOCI – Government Debt Securities							
High Grade	**1,855,048**	**–**	**–**	**–**	**–**	**–**	**1,855,048**
	1,855,048	**–**	**–**	**–**	**–**	**–**	**1,855,048**
FVOCI – Private Debt Securities							
Standard Grade	**2,908,569**	**–**	**–**	**–**	**–**	**–**	**2,908,569**
	2,908,569	**–**	**–**	**–**	**–**	**–**	**2,908,569**
Investment Securities at Amortized Cost							
Government Debt Securities							
High Grade	**30,806,854**	**–**	**–**	**–**	**–**	**–**	**30,806,854**
	30,806,854	**–**	**–**	**–**	**–**	**–**	**30,806,854**
Investment Securities at Amortized Cost							
Private Debt Securities							
Standard Grade	**3,452,646**	**–**	**–**	**–**	**–**	**–**	**3,452,646**
	3,452,646	**–**	**–**	**–**	**–**	**–**	**3,452,646**
Total Investment Securities							
High Grade	**32,661,946**	**–**	**–**	**–**	**–**	**–**	**32,661,946**
Standard Grade	**6,361,215**	**–**	**–**	**–**	**–**	**–**	**6,361,215**
	₱39,023,161	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱39,023,161**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
FVTPL – Government Debt Securities							
High Grade	₱34	₱–	₱–	₱–	₱–	₱–	₱34
FVTPL – Derivative Asset							
High Grade	10,073	–	–	–	–	–	10,073
	10,107	–	–	–	–	–	10,107
FVOCI – Government Debt Securities							
High Grade	8,956,764	–	–	–	–	–	8,956,764
	8,956,764	–	–	–	–	–	8,956,764
FVOCI – Private Debt Securities							
High Grade	3,964,612	–	–	–	–	–	3,964,612
	3,964,612	–	–	–	–	–	3,964,612
Investment Securities at Amortized Cost							
Government Debt Securities							
High Grade	31,604,530	–	–	–	–	–	31,604,530
	31,604,530	–	–	–	–	–	31,604,530
Investment Securities at Amortized Cost							
Private Debt Securities							
Standard Grade	4,071,281	–	–	–	–	–	4,071,281
	4,071,281	–	–	–	–	–	4,071,281
Total Investment Securities							
High Grade	44,536,013	–	–	–	–	–	44,536,013
Standard Grade	4,071,281						4,071,281
	₱48,607,294	₱–	₱–	₱–	₱–	₱–	₱48,607,294

All of the Bank’s loan commitments and financial guarantees amounting to ₱84.0 and ₱70.5 million as of December 31, 2019 and 2018, respectively, are classified as high grade under Stage 1.

ECL Methodology Overview

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a SICR since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Two modelling approaches were employed to build a consistent framework for the development of all ECL models of the Bank. Both modeling approaches consider past events, current conditions and forecast of economic conditions in assessing impairment.

The complex model approach is used for portfolios with a significant number of historical defaults. This approach was applied to the consumer loan portfolios. These quantitative models are built by applying statistical, economic, financial or mathematical theories, techniques and assumptions to calculate provisions. Where historical data are insufficient to develop statistical models, such as for Business Loans, Account Receivables, Sales Contract Receivables, etc. the simplified ECL approach was employed. The Bank observed the historical PD and LGD of the portfolio, and applied forward looking economic data on PD to calculate the ECL.

Classification of Individual/Collective Impairment

The Bank calculates provisions either in a collective or individual basis.

Collective impairment calculates risk provisions by grouping exposures into smaller homogeneous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the expected credit loss models. All Stage 1 and 2 accounts of the Bank are categorized under collective impairment.

Individual impairment is applicable for all accounts under Stage 3 or accounts deemed as significant exposures and show objective evidence of impairment. The indicators may be default in payment, restructuring, litigation or probable foreclosure.

As of December 31, 2019 and 2018, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

	2019					
	Number of days past due					
	Up to 30 days	**31-60 days**	**61-90 days**	**91-180 days**	**180 days**	**Total**
Receivables from customers						
Consumption loans	**₱360,449**	**₱3,200,910**	**₱1,301,109**	**₱1,381,059**	**₱1,010,401**	**₱7,253,928**
Real estate loans	**449,432**	**1,718,691**	**405,482**	**317,712**	**675,717**	**3,567,034**
Commercial loans	**635,520**	**52,688**	**80,300**	**15,607**	**171,120**	**955,235**
Personal loans	**125,988**	**30,957**	**19,514**	**41,404**	**321,394**	**539,257**
Total	**₱1,571,389**	**₱5,003,246**	**₱1,806,405**	**₱1,755,782**	**₱2,178,632**	**₱12,315,454**

	2018					
	Number of days past due					
	Up to 30 days	31-60 days	61-90 days	91-180 days	180 days	Total
Receivables from customers						
Consumption loans	₱651,578	₱2,754,634	₱1,121,446	₱1,248,078	₱1,360,688	₱7,136,424
Real estate loans	631,142	1,407,772	381,450	329,619	703,352	3,453,335
Commercial loans	464,354	30,784	2,097	74,564	136,357	708,156
Personal loans	224,070	26,490	16,215	41,650	296,123	604,548
Total	₱1,971,144	₱4,219,680	₱1,521,208	₱1,693,911	₱2,496,520	₱11,902,463

b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk.

The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated fixed income securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 250 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury Group and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury Group is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	December 31, 2019		December 31, 2018	
	Peso	**USD**	Peso	USD
Year-end	**1**	**–**	2	–
Average	**2**	**–**	495	855
High	**2**	**–**	12,171	12,141
Low	**1**	**–**	1	-

Non-trading activities
The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year or capital whichever is lower. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EaR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The table below demonstrates the sensitivity of equity. Equity sensitivity was computed by calculating mark-to-market changes of debt securities at FVOCI, assuming a parallel shift in the yield curve.

	2019		2018	
	Change in basis points	**Sensitivity of equity**	Change in basis points	Sensitivity of equity
Currency				
PHP	**+10**	**(₱11,182,809)**	+10	(₱36,263,592)
USD	**+10**	**(988,516)**	+10	(27,912,113)
Currency				
PHP	**-10**	**11,232,671**	-10	35,105,505
USD	**-10**	**994,210**	-10	27,537,680

The table below demonstrates the sensitivity of net interest income using the EAR model. Net interest income sensitivity was computed by calculating the changes in the banking book gaps assuming a parallel shift in the yield curve.

	2019		2018	
	Change in basis points	**Sensitivity of NII**	Change in basis points	Sensitivity of NII
Currency				
PHP	**+10**	**(52,113,451)**	+10	(67,659,502)
USD	**+10**	**(9,332,602)**	+10	(14,895,126)
Currency				
PHP	**-10**	**52,113,451**	-10	67,659,502
USD	**-10**	**9,332,602**	-10	14,895,126

Foreign Currency Risk

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

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	2019[1]	2018[1]
As of year-end	**₱978**	₱864
Average	**751**	919
High	**1,326**	3,641
Low	**8**	116

[1] *Using METRISK Historical Simulation VaR*

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2019 and 2018. Included in the table are the Bank's assets and liabilities at carrying amounts (in thousands):

	2019	2018
Assets		
Cash	**$27**	$4
Due from other banks	**1,759**	6,700
Financial assets at FVOCI	–	45,083
Other assets	–	1,113
Total assets	**1,786**	52,900
Liabilities		
Deposit liabilities		
Savings	**113**	128
Time	–	3
Other liabilities	**5,331**	4,023
Total liabilities	**5,444**	4,154
Net exposure	**($3,658)**	$48,746

c. *Liquidity risk*

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high-quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Liquidity Contingency Funding Plan (LCFP). The LCFP projects the Bank's funding position during stress to help evaluate the Bank's funding needs and strategies under various stress conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits and there is enough high-quality liquid assets to fund LFP withdrawals. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of high-quality liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan. Beginning 2019, the Bank manages and monitors its Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) on a daily basis to ensure compliance with the required regulatory ratios.

Financial assets
Analysis of equity and debt securities at FVTPL and financial assets at FVOCI into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

<u>Analysis of Financial Assets and Liabilities by Remaining Maturities</u>
The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2019							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVTPL investments								
HFT - government securities	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Derivatives	–	–	–	–	–	–	–	–
Financial assets at FVOCI								
Government securities	–	61	3	865	83	1,012	1,123	2,135
Private securities	–	–	30	25	79	134	3,407	3,541
Quoted equity securities	–	–	–	–	–	–	12	12
Investment securities at amortized cost								
Government bonds	–	25	109	159	1,890	2,183	38,484	40,667
Private securities	–	1	37	49	236	323	3,692	4,015
Loans and receivables								
Loans and advances to banks								
Due from BSP	6,816	–	–	–	–	6,816	–	6,816
Due from other banks	1,140	–	–	–	–	1,140	–	1,140
Interbank loans receivable and SPURA	–	–	–	–	–	–	–	–
Receivables from customers								
Consumption loans	137	1,298	2,713	4,490	10,375	19,013	126,054	145,067
Real estate loans	154	469	1,086	1,738	3,714	7,161	88,853	96,014
Commercial loans	880	840	927	1,109	1,926	5,682	11,548	17,230
Personal loans	1,092	159	358	611	1,484	3,704	1,807	5,511
Other receivables								
Accrued interest receivable	726	1,182	251	90	–	2,249	–	2,249
Accounts receivable	500	9	7	10	1,375	1,901	–	1,901
Sales contract receivable	4	–	–	1	1	6	37	43
Bills purchased	9	–	–	–	–	9	–	9
Other assets								
Security deposits	–	–	1	4	8	13	172	185
RCOCI	29	–	–	–	–	29	–	29
	₱11,487	₱4,044	₱5,522	₱9,151	₱21,171	₱51,375	₱275,189	₱326,564

	2019							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Liabilities								
Deposit liabilities								
Demand	₱22,491	₱–	₱–	₱–	₱–	₱22,491	₱–	₱22,491
Savings	35,692	–	–	–	–	35,692	–	35,692
Time	–	72,496	11,071	4,438	2,490	90,495	17,511	108,006
LTNCD	–	–	–	–	–	–	9,647	9,647
	58,183	72,496	11,071	4,438	2,490	148,678	27,158	175,836
Bills payable	–	1,201	–	3,219	–	4,420	–	4,420
Bonds payable	–	–	–	–	353	353	6,653	7,006
Treasurer's, cashier's and manager's checks	1,298	–	–	–	–	1,298	–	1,298
Accrued interest payable	–	–	366	–	68	434	–	434
Accrued other expenses payable	–	666	–	–	178	844	–	844
Other liabilities								
Accounts payable	–	–	–	2,384	–	2,384	–	2,384
Lease liability	–	38	75	110	209	432	1,378	1,810
Other credits	171	–	–	–	–	171	–	171
Bills purchased - contra	9	–	–	–	–	9	–	9
Deposit for keys	1	–	–	–	–	1	–	1
Payment order payable and overages	15	–	–	–	–	15	2	17
	₱59,677	₱74,401	₱11,512	₱10,151	₱3,298	₱159,039	₱35,191	₱194,230

	2018							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVTPL investments								
HFT - government securities	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Derivatives	–	3	7	–	–	10	–	10
Financial assets at FVOCI								
Government securities	–	67	20	40	2,201	2,328	9,834	12,162
Private securities	–	1	40	25	1,113	1,179	3,916	5,095
Quoted equity securities	–	–	–	–	–	–	10	10
Investment securities at amortized cost								
Government bonds	–	26	109	159	800	1,094	41,785	42,879
Private securities	–	1	18	205	505	729	4,102	4,831
Loans and receivables								
Loans and advances to banks								
Due from BSP	15,159	–	–	–	–	15,159	–	15,159
Due from other banks	1,685	–	–	–	–	1,685	–	1,685
Interbank loans receivable and SPURA	1,892	–	–	–	–	1,892	–	1,892
Receivables from customers								
Consumption loans	145	1,205	2,485	4,042	9,308	17,185	120,679	137,864
Real estate loans	126	421	1,019	1,630	3,532	6,728	82,479	89,207
Commercial loans	604	1,002	1,110	924	1,513	5,153	11,576	16,729
Personal loans	1,026	157	349	554	1,376	3,462	1,746	5,208
Other receivables								
Accrued interest receivable	649	855	358	377	67	2,306	–	2,306
Accounts receivable	987	19	5	6	30	1,047	480	1,527
Sales contract receivable	4	–	–	–	2	6	65	71
Bills purchased	13	–	–	–	–	13	–	13
Other assets								
Security deposits	–	2	2	5	6	15	191	206
RCOCI	20	–	–	–	–	20	–	20
	₱22,310	₱3,759	₱5,522	₱7,967	₱20,453	₱60,011	₱276,863	₱336,874

	2018							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Liabilities								
Deposit liabilities								
Demand	₱20,367	₱–	₱–	₱–	₱–	₱20,367	₱–	₱20,367
Savings	33,400	–	–	–	–	33,400	–	33,400
Time	–	70,024	34,425	13,799	4,143	122,391	16,796	139,187
LTNCD	–	–	–	–	–	–	9,792	9,792
	53,767	70,024	34,425	13,799	4,143	176,158	26,588	202,746
Bills payable	–	–	53	53	106	212	3,188	3,400
Subordinated notes	–	–	41	41	83	165	3,784	3,949
Treasurer's, cashier's and manager's checks	1,616	–	–	–	–	1,616	–	1,616
Accrued interest payable	–	–	900	–	–	900	–	900
Accrued other expenses payable	–	589	191	200	–	980	–	980
Other liabilities								
Accounts payable	–	–	–	2,073	–	2,073	–	2,073
Other credits	245	–	–	–	–	245	–	245
Bills purchased - contra	13	–	–	–	–	13	–	13
Deposit for keys	1	–	–	–	–	1	–	1
Payment order payable and overages	6	–	–	–	–	6		6
	₱55,648	₱70,613	₱35,610	₱16,166	₱4,332	₱182,369	₱33,560	₱215,929

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Corporate Banking - principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and

d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2019, 2018 and 2017 follows (in thousands):

