C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

7409

COMPANY NAME

MAYBANK PHILIPPINES, INCORPORATED

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

Maybank Corporate Centre, 7th Avenue corner 28th Street, Bonifacio Global City, Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
		December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ma. Caroline B. Santillan	cbsantillan@maybank.com	739-1760	

CONTACT PERSON's ADDRESS

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Maybank Philippines, Incorporated

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Maybank Philippines, Incorporated (the Bank) which comprise the statements of financial position 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 the years then ended, 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 the years then ended 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.

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.

Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations 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 BSP Circular No. 1074 in Note 32 and Revenue Regulations 15-2010 in Note 33 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 Maybank Philippines, Incorporated. 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.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
    September 18, 2018, valid until September 17, 2021
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
    February 14, 2018, valid until February 13, 2021
PTR No. 8125208, January 7, 2020, Makati City

June 26, 2020

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Cash and Other Cash Items	**₱1,525,384,334**	₱1,685,366,097
Due from Bangko Sentral ng Pilipinas (Note 13)	**9,767,154,508**	13,670,378,655
Due from Other Banks (Note 28)	**3,489,488,184**	13,090,490,156
Financial Assets at Fair Value Through Profit or Loss (Notes 6 and 17)	**367,173,359**	613,495,866
Financial Assets at Fair Value Through Other Comprehensive Income (Note 7)	**2,861,159,643**	4,289,577,357
Investment Securities at Amortized Cost (Note 8)	**11,538,964,499**	12,300,290,249
Loans and Receivables (Note 9)	**71,867,473,016**	76,379,381,182
Property and Equipment (Note 10)	**268,400,288**	287,270,381
Right-of-Use Assets (Note 24)	**661,697,559**	–
Investment Properties (Note 11)	**1,136,172,532**	1,338,292,042
Deferred Tax Assets (Note 25)	**975,645,803**	913,480,037
Other Assets (Note 12)	**616,227,210**	827,844,756
TOTAL ASSETS	**₱105,074,940,935**	₱125,395,866,778
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 13 and 28)		
Demand	**₱23,267,475,263**	₱19,973,207,626
Savings	**19,987,100,447**	21,437,661,176
Time	**32,626,228,575**	44,361,105,002
	75,880,804,285	85,771,973,804
Bills Payable (Notes 14 and 28)	**8,911,760,000**	20,685,920,000
Subordinated Debt (Note 28)	**1,991,777,972**	1,990,956,784
Accrued Interest, Taxes and Other Expenses (Note 15)	**1,185,770,350**	1,393,553,023
Lease Liability (Note 24)	**821,054,982**	–
Financial Liabilities at Fair Value through Profit or Loss (Notes 17 and 28)	**288,170,199**	619,298,849
Manager's Checks	**698,382,887**	544,534,813
Outstanding Acceptances	**33,127,228**	106,945,606
Income Tax Payable	**29,174,050**	–
Other Liabilities (Note 16)	**1,309,314,179**	1,088,268,448
	91,149,336,132	112,201,451,327
EQUITY		
Preferred Stock (Note 19)	**232,539,724**	232,539,724
Common Stock (Note 19)	**10,313,344,184**	10,313,344,184
Cost of Share-based Payments (Note 19)	**262,761,718**	262,761,718
Surplus Reserve (Note 19)	**56,817,291**	53,680,606
Surplus	**3,148,703,461**	2,485,589,166
Net Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income (Note 7)	**22,257,243**	(159,841,465)
Remeasurement Gains (Losses) on Retirement Plan (Note 20)	**(97,932,745)**	7,516,987
Cumulative Translation Adjustment	**(12,502,468)**	(791,864)
Treasury Shares (Note 19)	**(383,605)**	(383,605)
	13,925,604,803	13,194,415,451
TOTAL LIABILITIES AND EQUITY	**₱105,074,940,935**	₱125,395,866,778