	2019				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱5,683,072	₱636,212	₱7,944,839	₱3,148,365	₱17,412,488
Service fees and commission	751,205	46,520	1,154,217	–	1,951,942
Other operating income	402,361	39,901	647,700	289,877	1,379,839
Total operating income	6,836,638	722,633	9,746,756	3,438,242	20,744,269
Non-cash expenses					
Provision for credit and impairmentlosses	1,705,844	203,450	305,696	–	2,214,990
Depreciation	239,093	3,768	666,070	1,411	910,342
Amortization of intangible assets	47,584	1,833	83,938	1,700	135,055
Total non-cash expenses	1,992,521	209,051	1,055,704	3,111	3,260,387
Interest expense	–	–	3,256,615	2,797,004	6,053,619
Service fees and commission expense	34,035	2,107	52,295	–	88,437
Subtotal	34,035	2,107	3,308,910	2,797,004	6,142,056
Compensation and fringe benefits	902,472	74,994	2,503,848	39,300	3,520,614
Taxes and licenses	485,330	32,038	651,230	381,156	1,549,754
Occupancy and equipment-related costs	81,561	966	239,196	607	322,330
Security, messengerial and janitorial services	147,003	3,072	301,961	1,027	453,063
Miscellaneous	646,978	24,432	1,219,616	132,165	2,023,191
Subtotal	2,263,344	135,502	4,915,851	554,255	7,868,952
Income (loss) before share in net income of a joint venture and income tax	₱2,546,738	₱375,973	₱466,291	₱83,872	₱3,472,874
Share in net income of a joint venture					105,905
Income before income tax					3,578,779
Provision for income tax					550,441
Net income					₱3,028,338
Segment assets	₱121,477,767	₱7,663,702	₱53,884,306	₱39,727,128	₱222,752,903
Investment in a joint venture					755,781
Deferred tax assets					1,398,137
Total assets					₱224,906,821
Segment liabilities	₱1,133,833	₱70,337	₱134,505,605	₱54,739,773	₱190,449,548

	2018				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱5,605,523	₱350,615	₱6,733,222	₱3,684,617	₱16,373,977
Service fees and commission	675,356	42,309	1,004,080	–	1,721,745
Other operating income	648,822	23,260	614,175	(45,265)	1,240,992
Total operating income	6,929,701	416,184	8,351,477	3,639,352	19,336,714
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	2,021,119	(66,778)	139,320	44,312	2,137,973
Depreciation	240,779	4,522	375,577	1,304	622,182
Amortization of other intangible assets	56,911	2,368	98,568	1,242	159,089
Total non-cash expenses	2,318,809	(59,888)	613,465	46,858	2,919,244
Interest expense	–	–	1,956,224	3,085,803	5,042,027
Service fees and commission expense	37,698	2,362	56,048	–	96,108
Subtotal	37,698	2,362	2,012,272	3,085,803	5,138,135
Compensation and fringe benefits	814,171	72,626	2,443,558	33,473	3,363,828
Taxes and licenses	456,707	31,165	585,031	554,838	1,627,741
Occupancy and equipment-related costs	77,577	1,074	684,687	429	763,767
Security, messengerial and janitorial services	168,186	4,306	320,250	996	493,738
Miscellaneous	691,451	26,730	1,242,453	180,263	2,140,897
Subtotal	2,208,092	135,901	5,275,979	769,999	8,389,971
Income before share in net income of a joint venture and income tax	₱2,365,102	₱337,809	₱449,761	(₱263,308)	₱2,889,364
Share in net income of a joint venture					82,377
Income before income tax					2,971,741
Provision for income tax					309,595
Net income					₱2,662,146
Segment assets	₱125,143,953	₱7,969,875	₱45,507,895	₱57,088,476	₱235,710,199
Investment in a joint venture					691,426
Deferred tax assets					1,327,667
Total assets					₱237,729,292
Segment liabilities	₱1,591,964	₱98,175	₱130,004,402	₱81,640,603	₱213,335,144

	2017				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,811,338	₱321,494	₱6,777,057	₱2,633,888	₱14,543,777
Service fees and commission	561,436	40,482	868,284	–	1,470,202
Other operating income	898,009	15,705	529,289	(8,754)	1,434,249
Total operating income	6,270,783	377,681	8,174,630	2,625,134	17,448,228
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	2,111,031	(36,167)	195,315	–	2,270,179
Depreciation	242,252	5,852	386,310	1,022	635,436
Amortization of other intangible assets	50,347	2,638	81,673	774	135,432
Total non-cash expenses	2,403,630	(27,677)	663,298	1,796	3,041,047
Interest expense	–	–	1,653,833	1,810,844	3,464,677
Service fees and commission expense	36,060	2,600	55,768	–	94,428
Subtotal	36,060	2,600	1,709,601	1,810,844	3,559,105
Compensation and fringe benefits	802,955	63,842	2,365,493	28,316	3,260,606
Taxes and licenses	410,454	31,874	438,575	388,005	1,268,908
Occupancy and equipment-related costs	68,023	1,022	670,795	211	740,051
Security, messengerial and janitorial services	115,856	4,649	355,784	1,244	477,533
Miscellaneous	709,485	37,715	1,336,751	167,383	2,251,334
Subtotal	2,106,773	139,102	5,167,398	585,159	7,998,432
Income before share in net income of a joint venture and income tax	₱1,724,320	₱263,656	₱634,333	₱227,335	₱2,849,644
Share in net income of a joint venture					71,837
Income before income tax					2,921,481
Benefit from income tax					267,062
Net income					₱2,654,419
Segment assets	₱113,797,984	₱8,297,700	₱39,017,294	₱60,174,574	₱221,287,552
Investment in a joint venture					607,163
Deferred tax assets					1,429,327
Total assets					223,324,042
Segment liabilities	₱1,123,077	₱77,620	₱119,740,151	₱79,989,870	₱200,930,718

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2019	2018
SPURA	₱–	₱1,892,000,000
Interbank call loans (IBCL) receivable	–	–
	–	1,892,000,000
Less allowance for impairment losses (Note 15)	–	180,000
	₱–	₱1,891,820,000

SPURA are lending to counterparties collateralized by government securities ranging from one to four days. As of December 31, 2018, the fair value of government securities held as collateral amounted to ₱1.9 billion. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

IBCL represents short-term lending with counterparty banks and other financial institutions. These are highly liquid instruments which mature within one to five days.

SPURA of the Bank bears annual interest rate ranging from 4.00% to 4.75% in 2019 and from 3.00% to 4.75% in 2018, while peso-denominated IBCL of the Bank bear annual interest rate ranging from 4.00% to 5.16% in 2019 and from 3.03% to 5.06% in 2018. Foreign currency-denominated IBCL bear annual interest rates ranging from 0.02% to 2.48% in 2019 and from 1.25% to 2.18% in 2018.

Interest income on SPURA and IBCL are as follows:

	2019	2018	2017
IBCL (Note 29)	**₱24,821,923**	₱57,403,569	₱11,798,252
SPURA	**5,318,536**	32,319,801	49,238,898
	₱30,140,459	₱89,723,370	₱61,037,150

8. Investment Securities

Fair Value Through Profit or Loss (FVTPL) Investments
Fair value through profit or loss investments consist of the following:

	2019	2018
Derivatives with positive fair value	₱–	₱10,073,132
Investment securities at FVTPL	**43,674**	33,890
Financial assets at FVTPL	**₱43,674**	₱10,107,022
Derivatives with negative fair value	₱–	₱2,895,073
Financial liabilities at FVTPL	₱–	₱2,895,073

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.

In 2018, the Bank entered into foreign currency swaps and forwards. As of December 31, 2018, the aggregate notional amounts of the outstanding foreign currency swaps with positive and negative fair value amounted to $30.7 million and $18.8 million, respectively.

Movements in fair value changes of derivative with positive fair value are as follows:

	2019	2018
Balance at beginning of year	**₱10,073,132**	₱73,159,561
Fair value changes during the year	–	83,811,949
Settled transactions	**(10,073,132)**	(146,898,378)
Balance at end of year	**₱–**	₱10,073,132

Movements in fair value changes of derivative with negative fair value are as follows:

	2019	2018
Balance at beginning of year	**(₱2,895,073)**	₱–
Fair value changes during the year	–	(97,713,762)
Settled transactions	**2,895,073**	94,818,689
Balance at end of year	**₱–**	(₱2,895,073)

As of December 31, 2019 and 2018, the Bank has outstanding ROP paired warrants amounting to $1.5 million which give the Bank the option or right to exchange its holdings of ROP Global Bonds (Paired Bonds) into peso-denominated government securities upon occurrence of a pre-determined credit event. Paired Bonds shall be risk weighted at 0.00%, provided that the 0.00% risk weight shall be applied only to the Bank's holdings of Paired Bonds equivalent to not more than 50.00% of the total qualifying capital. Further, the Bank's holdings of said warrants, booked in the FVTPL category, are likewise exempted from capital charge for market risk as long as said instruments are paired with ROP Global Bonds up to a maximum of 50.00% of the total qualifying capital. As a result of the sale of its paired bonds in 2013, the Bank is holding ROP warrants without paired instruments and with no active market. As of December 31, 2019 and 2018, the Bank determined the market value of its warrants to be zero.

The unrealized portion of the trading securities gains (losses) on FVTPL investments amounted to ₱0.01 million, (₱16.9 million) and ₱12.2 million for 2019, 2018 and 2017, respectively.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets at FVOCI consist of the following:

	2019	2018
Financial Assets at FVOCI		
Debt securities		
Government	**₱1,855,048,199**	₱8,956,764,357
Private	**2,908,569,047**	3,964,611,802
Equity securities		
Quoted	**11,771,221**	10,225,365
	₱4,775,388,467	₱12,931,601,524

As of December 31, 2019 and 2018, the ECL on financial assets at FVOCI (included in 'Fair value reserves on financial assets at FVOCI') amounted to ₱3.4 million and ₱10.0 million (Note 15), respectively.

Movements in the fair value reserves on financial assets at FVOCI follow:

	2019	2018
Balance at beginning of year, as previously reported	**(₱782,896,279)**	(₱411,510,218)
Effect of the adoption of PFRS 9	–	342,363,486
Balance at beginning of year, as restated	**(782,896,279)**	(69,146,732)
Loss/(Gain) from sale of financial assets at FVOCI realized in profit or loss	**(224,424,552)**	92,278,733
Changes in allowance for ECL (Note 15)	**(6,538,008)**	9,957,385
Fair value gain (loss) recognized in OCI	**994,927,408**	(815,985,665)
Balance at end of year	**(₱18,931,431)**	(₱782,896,279)

As of December 31, 2019 and 2018, the Bank deposited financial assets at FVOCI with total carrying value of ₱143.2 million and ₱84.2 million, respectively, in the form of government bonds with BSP, in compliance with trust regulations (Note 30).

Investment Securities at Amortized Cost
Investment securities at amortized cost consist of the following:

	2019	2018
Investment Securities at Amortized Cost		
Debt securities		
Government	**₱30,806,854,231**	₱31,604,530,066
Private	**3,452,645,653**	4,071,281,345
	34,259,499,884	35,675,811,411
Less allowance for credit losses (Note 15)	**25,525,068**	29,046,147
	₱34,233,974,816	₱35,646,765,264

As of December 31, 2019 and 2018, investment securities at amortized cost include Bureau of Treasury bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of ₱66.3 million and ₱66.5 million, respectively.

Interest income on investment securities consists of:

	2019	2018	2017
Interest income recognized using EIR			
Investment securities at amortized cost	**₱1,424,666,633**	₱1,429,497,897	₱–
Financial assets at FVOCI	**471,590,813**	555,859,754	–
HTM investments	–	–	1,165,451,432
AFS investments	–	–	607,568,926
	1,896,257,446	1,985,357,651	1,773,020,358
Interest income recognized using nominal interest rates			
FVTPL investments	**2,152**	9,088,886	50,570,958
	₱1,896,259,598	₱1,994,446,537	₱1,823,591,316

Peso-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 4.00% to 8.13% in 2019, from 2.13% to 8.13% in 2018 and from 2.13% to 9.50% in 2017 while foreign currency-denominated FVOCI/AFS investments bear nominal annual interest rates of 5.88% in 2019 and ranging from 3.00% to 10.63% in 2018 and from 3.70% to 9.50% in 2017.

EIR on financial assets at FVOCI/AFS investments as of December 31, 2019, 2018, and 2017 range from 4.08% to 8.46%, from 2.47% to 8.14% and 2.69% to 6.15%, respectively.

On the other hand, peso-denominated investment securities at amortized cost/HTM investments bear EIR ranging from 3.43% to 14.74% in 2019, from 3.70% to 4.87% in 2018 and from 3.70% to 5.61% in 2017, while foreign currency-denominated HTM investments bear EIR ranging from 3.05% to 9.97%, from 3.00% to 4.75%, and from 2.46% to 4.96% in 2019, 2018 and 2017, respectively.

Trading and securities gains (losses) - net on investment securities consist of:

	2019	2018	2017
FVTPL investments (Note 29)	**(₱432,107)**	(₱41,018,773)	(₱15,481,460)
Financial assets at FVOCI	**224,424,552**	(92,278,733)	–
AFS investments	**–**	–	(49,756,366)
	₱223,992,445	(₱133,297,506)	(₱65,237,826)

9. **Loans and Receivables**

This account consists of:

	2019	2018
Receivables from customers		
Consumption loans	**₱94,226,205,291**	₱90,291,868,218
Real estate loans	**52,479,186,928**	49,972,645,933
Commercial loans	**13,685,986,537**	12,902,967,013
Personal loans (Note 29)	**3,723,190,784**	3,525,922,782
	164,114,569,540	156,693,403,946
Less unearned discounts	**711,180**	130,275
	164,113,858,360	156,693,273,671
Other receivables		
Accrued interest receivable	**2,249,493,941**	2,306,049,469
Accounts receivable (Note 29)	**1,901,309,701**	1,526,155,791
Sales contract receivables	**42,646,790**	71,508,163
Bills purchased (Note 19)	**8,798,803**	13,077,760
	168,316,107,595	160,610,064,854
Less allowance for credit losses (Note 15)	**3,931,905,382**	4,349,702,079
	₱164,384,202,213	₱156,260,362,775

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

As of December 31, 2019, 2018 and 2017, 33.74%, 39.93% and 40.02%, respectively, of the total receivables from customers are subject to periodic interest repricing with average EIR of 7.66%, 7.41% and 14.06% in 2019, 2018 and 2017. Remaining receivables earn average annual fixed interest rates of 15.78%, 14.90% and 14.81% in 2019, 2018 and 2017, respectively.

Receivables from customers earned interest income at an effective interest rate ranging from 8.89% to 9.42%, from 8.76% to 9.46%, and from 8.94% to 9.17%, for the years ended December 31, 2019, 2018 and 2017, respectively.

Interest income on loans and receivables consists of:

	2019	2018	2017
Receivables from customers			
Consumption loans	**₱9,144,507,633**	₱8,608,117,368	₱7,624,465,526
Real estate loans	**3,974,463,324**	3,482,931,036	3,273,928,199
Personal loans (Note 29)	**1,422,610,233**	1,388,759,417	820,957,546
Commercial loans	**932,004,186**	781,469,660	749,518,594
Other receivables			
Sales contract receivables	**7,604,057**	7,528,142	8,263,372
	₱15,481,189,433	₱14,268,805,623	₱12,477,133,237

Interest income from restructured loans amounted to ₱8.3 million, ₱8.9 million and ₱11.0 million in 2019, 2018 and 2017, respectively.

BSP Reporting
The breakdown of loans and receivables from customers (gross of unearned discounts and allowance for credit losses) as to secured and unsecured and as to type of security follows:

	2019	**%**	2018	%
Secured by:				
Chattel	**₱84,573,541,229**	**51.53%**	₱90,291,940,808	57.62
Real estate	**37,086,534,930**	**22.60%**	35,067,463,726	22.38
Deposit hold-out	**849,760,087**	**0.52%**	739,239,948	0.47
Others	**6,173,885**	**0.00%**	12,409,828	0.01
	122,516,010,131	**74.65%**	126,111,054,310	80.48
Unsecured	**41,598,559,409**	**25.35%**	30,582,349,636	19.52
	₱164,114,569,540	**100.00%**	₱156,693,403,946	100.00

Details of non-performing loans (NPL) follow:

	2019	2018
Secured	**₱4,307,641,178**	₱4,947,136,614
Unsecured	**1,609,454,115**	1,668,789,592
	₱5,917,095,293	₱6,615,926,206

Generally, NPLs refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions:

1. Impaired under existing accounting standards;
2. Classified as doubtful or loss;
3. In litigation, and/or;
4. There is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are:

1. Unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

2. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.
3. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2019	2018
Total NPLs	**₱5,917,095,293**	₱6,615,926,206
Less NPLs fully covered by allowance for credit losses	**1,315,008,850**	1,703,235,253
	₱4,602,086,443	₱4,912,690,953

Restructured loans as of December 31, 2019 and 2018 amounted to ₱104.6 million and ₱128.5 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱0.9 billion and ₱2.6 billion as of December 31, 2019 and 2018, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses):

	2019	%	2018	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	**₱99,328,259,110**	**60.52**	₱95,549,749,865	60.98
Real estate activities	**47,435,436,567**	**28.90**	45,068,932,504	28.76
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,905,710,768**	**1.77**	2,958,370,016	1.89
Electricity, gas, steam and air-conditioning supply	**1,864,986,016**	**1.14**	1,937,172,270	1.24
Financial and insurance activities	**1,198,964,283**	**0.73**	1,098,179,781	0.70
Transportation and storage	**1,041,311,221**	**0.63**	1,177,545,617	0.75
Manufacturing	**805,033,894**	**0.49**	974,159,507	0.62
Construction	**741,251,226**	**0.45**	872,655,404	0.56
Administrative and support service activities	**702,200,790**	**0.43**	825,978,162	0.53
Information and communication	**546,048,174**	**0.33**	565,650,294	0.36
Accommodation and food service activities	**332,145,362**	**0.20**	348,588,610	0.22
Human health and social work activities	**248,280,198**	**0.15**	283,481,970	0.18
Water supply, sewerage, waste management and remediation activities	**243,086,738**	**0.15**	233,874,590	0.15
Education	**172,810,953**	**0.11**	216,428,300	0.14
Professional, scientific and technical activities	**159,731,330**	**0.10**	141,462,881	0.09
Arts, entertainment and recreation	**78,801,234**	**0.05**	87,032,281	0.06
Agriculture, forestry and fishing	**74,422,698**	**0.05**	87,215,580	0.06
Mining and quarrying	**13,178,977**	**0.01**	16,087,623	0.01
Others	**6,222,910,001**	**3.79**	4,250,838,691	2.70
	₱164,114,569,540	**100.00**	₱156,693,403,946	100.00

Others relate to other service activities including the activities of membership organizations, repair of computers, personal and household goods and a variety of personal service activities not covered elsewhere in the classification above.

10. **Investment in a Joint Venture**

The Bank's investment in a joint venture represents its 30.00% interest in Sumisho Motor Finance Corporation (SMFC) as of December 31, 2019 and 2018.

SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles.

Management has assessed that the Bank continues to have joint control over SMFC together with GT Capital, Sumitomo Japan and Sumitomo Corporation of the Philippines (Sumitomo Group), as all investors are bound by all terms and conditions of the original Joint Venture Agreement between the Bank and Sumitomo Group, where unanimous consent is required from all the parties for SMFC's relevant activities.

As of December 31, 2019 and 2018, the Bank's investment in a joint venture amounted to ₱755.8 million and ₱691.4 million, respectively.

Movement in this account follows (in thousands):

	2019	2018
Balance at beginning of year	**₱691,426**	₱607,163
Share in net income (Note 29)	**105,905**	82,377
Share in unrealized gain on remeasurement of retirement liability (Note 29)	**(2,190)**	1,886
Dividends paid	**(39,360)**	–
Ending balance	**₱755,781**	₱691,426

The following table illustrates the summarized financial information of SMFC (in thousands):

	2019	2018
Current assets	**₱6,870,631**	₱4,904,097
Non-current assets	**254,305**	149,507
Current liabilities	**(4,502,607)**	(2,689,159)
Non-current liabilities	**(103,061)**	(59,692)
Net assets	**₱2,519,268**	₱2,304,753

	2019	2018	2017
Revenues	**₱1,684,260**	₱1,104,277	₱818,915
Costs and expenses	**1,174,697**	701,455	524,426
	509,563	402,822	294,489
Provision for income tax	**156,545**	128,231	89,062
Net income	**353,018**	274,591	205,427
Other comprehensive income	**(7,299)**	6,288	541
Total comprehensive income	**₱345,719**	₱280,879	₱205,968

On June 21, 2019, SMFC declared dividends of ₱6.56 per share amounting to a total of ₱131.2 million. The same was paid to shareholders on July 1, 2019.

Cost of the investment as of December 31, 2019 and 2018 amounted to ₱600.0 million.

SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of SMFC as of December 31, 2019 and 2018. There are also no agreements entered into by SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

Movement in equity in remeasurement gains (losses) on retirement plan of a joint venture amounted to (₱2.2 million), ₱1.9 million and (₱0.2 million) in 2019, 2018 and 2017, respectively.

11. Property and Equipment

The composition of and movements in this account follow:

	2019					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Right-of-use Assets: Building**	**Total**
Cost						
Balance at beginning of the period, as previously reported	**₱976,443,676**	**₱1,125,200,479**	**₱2,814,449,530**	**₱1,012,800,699**	**₱–**	**₱5,928,894,384**
Effect of the adoption of PFRS 16 (Note 2)	**–**	**–**	**–**	**–**	**1,442,283,639**	**1,442,283,639**
Balance at beginning of the period, as restated	**976,443,676**	**1,125,200,479**	**2,814,449,530**	**1,012,800,699**	**1,442,283,639**	**7,371,178,023**
Acquisitions/Additions	**–**	**5,631,005**	**101,542,500**	**17,095,247**	**186,062,195**	**310,330,947**
Disposals/Retirement	**–**	**–**	**(79,673,882)**	**–**	**(31,979,925)**	**(111,653,807)**
Balance at end of the period	**976,443,676**	**1,130,831,484**	**2,836,318,148**	**1,029,895,946**	**1,596,365,909**	**7,569,855,163**
Accumulated Depreciation						
Balance at beginning of the period	**–**	**454,610,927**	**2,401,654,413**	**815,249,139**	**–**	**3,671,514,479**
Depreciation	**–**	**35,782,765**	**157,690,302**	**83,843,483**	**373,133,483**	**650,450,033**
Disposals	**–**	**–**	**(40,070,585)**	**–**	**(24,874,890)**	**(64,945,475)**
Balance at end of the period	**–**	**490,393,692**	**,519,274,130**	**899,092,622**	**348,258,593**	**4,257,019,037**
Net Book Value	**₱976,443,676**	**₱640,437,792**	**₱317,044,018**	**₱130,803,324**	**₱1,248,107,316**	**₱3,312,836,126**

	2018				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱976,443,676	₱1,126,593,369	₱2,721,454,277	₱976,140,270	₱5,800,631,592
Acquisitions	–	2,802,669	142,887,490	36,660,429	182,350,588
Disposals	–	(4,195,559)	(49,892,237)	–	(54,087,796)
Balance at end of year	976,443,676	1,125,200,479	2,814,449,530	1,012,800,699	5,928,894,384
Accumulated Depreciation					
Balance at beginning of year	–	416,470,260	2,185,390,898	718,758,080	3,320,619,238
Depreciation	–	38,163,929	232,636,645	96,491,059	367,291,633
Disposals	–	(23,262)	(16,373,130)	–	(16,396,392)
Balance at end of year	–	454,610,927	2,401,654,413	815,249,139	3,671,514,479
Net Book Value	₱976,443,676	₱670,589,552	₱412,795,117	₱197,551,560	₱2,257,379,905

Gain on sale of property and equipment amounted to ₱8.1 million, ₱7.9 million and ₱1.7 million in 2019, 2018 and 2017, respectively.

The details of depreciation under the statements of income follow:

	2019	2018	2017
Property and equipment	**₱650,450,033**	₱367,291,633	₱391,888,682
Chattel mortgage properties (Note 14)	**166,109,603**	155,549,227	150,298,384
Investment properties (Note 12)	**93,782,188**	99,341,223	93,249,037
	₱910,341,824	₱622,182,083	₱635,436,103

As of December 31, 2019 and 2018, property and equipment of the Bank with gross carrying amounts of ₱2.1 billion and ₱1.8 billion, respectively, are fully depreciated but are still being used.

12. **Investment Properties**

The composition of and movements in this account follow:

	2019		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,656,342,069**	**₱3,061,707,089**	**₱4,718,049,158**
Additions (Note 32)	**208,639,635**	**526,642,782**	**735,282,417**
Disposals	**(386,522,224)**	**(688,052,699)**	**(1,074,574,923)**
Balance at end of year	**1,478,459,480**	**2,900,297,172**	**4,378,756,652**
Accumulated Depreciation			
Balance at beginning of year	–	**438,004,523**	**438,004,523**
Depreciation (Note 11)	–	**93,782,188**	**93,782,188**
Disposals	–	**(98,606,574)**	**(98,606,574)**
Balance at end of year	–	**433,180,137**	**433,180,137**
Allowance for Impairment Losses			
Balance at beginning of year	**76,490,196**	**167,236,723**	**243,726,919**
Provisions (reversals) for the year (Note 15)	**(7,730,797)**	**7,975,841**	**245,044**
Disposals	**(2,085,274)**	**(62,058,870)**	**(64,144,144)**
Balance at end of year	**66,674,125**	**113,153,694**	**179,827,819**
Net Book Value	**₱1,411,785,355**	**₱2,353,963,341**	**₱3,765,748,696**

	2018		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,626,841,652	₱2,930,621,176	₱4,557,462,828
Additions (Note 32)	259,427,845	532,358,484	791,786,329
Disposals	(229,927,428)	(401,272,571)	(631,199,999)
Balance at end of year	1,656,342,069	3,061,707,089	4,718,049,158
Accumulated Depreciation			
Balance at beginning of year	–	397,625,717	397,625,717
Depreciation (Note 11)	–	99,341,223	99,341,223
Disposals	–	(58,962,417)	(58,962,417)
Balance at end of year	–	438,004,523	438,004,523
Allowance for Impairment Losses			
Balance at beginning of year	166,817,379	62,702,253	229,519,632
Provisions (reversals) for the year (Note 15)	(87,113,024)	116,039,818	28,926,794
Disposals	(3,214,159)	(11,505,348)	(14,719,507)
Balance at end of year	76,490,196	167,236,723	243,726,919
Net Book Value	₱1,579,851,873	₱2,456,465,843	₱4,036,317,716

The details of the net book value of investment properties follow:

	2019	2018
Real estate properties acquired in settlement of loans and receivables	**₱3,675,428,253**	₱3,942,199,973
Bank premises leased to third parties and held for capital appreciation	**90,320,443**	94,117,743
	₱3,765,748,696	₱4,036,317,716

As of December 31, 2019 and 2018, the aggregate fair value of investment properties amounted to ₱5.8 billion and ₱5.9 billion, respectively. Fair value of the properties was determined using sales comparison approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱246.8 million, ₱278.0 million and ₱271.9 million in 2019, 2018 and 2017, respectively. The Bank realized gain on sale of investment properties amounting to ₱364.9 million, ₱144.0 million and ₱76.9 million in 2019, 2018 and 2017, respectively.

Rental income on investment properties included in miscellaneous income amounted to ₱37.5 million, ₱49.9 million and ₱48.7 million in 2019, 2018 and 2017, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense - 'Repairs and maintenance') amounted to ₱20.1 million, ₱21.4 million and ₱20.5 million in 2019, 2018 and 2017, respectively (Note 26).