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018
INTEREST INCOME ON		
Loans and receivables (Notes 9 and 28)	**₱6,501,299,506**	₱6,562,514,449
Financial investments (Notes 6, 7 and 8)	**811,197,118**	552,916,505
Interbank loans receivable and securities purchased under resale agreements	**195,921,305**	103,815,121
Due from Bangko Sentral ng Pilipinas and other banks	**33,246,017**	7,225,200
	7,541,663,946	7,226,471,275
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 28)	**1,989,675,469**	1,778,503,887
Bills payable and other borrowings (Notes 14 and 28)	**774,733,793**	482,939,010
Financial liabilities at fair value through profit or loss (Note 17 and 28)	**7,501,755**	17,195,260
Lease liability (Note 24)	**74,159,490**	–
	2,846,070,507	2,278,638,157
NET INTEREST INCOME	**4,695,593,439**	4,947,833,118
OTHER INCOME AND CHARGES		
Service charges, fees and commissions (Notes 22 and 28)	**744,443,207**	743,304,331
Foreign exchange losses – net	**(642,156,839)**	(6,822,967)
Net trading gains (losses) (Note 21)	**233,319,128**	(94,185,428)
Gain (loss) on sale of properties	**203,633,524**	(37,470,714)
Gain (loss) on foreclosures	**(51,533,597)**	17,041,259
Miscellaneous (Note 23)	**255,876,870**	267,544,582
TOTAL OPERATING INCOME	**5,439,175,732**	5,837,244,181
OTHER EXPENSES AND CHARGES		
Compensation and fringe benefits (Notes 20 and 26)	**1,596,946,206**	1,637,578,455
Taxes and licenses	**847,757,491**	804,385,680
Provision for impairment and credit losses (Notes 9, 11 and 12)	**321,715,104**	754,857,346
Depreciation and amortization (Notes 10, 11 and 12)	**450,317,734**	363,880,256
Occupancy (Note 24)	**102,450,467**	301,205,122
Insurance	**183,651,228**	210,433,395
Security, messengerial and janitorial	**134,646,584**	148,814,647
Litigation and asset acquired	**104,429,061**	88,724,311
Traveling	**39,394,783**	50,662,601
Postage, telephone and telegrams	**42,543,964**	38,669,061
Stationery and supplies used	**27,601,841**	37,232,151
Management and other professional fees	**24,067,176**	29,164,920
Repairs and maintenance	**20,377,682**	20,224,948
Entertainment, amusement and recreation	**2,359,141**	5,438,181
Miscellaneous (Note 23)	**694,780,145**	653,785,665
TOTAL OPERATING EXPENSES	**4,593,038,607**	5,145,056,739
INCOME BEFORE INCOME TAX	**846,137,125**	692,187,442
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)	**179,886,145**	(43,026,984)
NET INCOME	**₱666,250,980**	₱735,214,426

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
NET INCOME	**₱666,250,980**	₱735,214,426
OTHER COMPREHENSIVE INCOME (LOSS)		
***Items that may be reclassified to profit or loss in subsequent periods*:**		
Net change in unrealized gains (losses) on financial assets at f fair value through other comprehensive income (Note 7)	**186,710,993**	(154,320,305)
Tax effect	**(4,612,285)**	–
Cumulative translation adjustment	**(11,710,604)**	962,569
Item that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan (Note 20)	**(150,642,474)**	136,389,363
Tax effect	**45,192,742**	(40,916,809)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**64,938,372**	(57,885,182)
TOTAL COMPREHENSIVE INCOME	**₱731,189,352**	₱677,329,244

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED

STATEMENTS OF CHANGES IN EQUITY

	Preferred Stock (Note 19)											
	“A”	**“B”**	**“C”**	**Common Stock** (Note 19)	**Cost of Share-Based Payment** (Note 19)	**Surplus Reserve** (Note 19)	**Surplus**	**Cumulative Translation Adjustment**	**Remeasurement Losses on Retirement Plan** (Note 20)	**Net Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income** (Note 7)	**Treasury Shares** (Note 19)	**Total**
Balances at January 1, 2019	**₱4,440,000**	**₱8,880,000**	**₱219,219,724**	**₱10,313,344,184**	**₱262,761,718**	**₱53,680,606**	**₱2,485,589,166**	**(₱791,864)**	**₱7,516,987**	**(₱159,841,465)**	**(₱383,605)**	**₱13,194,415,451**
Net income	–	–	–	–	–	–	**666,250,980**	–	–	–	–	**666,250,980**
Other comprehensive income (loss)	–	–	–	–	–	–	–	**(11,710,604)**	**(105,449,732)**	**182,098,708**	–	**64,938,372**
Total comprehensive income (loss)	–	–	–	–	–	–	**666,250,980**	**(11,710,604)**	**(105,449,732)**	**182,098,708**	–	**731,189,352**
Transfer to surplus reserve	–	–	–	–	–	**3,136,685**	**(3,136,685)**	–	–	–	–	–
Balances at December 31, 2019	**₱4,440,000**	**₱8,880,000**	**₱219,219,724**	**₱10,313,344,184**	**₱262,761,718**	**₱56,817,291**	**₱3,148,703,461**	**(₱12,502,468)**	**(₱97,932,745)**	**₱22,257,243**	**(₱383,605)**	**₱13,925,604,803**
Balances at January 1, 2018	₱4,440,000	₱8,880,000	₱219,219,724	₱10,313,344,184	₱262,761,718	₱49,428,986	₱1,754,626,360	(₱1,754,433)	(₱87,955,567)	(₱5,521,160)	(₱383,605)	₱12,517,086,207
Net income	–	–	–	–	–	–	735,214,426	–	–	–	–	735,214,426
Other comprehensive income (loss)	–	–	–	–	–	–	–	962,569	95,472,554	(154,320,305)	–	(57,885,182)
Total comprehensive income (loss)	–	–	–	–	–	–	735,214,426	962,569	95,472,554	(154,320,305)	–	677,329,244
Transfer to surplus reserve	–	–	–	–	–	4,251,620	(4,251,620)	–	–	–	–	–
Balances at December 31, 2018	₱4,440,000	₱8,880,000	₱219,219,724	₱10,313,344,184	₱262,761,718	₱53,680,606	₱2,485,589,166	(₱791,864)	₱7,516,987	(₱159,841,465)	(₱383,605)	₱13,194,415,451