13. Intangible Assets and Goodwill

This account consists of:

	2019	2018
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**389,774,423**	564,764,758
Branch licenses	**37,123,737**	37,123,737
	426,898,160	601,888,495
	₱480,456,498	₱655,446,833

Movements in intangible assets follow:

	2019		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱564,764,758**	**₱37,123,737**	**₱601,888,495**
Additions	**44,356,459**	**–**	**44,356,459**
Retirement and others	**(84,291,800)**	**–**	**(84,291,800)**
Amortization	**(135,054,994)**	**–**	**(135,054,994)**
Balance at end of year	**₱389,774,423**	**₱37,123,737**	**₱426,898,160**

	2018		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱624,241,981	₱37,123,737	₱661,365,718
Additions	99,611,845	–	99,611,845
Amortization	(159,089,068)	–	(159,089,068)
Balance at end of year	₱564,764,758	₱37,123,737	₱601,888,495

14. **Other Assets**

This account consists of:

	2019	2018
Chattel mortgage properties - net	**₱895,829,635**	₱720,607,271
Prepayments (Note 29)	**264,701,030**	265,513,919
Security deposits (Note 29)	**185,170,313**	205,925,406
Documentary stamps on hand	**146,202,615**	136,098,118
Stationeries and supplies on hand	**43,430,240**	42,188,585
RCOCI	**28,942,603**	19,517,854
Creditable withholding tax	**49,149**	5,083,497
Sundry debits	**1,853**	9,690,932
Others	**604,076**	694,885
	₱1,564,931,514	₱1,405,320,467

Prepayments represent prepaid insurance, rent, taxes and other prepaid expenses. Creditable withholding tax (CWT) pertains to the excess credits after applying CWT against income tax payable.

Movements in chattel mortgage properties - net follow:

	2019	2018
Cost		
Balance at beginning of year	**₱813,592,771**	₱806,325,646
Additions (Note 32)	**3,304,131,638**	2,592,446,719
Disposals	**(3,138,066,271)**	(2,585,179,594)
Balance at the end of year	**979,658,138**	813,592,771
Accumulated Depreciation		
Balance at beginning of year	**92,569,663**	93,217,346
Depreciation (Note 11)	**166,109,603**	155,549,227
Disposals	**(175,052,445)**	(156,196,910)
Balance at the end of year	**83,626,821**	92,569,663
Allowance for Impairment Losses (Note 15)		
Balance at beginning of year	**415,837**	260,045
Provision	**856,288**	1,689,227
Disposals	**(1,070,443)**	(1,533,435)
Balance at end of year	**201,682**	415,837
Net Book Value	**₱895,829,635**	₱720,607,271

Gain on foreclosure of chattel mortgage properties amounted to ₱189.0 million, ₱313.5 million and ₱759.1 million in 2019, 2018 and 2017, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱273.9 million, ₱81.4 million and ₱174.2 million in 2019, 2018 and 2017, respectively.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances for loans and advances to banks as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Due from BSP							
Balance as of January 1, 2019	**₱2,828**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,828**
New assets originated or purchased	**1,226**	**–**	**–**	**–**	**–**	**–**	**1,226**
Assets derecognized or repaid	**(2,828)**	**–**	**–**	**–**	**–**	**–**	**(2,828)**
Balance at December 31, 2019	**1,226**	**–**	**–**	**–**	**–**	**–**	**1,226**
Due from other banks							
Balance at January 1, 2019	**2,301**	**–**	**–**	**–**	**–**	**–**	**2,301**
New assets originated or purchased	**1,043**	**–**	**–**	**–**	**–**	**–**	**1,043**
Assets derecognized or repaid	**(2,301)**	**–**	**–**	**–**	**–**	**–**	**(2,301)**
Balance at December 31, 2019	**1,043**	**–**	**–**	**–**	**–**	**–**	**1,043**
Interbank loans receivable							
Balance at January 1, 2018	**180**	**–**	**–**	**–**	**–**	**–**	**180**
New assets originated or purchased	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Assets derecognized or repaid	**(180)**	**–**	**–**	**–**	**–**	**–**	**(180)**
Balance at December 31, 2019	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total loans and advances to banks							
Balance at January 1, 2019	**5,309**	**–**	**–**	**–**	**–**	**–**	**5,309**
New assets originated or purchased	**2,269**	**–**	**–**	**–**	**–**	**–**	**2,269**
Assets derecognized or repaid	**(5,309)**	**–**	**–**	**–**	**–**	**–**	**(5,309)**
Balance at December 31, 2019	**₱2,269**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,269**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
Balance as of January 1, 2018	₱–	₱–	₱–	₱–	₱–	₱–	₱–
New assets originated or purchased	2,828	–	–	–	–	–	2,828
Balance at December 31, 2018	2,828	–	–	–	–	–	2,828
Due from other banks							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	2,301	–	–	–	–	–	2,301
Balance at December 31, 2018	2,301	–	–	–	–	–	2,301
Interbank loans receivable							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	180	–	–	–	–	–	180
Balance at December 31, 2018	180	–	–	–	–	–	180
Total loans and advances to banks							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	5,309	–	–	–	–	–	5,309
Balance at December 31, 2018	₱5,309	₱–	₱–	₱–	₱–	₱–	₱5,309

An analysis of changes in the ECL allowances for investment securities as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Financial assets at FVOCI							
Balance at January 1, 2019	₱9,957	₱–	₱–	₱–	₱–	₱–	₱9,957
New assets originated or purchased	2	–	–	–	–	–	2
Assets derecognized or repaid	(6,540)	–	–	–	–	–	(6,540)
Balance at December 31, 2019	3,419	–	–	–	–	–	3,419
Investment at amortized cost							
Balance at January 1, 2019	29,046	–	–	–	–	–	29,046
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	(3,521)	–	–	–	–	–	(3,521)
Balance at December 31, 2019	25,525	–	–	–	–	–	25,525
Total investment securities							
Balance at January 1, 2019	39,003	–	–	–	–	–	39,003
New assets originated or purchased	2						2
Assets derecognized or repaid	(10,061)	–	–	–	–	–	(10,061)
Balance at December 31, 2019	₱28,944	₱–	₱–	₱–	₱–	₱–	₱28,944

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Financial assets at FVOCI							
Balance at January 1, 2018	₱–	₱–	₱–	₱–	₱–	₱–	₱–
New assets originated or purchased	9,957	–	–	–	–	–	9,957
Balance at December 31, 2018	9,957	–	–	–	–	–	9,957
Investment at amortized cost							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	29,046	–	–	–	–	–	29,046
Balance at December 31, 2018	29,046	–	–	–	–	–	29,046
Total investment securities							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	39,003	–	–	–	–	–	39,003
Balance at December 31, 2018	₱39,003	₱–	₱–	₱–	₱–	₱–	₱39,003

An analysis of changes in the ECL allowances for receivables from customers as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance at January 1, 2019	₱–	₱370,495	₱–	₱990,265	₱1,066,421	₱–	₱2,427,181
New assets originated or purchased	–	896,795	–	99,972	462,158	–	1,458,925
Assets derecognized or repaid	–	(25,592)	–	(154,132)	(352,824)	–	(532,548)
Amounts written off	–	(887)	–	(96,334)	(793,449)	–	(890,670)
Transfers to Stage 1	–	498,391	–	(452,170)	(46,221)	–	–
Transfers to Stage 2	–	(48,561)	–	149,544	(100,983)	–	–
Transfers to Stage 3	–	(9,101)	–	(93,246)	102,347	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,069,295)	–	89,958	346,659	–	(632,678)
Balance at December 31, 2019	–	612,245	–	533,857	684,108	–	1,830,210
Real Estate Loans							
Balance at January 1, 2019	–	54,989	–	173,876	164,536	–	393,401
New assets originated or purchased	–	(32,382)	–	46,544	27,150	–	41,312
Assets derecognized or repaid	–	(2,947)	–	(17,237)	(33,808)	–	(53,992)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	59,377	–	(51,511)	(7,866)	–	–

(Forward)

Gain on foreclosure of chattel mortgage properties amounted to ₱189.0 million, ₱313.5 million and ₱759.1 million in 2019, 2018 and 2017, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱273.9 million, ₱81.4 million and ₱174.2 million in 2019, 2018 and 2017, respectively.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances for loans and advances to banks as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		**Stage 2**				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Due from BSP							
Balance as of January 1, 2019	**₱2,828**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,828**
New assets originated or purchased	**1,226**	**–**	**–**	**–**	**–**	**–**	**1,226**
Assets derecognized or repaid	**(2,828)**	**–**	**–**	**–**	**–**	**–**	**(2,828)**
Balance at December 31, 2019	**1,226**	**–**	**–**	**–**	**–**	**–**	**1,226**
Due from other banks							
Balance at January 1, 2019	**2,301**	**–**	**–**	**–**	**–**	**–**	**2,301**
New assets originated or purchased	**1,043**	**–**	**–**	**–**	**–**	**–**	**1,043**
Assets derecognized or repaid	**(2,301)**	**–**	**–**	**–**	**–**	**–**	**(2,301)**
Balance at December 31, 2019	**1,043**	**–**	**–**	**–**	**–**	**–**	**1,043**
Interbank loans receivable							
Balance at January 1, 2018	**180**	**–**	**–**	**–**	**–**	**–**	**180**
New assets originated or purchased	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Assets derecognized or repaid	**(180)**	**–**	**–**	**–**	**–**	**–**	**(180)**
Balance at December 31, 2019	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total loans and advances to banks							
Balance at January 1, 2019	**5,309**	**–**	**–**	**–**	**–**	**–**	**5,309**
New assets originated or purchased	**2,269**	**–**	**–**	**–**	**–**	**–**	**2,269**
Assets derecognized or repaid	**(5,309)**	**–**	**–**	**–**	**–**	**–**	**(5,309)**
Balance at December 31, 2019	**₱2,269**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,269**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
Balance as of January 1, 2018	₱–	₱–	₱–	₱–	₱–	₱–	₱–
New assets originated or purchased	2,828	–	–	–	–	–	2,828
Balance at December 31, 2018	2,828	–	–	–	–	–	2,828
Due from other banks							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	2,301	–	–	–	–	–	2,301
Balance at December 31, 2018	2,301	–	–	–	–	–	2,301
Interbank loans receivable							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	180	–	–	–	–	–	180
Balance at December 31, 2018	180	–	–	–	–	–	180
Total loans and advances to banks							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	5,309	–	–	–	–	–	5,309
Balance at December 31, 2018	₱5,309	₱–	₱–	₱–	₱–	₱–	₱5,309

An analysis of changes in the ECL allowances for investment securities as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Financial assets at FVOCI							
Balance at January 1, 2019	**₱9,957**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,957**
New assets originated or purchased	**2**	**–**	**–**	**–**	**–**	**–**	**2**
Assets derecognized or repaid	**(6,540)**	**–**	**–**	**–**	**–**	**–**	**(6,540)**
Balance at December 31, 2019	**3,419**	**–**	**–**	**–**	**–**	**–**	**3,419**
Investment at amortized cost							
Balance at January 1, 2019	**29,046**	**–**	**–**	**–**	**–**	**–**	**29,046**
New assets originated or purchased	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Assets derecognized or repaid	**(3,521)**	**–**	**–**	**–**	**–**	**–**	**(3,521)**
Balance at December 31, 2019	**25,525**	**–**	**–**	**–**	**–**	**–**	**25,525**
Total investment securities							
Balance at January 1, 2019	**39,003**	**–**	**–**	**–**	**–**	**–**	**39,003**
New assets originated or purchased	**2**						**2**
Assets derecognized or repaid	**(10,061)**	**–**	**–**	**–**	**–**	**–**	**(10,061)**
Balance at December 31, 2019	**₱28,944**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱28,944**

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Financial assets at FVOCI							
Balance at January 1, 2018	₱–	₱–	₱–	₱–	₱–	₱–	₱–
New assets originated or purchased	9,957	–	–	–	–	–	9,957
Balance at December 31, 2018	9,957	–	–	–	–	–	9,957
Investment at amortized cost							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	29,046	–	–	–	–	–	29,046
Balance at December 31, 2018	29,046	–	–	–	–	–	29,046
Total investment securities							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	39,003	–	–	–	–	–	39,003
Balance at December 31, 2018	₱39,003	₱–	₱–	₱–	₱–	₱–	₱39,003

An analysis of changes in the ECL allowances for receivables from customers as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Consumption Loans							
Balance at January 1, 2019	**₱–**	**₱370,495**	**₱–**	**₱990,265**	**₱1,066,421**	**₱–**	**₱2,427,181**
New assets originated or purchased	**–**	**896,795**	**–**	**99,972**	**462,158**	**–**	**1,458,925**
Assets derecognized or repaid	**–**	**(25,592)**	**–**	**(154,132)**	**(352,824)**	**–**	**(532,548)**
Amounts written off	**–**	**(887)**	**–**	**(96,334)**	**(793,449)**	**–**	**(890,670)**
Transfers to Stage 1	**–**	**498,391**	**–**	**(452,170)**	**(46,221)**	**–**	**–**
Transfers to Stage 2	**–**	**(48,561)**	**–**	**149,544**	**(100,983)**	**–**	**–**
Transfers to Stage 3	**–**	**(9,101)**	**–**	**(93,246)**	**102,347**	**–**	**–**
Impact on year-end ECL exposures transferred between stages during the year	**–**	**(1,069,295)**	**–**	**89,958**	**346,659**	**–**	**(632,678)**
Balance at December 31, 2019	**–**	**612,245**	**–**	**533,857**	**684,108**	**–**	**1,830,210**
Real Estate Loans							
Balance at January 1, 2019	**–**	**54,989**	**–**	**173,876**	**164,536**	**–**	**393,401**
New assets originated or purchased	**–**	**(32,382)**	**–**	**46,544**	**27,150**	**–**	**41,312**
Assets derecognized or repaid	**–**	**(2,947)**	**–**	**(17,237)**	**(33,808)**	**–**	**(53,992)**
Amounts written off	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to Stage 1	**–**	**59,377**	**–**	**(51,511)**	**(7,866)**	**–**	**–**

(Forward)

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Transfers to Stage 2	₱–	(₱6,893)	₱–	₱35,955	(₱29,062)	₱–	₱–
Transfers to Stage 3	–	(873)	–	(21,951)	22,824	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(17,227)	–	(21)	–	–	(17,248)
Balance at December 31, 2019	–	54,044	–	165,655	143,774	–	363,473
Commercial Loans							
Balance at January 1, 2019	–	41,166	–	5,381	85,801	–	132,348
New assets originated or purchased	–	73,594	–	28,398	101,458	–	203,450
Assets derecognized or repaid	–	(15,178)	–	(190)	(12,452)	–	(27,820)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	1,545	–	(1,437)	(108)	–	–
Transfers to Stage 2	–	(2,430)	–	2,430	–	–	–
Transfers to Stage 3	–	(793)	–	(511)	1,304	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,300)	–	–	(81,269)	–	(82,569)
Balance at December 31, 2019	–	96,604	–	34,071	94,734	–	225,409
Personal Loans							
Balance at January 1, 2019	–	15,589	–	204,084	351,842	–	571,515
New assets originated or purchased	–	237,792	–	62,225	114,892	–	414,909
Assets derecognized or repaid	–	(3,862)	–	(30,975)	(17,429)	–	(52,266)
Amounts written off	–	(1,084)	–	(44,782)	(106,850)	–	(152,716)
Transfers to Stage 1	–	(13,346)	–	12,557	789	–	–
Transfers to Stage 2	–	4,106	–	(4,996)	890	–	–
Transfers to Stage 3	–	260	–	25,729	(25,989)	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(232,873)	–	(28,712)	74,249	–	(187,336)
Balance at December 31, 2019	–	6,582	–	195,130	392,394	–	594,106
Total Receivable from Customer							
Balance at January 1, 2019	–	482,239	–	1,373,606	1,668,600	–	3,524,445
New assets originated or purchased	–	1,175,799	–	237,139	705,658	–	2,118,596
Assets derecognized or repaid	–	(47,579)	–	(202,534)	(416,513)	–	(666,626)
Amounts written off	–	(1,971)	–	(141,116)	(900,299)	–	(1,043,386)
Transfers to Stage 1	–	545,967	–	(492,561)	(53,406)	–	–
Transfers to Stage 2	–	(53,778)	–	182,933	(129,155)	–	–
Transfers to Stage 3	–	(10,507)	–	(89,979)	100,486	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,320,695)	–	61,225	339,639	–	(919,831)
Balance at December 31, 2019	₱–	₱769,475	₱–	₱928,713	₱1,315,010	₱–	₱3,013,198

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance as of December 31, 2017	₱–	₱604,615	₱–	₱678,710	₱674,038	₱–	₱1,957,363
PFRS 9 transition	–	(209,356)	–	165,955	507,100	–	463,699
Balance at January 1, 2018	–	395,259	–	844,665	1,181,138	–	2,421,062
New assets originated or purchased	–	248,741	–	498,898	100,480	–	848,119
Assets derecognized or repaid	–	(221,513)	–	(232,491)	(256,253)	–	(710,257)
Amounts written off	–	–	–	(12,087)	(446,738)	–	(458,825)
Transfers to Stage 1	–	310,554	–	(285,869)	(24,685)	–	–
Transfers to Stage 2	–	(60,846)	–	128,797	(67,951)	–	–
Transfers to Stage 3	–	(11,758)	–	(131,677)	143,435	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(289,942)	–	180,029	436,995	–	327,082
Balance at December 31, 2018	–	370,495	–	990,265	1,066,421	–	2,427,181
Real Estate Loans							
Balance as of December 31, 2017	–	335,661	–	189,022	107,419	–	632,102
PFRS 9 transition	–	(263,276)	–	72,271	63,894	–	(127,111)

(Forward)

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Balance at January 1, 2018	₱–	₱72,385	₱–	₱261,293	₱171,313	₱–	₱504,991
New assets originated or purchased	–	16,085	–	20,521	6,635	–	43,241
Assets derecognized or repaid	–	(30,573)	–	(107,437)	(50,164)	–	(188,174)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	70,341	–	(62,540)	(7,801)	–	–
Transfers to Stage 2	–	(6,485)	–	29,762	(23,277)	–	–
Transfers to Stage 3	–	(638)	–	(20,034)	20,672	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(66,126)	–	52,311	47,158	–	33,343
Balance at December 31, 2018	–	54,989	–	173,876	164,536	–	393,401
Commercial Loans							
Balance as of December 31, 2017	–	458,851	–	46,178	284,898	–	789,927
PFRS 9 transition	–	(433,518)	–	(40,815)	(182,386)	–	(656,719)
Balance at January 1, 2018	–	25,333	–	5,363	102,512	–	133,208
New assets originated or purchased	–	28,322	–	1,323	10,658	–	40,303
Assets derecognized or repaid	–	(11,817)	–	(1,353)	(35,022)	–	(48,192)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	681	–	(681)	–	–	–
Transfers to Stage 2	–	(841)	–	2,186	(1,345)	–	–
Transfers to Stage 3	–	(323)	–	(85)	408	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(189)	–	(1,372)	8,590	–	7,029
Balance at December 31, 2018	–	41,166	–	5,381	85,801	–	132,348
Personal Loans							
Balance as of December 31, 2017	–	21,186	–	147,906	427,016	–	596,108
PFRS 9 transition	–	(7,289)	–	(26,496)	26,927	–	(6,858)
Balance at January 1, 2018	–	13,897	–	121,410	453,943	–	589,250
New assets originated or purchased	–	4,811	–	100,691	19,790	–	125,292
Assets derecognized or repaid	–	(14,250)	–	(3,319)	(14,831)	–	(32,400)
Amounts written off	–	(1,875)	–	(65,983)	(160,195)	–	(228,053)
Transfers to Stage 1	–	20,081	–	(14,525)	(5,556)	–	–
Transfers to Stage 2	–	(3,483)	–	52,138	(48,655)	–	–
Transfers to Stage 3	–	(645)	–	(9,957)	10,602	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(2,947)	–	23,629	96,744	–	117,426
Balance at December 31, 2018	–	15,589	–	204,084	351,842	–	571,515
Total Receivable from Customer							
Balance as of December 31, 2017	–	1,420,313	–	1,061,816	1,493,371	–	3,975,500
PFRS 9 transition	–	(913,439)	–	170,915	415,535	–	(326,989)
Balance at January 1, 2018	–	506,874	–	1,232,731	1,908,906	–	3,648,511
New assets originated or purchased	–	297,959	–	621,433	137,563	–	1,056,955
Assets derecognized or repaid	–	(278,153)	–	(344,600)	(356,270)	–	(979,023)
Amounts written off	–	(1,875)	–	(78,070)	(606,933)	–	(686,878)
Transfers to Stage 1	–	401,657	–	(363,615)	(38,042)	–	–
Transfers to Stage 2	–	(71,655)	–	212,883	(141,228)	–	–
Transfers to Stage 3	–	(13,364)	–	(161,753)	175,117	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(359,204)	–	254,597	589,487	–	484,880
Balance at December 31, 2018	₱–	₱482,239	₱–	₱1,373,606	₱1,668,600	₱–	₱3,524,445

An analysis of changes in the ECL allowances for other receivables as of December 31, 2019 and 2018 follows (in thousands):

	2019						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2019	₱–	₱–	₱–	₱16,012	₱340,322	₱–	₱356,334
New assets originated or purchased	–	12,290	–	4,108	28,431	–	44,829
Assets derecognized or repaid	–	(12,987)	–	(34,407)	(46,867)	–	(94,261)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	120	–	(118)	(2)	–	–
Transfers to Stage 2	–	(27)	–	29	(2)	–	–
Transfers to Stage 3	–	(2)	–	(15)	17	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	908	–	21,353	72,001	–	94,262
Balance at December 31, 2019	–	302	–	6,962	393,900	–	401,164
Sales Contract Receivable							
Balance as of January 1, 2019	–	402	–	–	563	–	965
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	(363)	–	–	(434)	–	(797)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	110	–	–	(110)	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(2)	–	–	2	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(133)	–	–	387	–	254
Balance at December 31, 2019	–	14	–	–	408	–	422
Total Other Receivables							
Balance as of January 1, 2019	–	402	–	16,012	340,885	–	357,299
New assets originated or purchased	–	12,290	–	4,108	28,431	–	44,829
Assets derecognized or repaid	–	(13,350)	–	(34,407)	(47,301)	–	(95,058)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	230	–	(118)	(112)	–	–
Transfers to Stage 2	–	(27)	–	29	(2)	–	–
Transfers to Stage 3	–	(4)	–	(15)	19	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	775	–	21,353	72,388	–	94,516
Balance at December 31, 2019	₱–	₱316	₱–	₱6,962	₱394,308	₱–	₱401,586

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of December 31, 2017	₱–	₱15,678	₱–	₱11,363	₱142,815	₱–	₱169,856
PFRS 9 transition	–	–	–	–	(35,841)	–	(35,841)
Balance at January 1, 2018	–	15,678	–	11,363	106,974	–	134,015
New assets originated or purchased	–	72	–	639	5,770	–	6,481
Assets derecognized or repaid	–	(14,312)	–	(2,114)	(151,619)	–	(168,045)
Amounts written off	–	–	–	–	(270)	–	(270)
Transfers to Stage 1	–	1,494	–	(970)	(524)	–	–
Transfers to Stage 2	–	(1,041)	–	2,304	(1,263)	–	–
Transfers to Stage 3	–	(225)	–	(1,903)	2,128	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,666)	–	6,693	379,126	–	384,153
Balance at December 31, 2018	–	–	–	16,012	340,322	–	356,334
Sales Contract Receivable							
Balance as of December 31, 2017	–	19,754	–	2,743	11,339	–	33,836
PFRS 9 transition	–	–	–	–	(7,842)	–	(7,842)

(Forward)

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Balance at January 1, 2018	₱–	₱19,754	₱–	₱2,743	₱3,497	₱–	₱25,994
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	(5,952)	–	–	(3,264)	–	(9,216)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	27	–	(27)	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(13,412)	–	(2,771)	16,183	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(15)	–	55	(15,853)	–	(15,813)
Balance at December 31, 2018	–	402	–	–	563	–	965
Total Other Receivables							
Balance as of December 31, 2017	–	35,432	–	14,106	154,154	–	203,692
PFRS 9 transition	–	-	–	-	(43,683)	–	(43,683)
Balance at January 1, 2018	–	35,432	–	14,106	110,471	–	160,009
New assets originated or purchased	–	72	–	639	5,770	–	6,481
Assets derecognized or repaid	–	(20,264)	–	(2,114)	(154,883)	–	(177,261)
Amounts written off	–	-	–	-	(270)	–	(270)
Transfers to Stage 1	–	1,521	–	(997)	(524)	–	–
Transfers to Stage 2	–	(1,041)	–	2,304	(1,263)	–	–
Transfers to Stage 3	–	(13,637)	–	(4,674)	18,311	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,681)	–	6,748	363,273	–	368,340
Balance at December 31, 2018	₱–	₱402	₱–	₱16,012	₱340,885	₱–	₱357,299

The details of provisions under the statements of income follow:

	2019	2018
Loans and receivables	**₱2,213,888,525**	₱2,063,044,408
Chattel mortgage	**856,288**	1,689,227
Investment properties	**245,044**	28,926,794
Investment securities	**202,619**	39,003,532
Due from BSP	**–**	2,827,898
Due from other banks	**–**	2,300,673
Interbank loans receivable	**–**	180,000
	₱2,215,192,476	₱2,137,972,532

16. **Deposit Liabilities**

Interest expense on deposit liabilities consists of:

	2019	2018	2017
Time (Note 29)	**₱4,594,981,252**	₱4,239,706,713	₱2,792,840,772
LTNCD	**392,214,948**	230,861,749	115,908,554
Demand (Note 29)	**205,871,472**	195,685,212	167,111,638
Savings	**134,557,733**	152,239,685	138,804,756
	₱5,327,625,405	₱4,818,493,359	₱3,214,665,720

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 6.00% in 2019, from 0.25% to 7.56% in 2018 and from 0.25% to 6.00% in 2017, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 3.00% in 2019, 0.25% to 3.05% in 2018 and 0.50% to 2.00% in 2017. Effective interest rates on deposit liabilities range from 1.09% to 3.68% in 2019 and from 1.94% to 3.28% in 2018 and from 0.25% to 1.75% in 2017.

In 2019, the Bangko Sentral ng Pilipinas issued BSP Circular Nos. 1041, 1056, and 1063 reducing the reserve requirements against non-FCDU deposit and deposit substitute liabilities to 4% from 8%. As of December 31, 2019 and 2018, Due from BSP amounting to ₱6.3 billion and ₱14.5 billion, respectively, was set aside as reserves for deposit liabilities, as reported to the BSP. The Bank is in compliance with such regulations as of December 31, 2019 and 2018.

On December 8, 2016, the BSP authorized the Bank to issue LTNCDs up to ₱10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCDs amounting to ₱3.4 billion with a tenor of five (5) years and three (3) months and due on April 30, 2022 with interest rate of 3.50% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

On July 13, 2018, the BSP authorized the Bank to issue LTNCDs up to ₱15.0 billion through one or multiple tranches over a period of one year. On August 9, 2018, the Bank issued the first tranche of LTNCDs amounting to ₱5.08 billion with a tenor of five (5) years and six (6) months and due on February 9, 2024 with interest rate of 5.00% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

As of December 31, 2019 and 2018, deferred financing cost on LTNCDs amounted to ₱49.5 million and ₱64.2 million, respectively. Amortization of deferred financing cost amounted to ₱14.7 million in 2019 and ₱8.7 million in 2018.

17. Bills Payable, Bonds Payable and Subordinated Notes

Bills Payable

This account consists of the following:

	2019	2018
Medium term fixed rate notes (MTFNs)	**₱2,989,736,932**	₱2,968,567,431
Interbank borrowings	**1,200,000,000**	–
	₱4,189,736,932	₱2,968,567,431

On December 10, 2018, the Bank issued MTFNs amounting to ₱3.0 billion with a tenor of one (1) year and six (6) months and due on June 10, 2020 with interest rate of 7.07% per annum payable quarterly. Interest payment dates shall commence on March 10, 2019 and up to and including the maturity date. The minimum investment size for the MTFNs is ₱10.0 million with increments of ₱0.1 million thereafter.