See accompanying Notes to Financial Statements.

MAYBANK PHILIPPINES, INCORPORATED
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱846,137,125**	₱692,187,442
Adjustments for:		
Net loss (gain) on sale of:		
Investment properties and other properties acquired	**(203,633,525)**	37,475,215
Property and equipment	**(60,000)**	(4,500)
Depreciation and amortization (Notes 10, 11 and 12)	**450,317,735**	363,880,256
Provision for impairment and credit losses (Notes 9,11 and 12)	**321,715,101**	392,725,581
Amortization of premium (discount)	**(109,951,680)**	(98,726,631)
Loss (gain) on foreclosure of investment properties and other properties acquired	**51,533,597**	(17,041,259)
Unrealized gain (loss)	**(195,213,261)**	69,646,913
Retirement expense (Note 20)	**75,593,357**	100,207,918
Interest expense on lease contracts (Note 24)	**74,159,490**	-
Realized trading loss on sale of available-for-sale investments	**(38,105,867)**	(25,212,935)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	**6,311,361,063**	(6,721,585,609)
Financial assets at fair value through profit or loss	**246,322,508**	585,965,343
Other assets	**(192,204,776)**	(103,353,087)
Increase (decrease) in the amounts of:		
Deposit liabilities	**(9,891,169,519)**	5,438,743,556
Financial liabilities at fair value through profit or loss	**(419,194,095)**	472,815,319
Outstanding acceptances	**(73,818,378)**	(66,196,757)
Accrued interest, taxes and other expenses	**(207,029,645)**	260,994,874
Manager's checks	**(153,848,074)**	(325,283,159)
Other liabilities	**91,988,570**	150,643,282
Net cash provided by (used in) operations	**(3,015,100,274)**	1,207,881,762
Retirement contribution (Note 20)	**(75,593,357)**	(100,207,918)
Income taxes paid	**(172,297,405)**	(260,227,179)
Net cash provided by (used in) operating activities	**(3,262,991,036)**	847,446,665
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial assets at FVOCI	**(795,000,000)**	(3,388,000,000)
Financial assets at amortized cost	**(31,617,303,000)**	(9,485,878,325)
Property and equipment (Notes 10 and 31)	**(74,320,863)**	(79,902,712)
Software costs (Note 12)	**(23,172,624)**	(57,110,257)
Proceeds from:		
Sale of financial assets at FVOCI	**719,987,100**	4,182,084,749
Maturities of financial assets at amortized cost	**32,116,156,000**	82,000,000
Disposals of property and equipment (Note 10)	**5,058,145**	7,671,227
Sale of investment properties (Note 11)	**616,550,423**	98,706,845
Disposals of other properties acquired (Note 12)	**628,528,057**	454,903,012
Net cash provided by (used in) investing activities	**1,576,483,238**	(8,185,525,461)

(Forward)

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Net availments (settlements) of bills payable	**(₱11,774,160,000)**	₱10,999,500,000
Payment for principal portion of lease liabilities	**(191,829,478)**	–
Net cash provided by (used in) financing activities	**(11,965,989,478)**	10,999,500,000
CUMULATIVE TRANSLATION ADJUSTMENT	**(11,710,605)**	962,569
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(13,664,207,881)**	3,662,383,773
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**1,685,366,097**	1,810,596,016
Due from Bangko Sentral ng Pilipinas (BSP)	**13,670,378,655**	15,127,322,201
Due from other banks	**13,090,490,156**	2,889,498,085
Interbank loans receivable and securities purchased under resale agreement (SPURA)	**–**	4,956,434,833
	28,446,234,908	24,783,851,135
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**1,525,384,334**	1,685,366,097
Due from BSP	**9,767,154,509**	13,670,378,655
Due from other banks	**3,489,488,184**	13,090,490,156
	₱14,782,027,027	₱28,446,234,908
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱7,557,740,395**	₱7,102,544,112
Interest paid	**2,771,572,445**	2,077,552,735

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Maybank Philippines, Incorporated (the Bank) is a commercial bank incorporated in the Philippines on January 3, 1953 to provide banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through its 73 and 74 branches as of December 31, 2019 and 2018, respectively.