Peso-denominated interbank borrowings of the Bank bear annual interest ranging from 3.94% to 5.25% in 2019, 3.00% to 4.69% in 2018 and 2.50% in 2017. Foreign currency-denominated interbank borrowings bear annual interest ranging from 2.35% to 2.50%, 1.28% to 2.38% and 1.00% to 1.55% in 2019, 2018, and 2017, respectively. Annual interest rate on dollar-denominated securities sold under resale agreement (SSURA) ranges from 2.70% to 2.79%, 1.00% to 2.35%, and 1.05% to 1.75%% in 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, deferred financing cost on MTFNs amounted to ₱10.3 million and ₱31.4 million, respectively. Amortization of deferred financing cost amounted to ₱21.2 million and ₱1.1 million in 2019 and 2018, respectively.

Interest expense on bills payable in 2019, 2018 and 2017 amounted to ₱319.7 million, ₱55.9 million and ₱59.0 million, respectively (Note 29).

Bonds Payable

On July 24, 2019, the Bank issued fixed rate bonds amounting to ₱6.3 billion with a tenor of two (2) years and due on July 24, 2021 with interest rate of 5.6% per annum payable quarterly. The minimum investment size for the bonds payable is ₱0.5 million with increments of ₱0.1 million thereafter. As of December 31, 2019, the carrying amount of the bonds payable is ₱6.3 billion. Debt issuance cost related to the issuance amounted to ₱56.9 million.

Interest expense incurred on bonds payable amounted to ₱167.6 million. Amortization of debt issuance costs amounted to ₱11.6 million in 2019.

Subordinated Notes

This account consists of the following Peso Notes:

		Carrying Value	
Maturity Date	Face Value	**2019**	2018
August 23, 2024	₱3,000,000,000	**₱–**	₱2,981,673,382

Interest expense incurred on these notes amounted to ₱125.1 million, ₱167.7 million and ₱191.1 million in 2019, 2018 and 2017, respectively.

On February 15, 2019, the BOD approved the Bank's option to call the Tier 2 Notes issued in 2014 on its fifth year anniversary or on August 23, 2019. The request of the Bank to exercise the same was approved by the BSP on April 24, 2019. The redemption falls under the call provisions of the Tier 2 Notes worth ₱3.0 Billion, which had an original maturity of ten years or until 2024.

On August 23, 2019 the Bank exercised its call option and paid ₱3.0 billion to all noteholders.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2019	2018
Accrued interest payable	**₱434,200,032**	₱900,205,415
Accrued other taxes and licenses payable	**130,618,997**	134,131,140
Accrued other expenses payable (Note 29)	**844,632,958**	980,186,158
	₱1,409,451,987	₱2,014,522,713

Accrued other expenses payable consist of:

	2019	2018
Litigation	**₱276,305,828**	₱272,126,457
Compensation and fringe benefits	**196,783,477**	141,027,847
Insurance (Note 29)	**178,230,395**	200,274,397
Information technology (Note 29)	**55,897,969**	34,328,559
Security, messengerial and janitorial	**51,608,230**	48,448,406
Advertising	**19,077,992**	35,563,037
Professional and consultancy fees	**10,552,469**	14,599,349
ATM maintenance	**10,469,566**	11,894,674
Membership, fees & dues	**5,161,321**	5,161,321
Lease payable	–	190,565,729
Miscellaneous	**40,545,711**	26,196,382
	₱844,632,958	₱980,186,158

Compensation and fringe benefits include salaries and wages, as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for ATM rentals, utilities and maintenance and other expenses.

19. Other Liabilities

This account consists of:

	2019	2018
Accounts payable (Note 29)	**₱2,383,631,295**	₱2,072,599,423
Lease liability (Note 2)	**1,467,103,825**	–
Net retirement liability (Note 24)	**440,394,816**	112,659,016
Other credits	**171,091,034**	245,406,847
Sundry credits	**101,382,063**	417,299,168
Withholding taxes payable	**90,033,709**	128,716,646
Undrawn portion of committed credit lines	**57,321,764**	–
Due to the Treasurer of the Philippines	**20,491,276**	16,150,662
SSS, Medicare, ECP and HDMF premium payable	**11,734,970**	9,640,813
Bills purchased - contra (Note 9)	**8,798,803**	13,077,760
Miscellaneous (Note 29)	**40,508,189**	47,837,716
	₱4,792,491,744	₱3,063,388,051

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed cashier's checks.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱20.6 million and ₱19.4 million as of December 31, 2019 and 2018, respectively.

20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2019			2018		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱2,281,813**	**₱–**	**₱2,281,813**	₱3,776,087	₱–	₱3,776,087
Due from BSP - gross	**6,816,092**	**–**	**6,816,092**	15,159,012	–	15,159,012
Due from other banks - gross	**1,139,685**	**–**	**1,139,685**	1,685,107	–	1,685,107
Interbank loans receivable and SPURA - gross (Note 7)	**–**	**–**	**–**	1,892,000	–	1,892,000
FVTPL investments (Note 8)	**44**	**–**	**44**	10,107	–	10,107
Financial assets at FVOCI (Note 8)	**976,272**	**3,799,116**	**4,775,388**	2,973,540	9,958,062	12,931,602
Investment securities at amortized cost (Note 8)	**1,267,247**	**32,992,253**	**34,259,500**	563,506	35,112,306	35,675,812
Loans and receivables - gross (Note 9)	**18,197,964**	**150,118,855**	**168,316,819**	16,343,496	144,266,699	160,610,195
Other assets - gross* (Note 14)	**42,486**	**171,745**	**214,231**	34,213	191,482	225,695
	30,721,603	**187,081,969**	**217,803,572**	42,437,068	189,528,549	231,965,617
Nonfinancial Assets						
Investment in a joint venture (Note 10)	**–**	**755,781**	**755,781**	–	691,426	691,426
Property and equipment - gross (Note 11)	**–**	**7,569,855**	**7,569,855**	–	5,928,894	5,928,894
Investment properties - gross (Note 12)	**–**	**4,378,757**	**4,378,757**	–	4,718,049	4,718,049
Deferred tax assets (Note 27)	**–**	**1,398,137**	**1,398,137**	–	1,327,667	1,327,667
Goodwill and intangible assets (Note 13)	**–**	**1,561,668**	**1,561,668**	–	1,618,734	1,618,734
Other assets - gross** (Note 14)	**454,870**	**979,658**	**1,434,528**	399,424	873,186	1,272,610
	₱454,870	**₱16,643.856**	**17,098,726**	₱399,424	₱15,157,956	15,557,380
Less: Allowance for credit and impairment losses (Note 15)			**4,139,729**			4,628,199
Accumulated depreciation (Notes 11, 12 and 14)			**5,855,037**			5,165,376
Unearned discounts (Note 9)			**711**			130
			9,995,477			9,793,705
			₱224,906,821			₱237,729,292

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.

** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps and chattel mortgage properties.

	December 31					
	2019			2018		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities (Note 16)	**₱148,468,691**	**₱24,036,419**	**₱172,505,110**	₱175,904,910	₱ 24,783,029	₱ 200,687,939
Bills payable (Note 17)	**4,189,737**	**–**	**4,189,737**	–	2,968,567	2,968,567
Bonds payable	**–**	**6,254,702**	**6,254,702**	–	–	–
Subordinated notes (Note 17)	**–**	**–**	**–**	–	2,981,673	2,981,673
Financial liabilities at FVTPL (Note 8)	**–**	**–**	**–**	2,895	–	2,895
Treasurer's, cashier's and manager's checks	**1,297,680**	**–**	**1,297,680**	1,615,520	–	1,615,520
Accrued other expenses payable (Note 18)	**844,633**	**–**	**844,633**	980,186	–	980,186
Accrued interest payable (Note 18)	**434,200**	**–**	**434,200**	900,206	–	900,206
Other liabilities (Note 19)		**–**		–	–	–
Accounts payable	**2,383,631**	**–**	**2,383,631**	2,072,599	–	2,072,599
Other credits	**171,091**	**–**	**171,091**	245,406	–	245,406
Lease liability	**39,803**	**1,427,301**	**1,467,104**	–	–	–
Bills purchased - contra	**8,799**	**–**	**8,799**	13,078	–	13,078
Deposits for keys – SDB	**791**	**–**	**791**	798	–	798
Others*	**15,332**	**1,760**	**17,092**	6,352	–	6,352
	157,854,388	**31,720,182**	**189,574,570**	181,741,950	30,733,269	212,475,219

(Forward)

	December 31					
	2019			2018		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Nonfinancial Liabilities						
Accrued other taxes and licenses payable (Note 18)	**₱130,619**	**₱–**	**₱130,619**	₱134,131	₱–	₱134,131
Income tax payable	**375**	**–**	**375**	638	–	638
Withholding taxes payable (Note 19)	**90,034**	**–**	**90,034**	128,717	–	128,717
Other liabilities (Note 19)**	**193,064**	**440,395**	**633,459**	467,628	112,659	580,287
	414,092	**440,395**	**854,487**	731,114	112,659	843,773
	₱158,288,971	**₱32,160,577**	**₱190,449,548**	₱182,489,215	₱30,845,928	₱213,335,143

* Others under financial liabilities comprise payment orders payable and overages.

** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

21. Equity

Issued Capital

As of December 31, 2019 and 2018, the Bank's capital stock consists of:

	2019		2018	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10 par value	**600,000,000**	**₱6,000,000,000**	425,000,000	₱4,250,000,000
Issued and outstanding				
Beginning Balance	**240,252,491**	**₱2,402,524,910**	240,252,491	₱2,402,524,910
Stock right issuance	**142,856,925**	**1,428,569,250**	–	–
Ending Balance	**383,109,416**	**₱3,831,094,160**	240,252,491	₱2,402,524,910

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of December 31, 2019 and 2018, the total number of stockholders is 1,458 and 1,465, respectively.

On November 28, 2018, the PSE approved the application of the Bank for the listing of additional 142,856,925 common shares to cover the Bank's 1:1.68177 stock rights offering at an offer price of ₱56.0 per share or additional capital of ₱8.0 billion. The Bank successfully completed ₱8.0 billion stock rights offer and shares were listed on January 18, 2019 in the PSE. Capital paid in excess of par related to the offering amounted to ₱6.5 billion, net of transactions costs of ₱101.5 million.

On April 15, 2019, by majority vote of the Board of Directors and by stockholders representing at least two-thirds of the outstanding capital stock, the amendment of Article VII of the Bank's Articles of Incorporation increasing its authorized capital stock from ₱4,250,000,000.00 divided into 425,000,000 common shares with a par value of ₱10.00 per share to ₱6,000,000,000.00 divided into 600,000,000 common shares with a par value of ₱10.00 per share has been approved. This was approved by the SEC on November 20, 2019.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends			
Date of declaration	**Per share**	**Total amount**	**Record date**	**Payment date**
January 24, 2017	0.75	₱180,189,368.3	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368.3	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368.3	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368.3	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368.3	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368.3	May 9, 2018	May 23, 2018
July 20, 2018	0.75	180,189,368.3	August 6, 2018	August 20, 2018
October 15, 2018	0.75	180,189,368.3	October 30, 2018	November 14, 2018
January 17, 2019	0.75	287,332,062.0	February 1, 2019	February 18, 2019
April 15, 2019	0.75	287,332,062.0	May 3, 2019	May 15, 2019
July 19, 2019	0.75	287,332,062.0	August 5, 2019	August 19, 2019
October 14, 2019	0.75	287,332,062.0	October 29, 2019	November 13, 2019

**The Bank's stock price closed at ₱58.35 per share as of December 31, 2019.*

On October 9, 2015, the BSP issued Circular No. 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments*, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB. Otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration (Note 10) until receipt of cash dividends from the investee.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.

- On October 21, 2016, the BOD approved the Bank's updated Dividend Policy which provides, among others, the declaration and payment of cash dividends at a rate of ₱0.75 per share on a quarterly basis unless approved by a majority vote of the BOD at a different rate or otherwise restricted/prohibited from declaring/paying dividends.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, 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% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Risk-weighted assets 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 letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2019	2018
Tier 1 capital	**₱32,807**	₱22,132
CET1 capital	**32,807**	22,132
Less: Required deductions	**3,146**	3,444
Total Tier 1 Capital	**29,661**	18,688
Total Tier 2 capital	**1,672**	4,323
Total qualifying capital	**31,333**	23,011
Risk weighted assets	**₱176,385**	₱165,836
Tier 1 ratio	**16.82%**	11.27%
CET1 ratio	**16.82%**	11.27%
Capital adequacy ratio	**17.76%**	13.88%

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, cumulative foreign currency translation and remeasurements of net defined benefit asset. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is

Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred tax assets, goodwill, other intangible assets and significant minority investments in a joint venture.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

As of December 31, 2019 and 2018, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538.

On October 29, 2014, the BSP issued Circular No. 856 which covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019. On September 27, 2019, the BSP issued Circular No. 1051 which covers the enhancements in the assessment methodology of D-SIBs. The Bank has complied with this requirement.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the Parent Company. Per BSP Circular No. 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

<u>BASEL III Leverage Ratio (BLR)</u>
On June 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Basel III Leverage Ratio Framework which is designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.0 percent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 under BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The Basel III Leverage Ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage. Capital measure id the Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items. The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidiary financial allied undertakings but excluding insurance companies).

As of December 31, 2019 and December 31, 2018, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

	December 31, 2019	December 31, 2018
A. Capital Measure	**₱29,661**	₱18,688
B. Exposure Measure	**221,774**	234,510
C. Basel III Leverage Ratio (A/B)	**13.37%**	7.97%

Liquidity Coverage Ratio

On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets (HQLAs) to total net cash outflows. To promote the short-term resilience of the liquidity risk profile of the Bank, it shall maintain an adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least thirty (30) calendar days, which would give time for corrective actions to be taken by the Bank's management and/or the Bangko Sentral.

On March 15, 2019, the BSP issued Circular No. 1035 which approved the: (1) extension of the observation period of the minimum Basel III Liquidity Coverage Ratio (LCR) requirement to December 31, 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period, (3) minimum requirement of one hundred (100%) starting January 1, 2020. As of December 31, 2019, the LCR in single currency as reported to the BSP, was at 130.22%.

Net Stable Funding Ratio

On June 6, 2018, the BSP issued Circular No. 1007, lmplementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on and off balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Bank's liquidity profile. The covered bank shall maintain an NSFR of at least 100.0 percent at all times. Compliance with this requirement was phased-in effective July 1, 2018, with full implementation of the minimum NSFR on January 1, 2019.

On March 15, 2019, the BSP issued Circular No. 1034 which approved the extension of the observation period for the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs).

The implementation of the minimum NSFR shall be phased in to help ensure that the covered banks/QBs can meet the standard through reasonable measures without disrupting credit extension and financial market activities. In order to facilitate compliance, covered banks/QBs shall undergo an observation period before the NSFR becomes a minimum requirement. Subsidiary banks/QBs of UBs/KBs shall be subject to an NSFR floor of seventy percent (70% during the observation period. Starting January 1, 2020, the minimum NSFR for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs) shall be 100%. As of December 31, 2019, the NSFR as reported to the BSP, was at 114.30%.

Basel III Countercyclical Capital Buffer

On December 6, 2018, the BSP issued Circular No. 1024 covering the Philippine adoption of the Basel III Countercyclical Capital Buffer (CCyB) which imposed the following capital buffers:

- Capital Conservation buffer (CCB) of two and a half percent (2.5%); and
- Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board of the BSP when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcements. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

Financial Performance

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

	2019	2018	2017
Return on average equity	**10.29%**	11.38%	12.51%
Return on average assets	**1.31%**	1.15%	1.26%
Net interest margin on average earning assets	**5.82%**	5.79%	6.10%
Liquidity ratio	**19.70%**	23.47%	20.70%
Debt-to-equity ratio	**5.53:1**	8.75:1	8.97:1
Asset-to-equity ratio	**6.53:1**	9.75:1	9.97:1
Interest rate coverage ratio	**1.59:1**	1.59:1	1.84:1

22. Net Service Fees and Commission Income

This account consists of:

	2019	2018	2017
Service Fees and Commission Income			
Credit-related fees and commissions	**₱1,383,966,509**	₱1,147,242,321	₱1,002,687,070
Deposit-related and other fees received (Note 29)	**531,415,495**	542,791,633	441,197,668
Trust fees	**36,559,669**	31,711,469	26,317,702
	1,951,941,673	1,721,745,423	1,470,202,440
Service Fees and Commission Expense			
Commissions	**84,651,434**	89,813,087	83,211,656
Brokerage	**3,785,862**	6,294,577	11,216,635
	88,437,296	96,107,664	94,428,291
Net Service Fees and Commission Income	**₱1,863,504,377**	₱1,625,637,759	₱1,375,774,149

23. Miscellaneous Income

This account consists of:

	2019	2018	2017
Recovery of charged-off assets	**₱305,034,325**	₱309,707,677	₱325,476,107
Insurance commission income	**146,397,446**	156,867,388	113,868,238
Rental income (Notes 12, 25 and 29)	**38,164,311**	50,548,338	50,137,646
Others (Note 29)	**65,301,808**	107,176,032	18,028,368
	₱554,897,890	₱624,299,435	₱507,510,359

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include income from renewal fees, checkbook charges, breakfunding cost and other miscellaneous income.

24. **Retirement Benefits**

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the BOD of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determining the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act No. 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2019.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of income follow:

	2019	2018
Current service cost	**₱223,748,861**	₱225,888,075
Net interest cost	**(7,346,183)**	17,710,397
	₱216,402,678	₱243,598,472

The net retirement liability shown under ‘Other liabilities’ recognized in the Bank’s statements of condition follows (in thousands):

	2019											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2019	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2019
Present value of defined benefit obligation	₱2,452,459	₱223,749	₱174,993	₱398,742	(₱131,807)	₱–	₱52,870	(₱66,706)	₱634,758	₱620,922	₱–	₱3,340,316
Fair value of plan assets	(2,339,800)	–	(182,339)	(182,339)	131,807	46,711	–	–	–	46,711	(556,300)	(2,899,921)
Net defined benefit liability	₱112,659	₱223,749	(₱7,346)	₱216,403	₱–	₱46,711	₱52,870	(₱66,706)	₱634,758	₱667,633	(₱556,300)	₱440,395

	2018											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2018	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2018
Present value of defined benefit obligation	₱2,415,551	₱225,888	₱130,937	₱356,825	(₱171,324)	₱–	(₱24,119)	₱–	(₱124,474)	(₱148,593)	₱–	₱2,452,459
Fair value of plan assets	(1,899,698)	–	(113,227)	(113,227)	171,324	41,763	–	–	–	41,763	(539,962)	(2,339,800)
Net defined benefit liability	₱515,853	₱225,888	₱17,710	₱243,598	₱–	₱41,763	(₱24,119)	₱–	(₱124,474)	(₱106,830)	(539,962)	₱112,659

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱334.0 million to its noncontributory defined benefit plan in 2020.

The fair values of plan assets by each class as at the statements of condition date are as follows:

	2019	2018
Investment in other debt securities	**₱2,033,881,425**	₱1,379,868,233
Cash and cash equivalents		
Special deposit account	**753,284,758**	859,638,302
Unit Investment Trust Fund (UITF)	**55,533,465**	50,585,860
Investment in equity securities	**45,678,960**	37,503,773
Other assets	**17,388,012**	18,679,990
	₱2,905,766,620	2,346,276,158
Expected withdrawals	**2,186,497**	4,470,674
Other liabilities	**3,659,269**	2,004,942
	5,845,766	6,475,616
	₱2,899,920,854	₱2,339,800,542

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank.

The principal actuarial assumptions used in determining retirement liability as of December 31, 2019 and 2018 are shown below:

	2019	2018
Discount rate	**4.86%**	7.33%
Turnover rate	**3.72%, 7.03%**	5.00%
Future salary increases	**5.80%**	6.00%

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

	December 31, 2019		December 31, 2018	
	Possible Fluctuations	**Increase (decrease)**	Possible Fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(₱306,936,163)**	+1.00%	(₱212,902,648)
	-1.00%	**356,515,290**	-1.00%	246,261,251
Turnover rate	**+1.00%**	**(24,844,215)**	+1.00%	(4,634,269)
	-1.00%	**25,904,088**	-1.00%	4,868,884
Future salary increase rate	**+1.00%**	**365,875,807**	+1.00%	264,768,869
	-1.00%	**(320,611,308)**	-1.00%	(232,248,283)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2019	2018
Less than one year	**₱184,489,685**	₱130,213,096
One to less than five years	**968,188,477**	788,373,808
Five to less than 10 years	**1,984,484,132**	1,698,994,154
10 to less than 15 years	**2,385,120,244**	2,395,814,240
15 to less than 20 years	**3,514,621,971**	3,546,955,267
20 years and above	**3,998,539,092**	5,280,083,077

The average duration of the expected benefit payments at the statement of condition date is 15.43 years.

25. **Leases**

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%.

As of December 31, 2019, the carrying amounts of lease liabilities (included in 'Other Liabilities' in Note 19) are as follows:

	2019
Balance at beginning of year	₱1,631,376,370
Additions	186,062,195
Expiry/termination	(24,419,449)
Accretion of interest	113,560,729
Payments	(439,476,020)
	₱1,467,103,825

With the adoption of PFRS 16, as of December 31, 2019, the Bank recognized interest expense on lease liabilities (included in 'Interest expense' in the statements of income) amounting to ₱113.6 million and rent expense from short-term leases and leases of low-value assets amounting to ₱94.1 million. Prior to adoption of PFRS 16, rentals charged against profit or loss under these lease contracts (included in 'Occupancy and equipment-related costs') amounted to ₱579.9 million in 2018 and 2017.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2018
Within one year	₱423,674,780
After one year but not more than five years	1,329,902,440
More than five years	290,459,635
	₱2,044,036,855

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2019 and 2018, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱37.5 million, ₱49.9 million, and ₱48.7 million in 2019, 2018 and 2017, respectively are shown under 'Miscellaneous income' in the statements of income (Notes 12 and 23).

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2019	2018
Within one year	**₱33,471,331**	₱32,955,174
After one year but not more than five years	**42,079,555**	35,863,669
	₱75,550,886	₱68,818,843

26. **Miscellaneous Expenses**

This account consists of:

	2019	2018	2017
Insurance (Note 29)	**₱526,287,475**	₱595,158,658	₱646,175,766
Information technology (Note 29)	**425,215,165**	297,643,153	300,919,189
Litigation	**282,384,260**	297,754,941	311,326,367
Communications	**177,856,164**	179,193,852	171,980,030
Fines, penalties and other charges	**128,331,742**	234,341,527	193,083,359
Repairs and maintenance (Note 12)	**110,547,531**	135,470,468	145,685,402
Transportation and traveling	**94,905,835**	95,921,603	108,019,662
Supervision and examination fees	**77,018,742**	70,287,368	59,666,717
Advertising	**69,277,788**	69,805,497	134,701,913
Stationery and supplies	**48,873,458**	65,109,689	61,923,426
Management and professional fees	**24,116,130**	23,735,142	29,477,993
Donations and charitable contributions	**11,477,405**	10,490,700	11,391,445
Training and seminars	**8,452,923**	12,134,080	19,158,180
Banking activities expenses	**8,038,978**	12,549,672	9,032,636
Meeting allowance	**4,702,558**	6,325,640	6,731,295
Rewards and incentives	**3,104,531**	7,167,172	6,595,774
Membership fees and dues	**2,983,128**	5,671,411	3,508,422
Entertainment, amusement and recreation (EAR) (Note 27)	**1,877,071**	2,504,229	3,492,739
Others	**17,740,398**	19,632,920	28,463,191
	₱2,023,191,282	₱2,140,897,722	₱2,251,333,506

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱361.4 million, ₱398.4 million, and ₱368.2 million in 2019, 2018 and 2017, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also includes payments to union members amounting to ₱11.1 million , ₱10.7 million and ₱10.8 million in 2019, 2018 and 2017, respectively, for the successful completion of the collective bargaining agreement.

27. Income and Other Taxes

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 gross receipts tax (GRT) and documentary stamp tax (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2019 and 2018.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at 15.00% in 2019 and 2018.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	2019	2018	2017
Current:			
Final tax	**₱260,917,208**	₱260,261,959	₱259,181,580
RCIT	**153,911,132**	121,107,822	134,901,056
	414,828,340	381,369,781	394,082,636
Deferred	**135,612,443**	(71,774,541)	(127,021,129)
	₱550,440,783	₱309,595,240	₱267,061,507

Net deferred tax assets consist of the following tax effects:

	2019	2018
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱1,243,297,588**	₱1,367,526,527
Unamortized pension cost contribution	**220,355,789**	175,312,814
Difference between book base and tax base of investment property	**112,799,780**	131,401,357
Leases	**68,373,851**	–
Accrued rent	**–**	57,169,719
Net pension liability	**132,118,445**	33,797,705
	1,776,945,453	1,765,208,122
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(375,267,861)**	(388,319,920)
Unrealized foreign exchange gains	**(1,774,776)**	(49,221,118)
Others	**(1,766,034)**	–
	(378,808,671)	(437,541,038)
	₱1,398,136,782	₱1,327,667,084

As of December 31, 2019 and 2018, the Bank did not recognize deferred tax assets on allowance for credit losses amounting to ₱16.8 million and ₱23.9 million, respectively. Income tax effect recognized in OCI amounted to (₱200.3 million), (₱32.0 million) and ₱1.6 million in 2019, 2018 and 2017, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2019	2018	2017
Statutory income tax	**₱1,073,634**	₱891,522	₱876,444
Tax effect of:			
Tax-paid and tax-exempt income	**(615,986)**	(675,048)	(688,672)
Nondeductible expenses	**215,415**	364,875	365,298
FCDU income	**(100,331)**	(67,360)	(97,955)
Others	**(22,291)**	(204,394)	(188,053)
Effective income tax	**₱550,441**	₱309,595	₱267,062

28. Earnings Per Share

The following table presents information used to calculate basic EPS:

	2019	2018	2017
a. Net income	**₱3,028,337,640**	₱2,662,145,866	₱2,654,419,128
b. Weighted average number of common shares for basic earnings per share	**377,064,998**	253,332,198*	253,332,198*
c. Basic/Diluted EPS (a/b)	**₱8.03**	₱10.51	₱10.48

*Restated to show the effect of stock rights issued in January 2019

As of December 31, 2019, 2018 and 2017, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties are as follows:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules and regulations;
- Close Family Members (i.e., 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP and up, and Individual Substantial Stockholders;
- Bank's Subsidiaries and Affiliates as defined per BSP's existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

The Bank has several business relationships with related parties. The terms of the transactions with such parties are listed below on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties, and are usually settled in cash. These transactions also did not involve more than the nominal risk of collectability or present other unfavorable conditions.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust Division of the Bank. The total fair value of the retirement fund as of December 31, 2019 and 2018 amounted to ₱2.9 billion and ₱2.3 billion, respectively. The details of the assets of the fund as of December 31, 2019 and 2018 are disclosed in Note 24.

The following table shows the amount of outstanding balances of related party transactions of the Bank with the retirement plan of the employees of the Bank as of December 31, 2019 and 2018:

		2019	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Savings Deposit	**₱3,685,981**	
	Investment in Money Market Fund*	**52,092,458**	
	Income from UITF		**₱1,869,456**
	Interest income		**14,629**
First Metro ETF	Equity investment	**₱26,352,764**	

*Includes fair value gains of ₱0.3 million

		2018	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	₱10,286	
	Investment in Money Market Fund*	50,122,781	
	Loss on sale of equity securities		₱900,961
	Income from UITF		7,816
	Interest income	25,019,522	
First Metro ETF	Equity investment	₱10,286	

*Includes fair value gains of ₱0.2 million

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures.*

Total remunerations of key management personnel (covering assistant vice presidents and up) [included under 'Compensation and fringe benefits' in the statements of income are as follows:

	2019	2018
Short-term employee benefits	**₱300,297,110**	₱253,953,306
Post-employment pension benefits	**35,761,294**	7,858,066
	₱336,058,404	₱261,811,372

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱19.0 million, ₱19.3 million, and ₱19.3 million in 2019, 2018 and 2017, respectively.

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	December 31, 2019		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Due from other banks	**(₱385,380)**	**₱730,409**	Peso and foreign denominated deposit with 2.50% fixed interest rates and maturities ranging from 360 days
Interbank loans receivable		**–**	Peso-denominated lending with 4.00% to 5.09% fixed interest rates and maturities ranging from 1 to 3 days
Placements	**35,778,000**	**–**	
Maturities	**(35,778,000)**	**–**	
Investment securities at amortized cost	**(202)**	**66,294**	Pledged for security of payroll account with MBTC.
Accounts receivable (payable)	**(5,691)**	**(959)**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	**–**	**781**	Security deposits on lease contracts
Miscellaneous liabilities	**–**	**6,242**	Advance payments of security deposits

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2019		
Bills Payable		–	Peso-denominated borrowing with fixed interest rate of 3.00% with 1 day maturity.
Deposits/placements	₱31,238,942	₱–	
Withdrawals/maturities	(31,238,942)	–	
Accrued other expense payable	(1,869)	32,460	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	5,214	–	Income on deposits and interbank loans receivables
Rental income	418	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	25,047	–	Income received from ATM service fees, rental and utilities
Information technology expense	294,813	–	Payment of information technology expenses
Trading and security loss	146,720	–	Loss from securities transactions
Interest expense	6,156	–	Interest expense on bills payable
Securities transactions			
Outright purchases	1,757,094	–	Outright purchase of FVTPL, FVOCI and investment at amortized cost
Outright sales	(4,921,605)	–	Outright sale of FVTPL, FVOCI and investment at amortized cost
Joint Venture			
Investment in a joint venture	–	755,781	Investment in SMFC
Share in net income of a joint venture	105,905	–	30% share in net income of SMFC
Dividends from joint venture	39,960	–	Dividends from SMFC
Share in unrealized gain on remeasurement of retirement liability	(2,189)	942	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	(867)	866	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	8,938	23,877	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	4,630	Payment of security deposits
Rental income	13,900	–	Income from leasing agreements
Interest expense	254	–	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending which earn 4.00% to 5.00% fixed daily interest rate with maturity terms from 1 to 5 days
Placements	36,850,000	–	
Maturities	(36,850,000)	–	
Receivable from customers		994,425	Loans granted bear interest of ranging 7.05% to 7.38% with 1 to 10 years term.
Placements	985,000	–	
Maturities	992,700		
Miscellaneous assets	1,351	2,784	Three months advance security deposits
Accounts receivable	3,659	6,321	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	(4,575)	9,993	Payment for various policy renewals
Deposit liabilities	(233,268)	688,847	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 3.50%
Bills Payable	–	–	Peso denominated borrowing with 4.00% to 5.00% fixed interest rates and maturities ranging from 1 to 3 days
Deposits/placements	83,019,000	–	
Withdrawals/maturities	(83,019,000)	–	
Accrued other expense payable	–	1,388	Outstanding group life insurance
Accounts payable	244	4,056	Various personal and car insurance payable
Miscellaneous liabilities	(3,530)	–	Advance payment of security deposits from various tenants
Interest income	68,986	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	4,605	–	Loss from securities transactions
Rental income	15,195	–	Income from leasing agreements with various lease terms
Bank commission	3,194	–	Commission income on ATM service fees
Miscellaneous income	617	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	54,164	–	Payment of insurance premium
Interest expense	32,272	–	Interest on deposit liabilities and bills payable
Rent expense	6,003	–	Payment of rent expense to various lessors

(Forward)

			December 31, 2019
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Securities transactions			
Outright purchases	**₱–**	**₱–**	Outright purchase of FVTPL and FVOCI
Outright sales	**(300,000)**	**–**	Outright sale of FVTPL and FVOCI
Key Personnel			
Receivables from customers	**₱–**	**₱11,329**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**2,387**	**–**	
Maturities	**(4,188)**	**–**	
Interest income	**1,019**	**–**	Interest income from loans

			December 31, 2018
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Due from other banks	₱203,044	₱1,115,789	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Interbank loans receivable		–	Peso-denominated lending with 3.13% to 4.75% fixed interest rates and maturities ranging from 1 to 3 days
Placements	66,800,000	–	
Maturities	(66,800,000)	–	
Investment securities at amortized cost	66,496	66,496	Pledged for security of payroll account with MBTC.
Accounts receivable	(12,919)	4,732	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	–	781	Security deposits on lease contracts
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Bills Payable		–	Peso-denominated borrowing with fixed interest rate of 3.00% with 1 day maturity.
Deposits/placements	400,000	–	
Withdrawals/maturities	(400,000)	–	
Accrued other expense payable	(3,403)	34,329	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	11,012	–	Income on deposits and interbank loans receivables
Rental income	20,140	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	16,368	–	Income received from ATM service fees, rental and utilities
Information technology expense	150,406	–	Payment of information technology expenses
Trading and security loss	(11,934)	–	Loss from securities transactions
Interest expense	33	–	Interest expense on bills payable
Securities transactions			
Outright purchases	4,115,480	–	Outright purchase of FVTPL, FVOCI and Amortized cost investments
Outright sales	(1,274,420)	–	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	–	691,426	Capital investment in SMFC
Share in net income of a joint venture	82,377	–	30% share in net income of SMFC
Share in unrealized gain on remeasurement of retirement liability	1,886	3,131	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	(247)	1,733	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	1,618	14,939	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	4,630	Payment of security deposits
Rental income	13,900	–	Income from leasing agreements
Interest expense	198	–	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending which earn 2.50% to 3.25% fixed daily interest rate with maturity terms from 1 to 5 days
Placements	189,042,000	–	
Maturities	(189,542,000)	–	
Receivable from customers		1,002,125	Loans granted bear interest of ranging 7.05% to 8.75% with 1 to 10 years term.
Placements	998,406	–	
Maturities	6,522		

(Forward)

Category	December 31, 2018 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Miscellaneous assets	₱43	₱1,433	Three months advance security deposits
Accounts receivable	192	2,662	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	917	14,568	Payment for various policy renewals
Deposit liabilities	(690,572)	922,115	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accounts payable	1,195	3,812	Various personal and car insurance payable
Miscellaneous liabilities	361	3,530	Advance payment of security deposits from various tenants
Interest income	60,746	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	16	–	Loss from securities transactions
Rental income	14,388	–	Income from leasing agreements with various lease terms
Bank commission	3,388	–	Commission income on ATM service fees
Miscellaneous income	18,353	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	42,458	–	Payment of insurance premium
Interest expense	13,139	–	Interest on deposit liabilities and bills payable
Rent expense	3,263	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	100,000	–	Outright purchase of FVTPL and AFS invXestments
Outright sales	(50,000)	–	Outright sale of FVTPL and AFS investments
Key Personnel			
Receivables from customers	–	13,130	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	3,761	–	
Maturities	(3,700)	–	
Interest income	1,065	–	Interest income from loans

Regulatory Reporting

As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its DOSRI. These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior BOD approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15.00% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30.00% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2019 and 2018, the Bank's credit exposures to DOSRI are within the said regulatory limits.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2019 and 2018 (in thousands):

	2019		2018	
	DOSRI Loans	**Related Party Loans**	DOSRI Loans	Related Party Loans
Total outstanding loans	**₱236,494**	**₱1,349,467**	₱234,161	₱1,378,978
Percent of DOSRI/Related Party loans to total loan portfolio	**0.1%**	**0.8%**	0.1%	0.9%
Percent of unsecured DOSRI/Related Party loans to total DOSRI/Related Party loans	**94.8%**	**89.7%**	96.3%	88.8%
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 from DOSRI loans amounted to ₱5.7 million in 2019, and ₱5.8 million in 2018 and 2017.

30. Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

As of December 31, 2019 and 2018, the Bank deposited government securities with carrying value of ₱143.2 million and ₱84.2 million, respectively, in compliance with trust regulations (Note 8).

In compliance with existing banking regulations, the Bank transferred from surplus to surplus reserve the amount of ₱1.3 million and ₱0.5 million, which corresponds to 10.00% of the net income realized from the Bank’s Trust Department in 2019 and 2018, respectively.

31. Commitments and Contingent Liabilities

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

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2019	2018
Trust department accounts (Note 30)	**₱6,981,353,030**	₱6,400,841,134
Stand-by credit lines	**84,000,000**	70,500,000
Swap forward exchange - sold	**50,635,000**	2,602,710,000
Late deposits/payments received	**9,521,669**	9,521,669
Items held for safekeeping	**455,693**	296,024
Others	**488,280**	124,429

Also, several suits and claims, in behalf of or against the Bank in relation to its banking operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

32. Notes to Statements of Cash flows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2019	2018	2017
Additions to chattel mortgage in settlement of loans (Note 14)	**₱3,304,131,638**	₱2,592,446,719	₱2,577,163,081
Recognition of right-of-use assets (Note 2)	**1,628,345,834**	–	–
Recognition of lease liabilities (Note 2)	**1,817,438,565**	–	–
Fair value changes in financial assets at FVOCI / Change in net unrealized gain/loss on AFS investments (Note 8)	**994,927,408**	(815,985,665)	381,641,780
Additions to investment properties in settlement of loans (Note 12)	**735,282,417**	791,786,329	868,280,425
Cost adjustment on intangible assets (Note 13)	**84,291,800**	–	–
Net retirement of ROU/ (Lease liability)	**(17,314,414)**		
Cumulative translation adjustment	**(181,095)**	(6,116)	(5,292,411)

The table below provides for the changes in liabilities arising from financing activities in 2019 and 2018 (in millions):

	Subordinated Notes	**Bills Payable**	**Bonds Payable**	**Lease Liability**	**Total Liabilities from Financing Activities**
January 1, 2019	**₱2,982**	**₱2,969**	**₱–**	**₱1,631**	**₱7,582**
Cash flows from availments	**–**	**382,499**	**6,243**	**–**	**388,742**
Cash flows from settlement	**(3,000)**	**(381,299)**	**–**	**(439)**	**(384,738)**
Foreign exchange movement	**–**	**–**	**–**	**–**	**–**
Others	**18**	**21**	**11**	**275**	**325**
December 31, 2019	**₱–**	**₱4,190**	**₱6,254**	**₱1,467**	**₱11,911**

Others include amortization of subordinated notes, bills payable and bonds payable, additions to lease liability, and accretion and termination of lease liability.

	Subordinated Notes	Bills Payable	Total Liabilities from Financing Activities
January 1, 2018	₱2,979	₱1,492	₱4,471
Cash flows from availments	–	87,841	87,841
Cash flows from settlement	–	(86,365)	(86,365)
Foreign exchange movement	–	–	–
Others	3	1	4
December 31, 2018	₱2,982	₱2,969	₱5,951

Others include amortization of subordinated notes and bills payable.

As of December 31, 2019 and 2018, the Bank recognized allowance for credit losses from ‘Due from BSP’, ‘Due from other banks’ and ‘Interbank loans receivable and SPURA’ as follows:

	2019	2018
Due from BSP	**₱1,226,349**	₱2,827,898
Due from other banks	**1,043,119**	2,300,673
Interbank loans receivable and SPURA	**–**	180,000
	₱2,269,468	₱5,308,571

33. **Offsetting of Financial Assets and Liabilities**

PFRS 7 requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

As of December 31, 2019, there were no derivative assets and SPURA.

December 31, 2018						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments [d]	Fair value of financial collateral	Net exposure [c-d] [e]
Derivative Assets (Note 8)	₱1,620,584,984	₱1,610,511,852	₱10,073,132	₱2,895,073	₱–	₱7,178,059
SPURA (Note 7)	1,892,000,000	–	1,892,000,000	–	1,883,224,805	8,775,195

Financial liabilities

As of December 31, 2019, there were no outstanding foreign currency swaps and forwards and SSURA.

December 31, 2018						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments [d]	Fair value of financial collateral	Net exposure [c-d] [e]
Derivative Liabilities (Note 8)	₱985,290,611	₱982,395,538	₱2,895,073	₱10,073,132	₱–	₱–

34. Subsequent Events

Cash Dividend Declaration
On January 16, 2020, the BOD of the Bank approved the declaration of a 7.50% regular cash dividend for the fourth quarter of 2019 for stockholders on record as of January 31, 2020 amounting to ₱287.3 Million or ₱0.75 per share to be paid on February 17, 2020.

Stock Dividend Declaration
On November 20, 2019, the SEC approved the amendment to the Articles of Incorporation on the increase in authorized capital stock of the Bank.

On January 16, 2020, the Bank received the SEC Order fixing the Record Date of the 11.42% Stock Dividend involving 43,750,000 shares on January 31, 2020. Payment date of February 21, 2020 was set in accordance with the BOD approval and the rules of the PSE.

Issuance of Bonds
On February 4, 2020, the Bank issued ₱4.65 billion fixed rate bonds with an issue price at 100% face value, which bear an interest of 4.50% per annum and will mature on February 4, 2023.

35. **Approval for the Release of the Financial Statements**

The accompanying comparative financial statements by the Bank were authorized for issue by the BOD on February 20, 2020.

36. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010**

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2019, taxes and licenses of the Bank consist of:

Gross receipts tax	₱844,518,076
Documentary stamps tax	600,290,332
Local taxes	93,104,920
Fringe benefit tax	11,840,715
	₱1,549,754,043

Withholding Taxes
As of December 31, 2019, total remittances and balance of withholding taxes in 2019 are as follows:

	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱416,622,286	₱22,547,368
Final withholding taxes	821,806,194	59,171,311
Expanded withholding taxes	92,743,942	9,794,806
	₱1,331,172,422	₱91,513,485

The Bank has no ongoing tax assessment as of December 31, 2019.

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