On October 12, 1999, the Securities and Exchange Commission (SEC) approved the extension of the corporate term of the Bank for another 50 years. The Bank is 99.97% owned by Malayan Banking Berhad (the Parent Company) incorporated in Malaysia.

The Bank's principal and registered place of business is Maybank Corporate Centre, 7th Avenue corner 28th Street, Bonifacio Global City, Taguig City.

The accompanying financial statements of the Bank were approved and authorized for issue by the Bank's Board of Directors (BOD) on June 26,2020.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial instruments 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.

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

The functional currency of the RBU and FCDU is Philippine peso (PHP) and United States dollar (US$), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP. The financial statements of these units are combined after eliminating inter-unit accounts.

Amounts are presented to the nearest PHP unless otherwise stated.

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 statement of financial position broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 18.

Financial assets and financial liabilities are offset and the net amount reported in the balance sheets 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 they have 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 insolvency or bankruptcy of the Bank of its counterparties.

Income and expenses are not offset in the statement 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 Bank applied for the first-time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2018. Adoption of these pronouncements did not have a significant impact on the Bank's financial position or performance, unless otherwise indicated.

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 recognize most leases on the balance sheet.

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.

The Bank adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Bank therefore did not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The Bank has various lease contracts for its main offices and retail branches. Before the adoption of PFRS 16, the Bank classified each of its leases (as lessee) at the inception date as operating lease. Refer to page 19 for the lease accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to page 18 for the accounting policy beginning 1 January 2019.

Leases previously accounted for 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.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application

- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, the effect of PFRS 16 adoption as of January 1, 2019 is as follows:

	Increase (decrease)
Statement of financial position:	
Right-of-use assets	₱768,505,677
Prepayments	(18,108,129)
Accrued expenses	(164,953,581)
Lease liability	915,351,129
Deferred tax assets	44,053,636

- Right-of-use assets was increased by ₱768.51 million, representing the amount set up on transition date.
- Additional lease liabilities of ₱915.35 million were recognized.
- Advance rental payments recognized under 'Other Assets' of ₱18.11 million related to previous operating leases were derecognized.

As of January 1, 2019, the Bank used incremental borrowing rate ranges from xxx – xxx.

The lease liability at as 1 January 2019 as can be reconciled to the operating lease commitments as of 31 December 2018 follows:

Operating lease commitments as at 31 December 2018	₱2,289,882,928
Weighted average incremental borrowing rate at 1 January 2019	8.44%
Lease liabilities recognized at 1 January 2019	₱915,351,129

Due to the adoption of PFRS 16, the Bank's operating profit improved, while its interest expense increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 did not have an impact on equity on January 1, 2019, since the Bank elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any lease prepayments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

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 Bank 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 tax compliance assessment that it is probable that its uncertain 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*
  - Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
  - PFRS 9 (Amendment), *Prepayment Features with Negative Compensation*
  - PAS 19 (Amendments), *Employee Benefits, Plan Amendment, Curtailment or Settlement*
  - PAS 28 (Amendments), *Long-term Interests in Associates and Joint Ventures*

- *Annual Improvements to PFRS 2015-2018 Cycle*
  - Amendments to PFRS 3*, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12*, Income Tax Consequences of Payments on Financial Instruments*
  - Amendments to PAS 23*, Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Significant Accounting Policies

Foreign Currency Translation

Transactions and balances
The books of accounts of the RBU are maintained in PHP, while those of the FCDU are maintained in US$. For financial reporting purposes, the foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP based on the Banker's Association of the Philippines (BAP) closing rate prevailing at the end of the year (for assets and liabilities) and at the exchange rates prevailing at transaction dates (for income and expenses). Foreign exchange differences arising from foreign currency translation and revaluation of foreign currency-denominated assets and liabilities in the RBU, except for nonmonetary assets, are credited to or charged against operations 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 was determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency at the BAP closing rate prevailing at the reporting date, and its income and expenses are translated at the exchange rates prevailing at transaction dates. Exchange differences

arising on translation are taken directly to other comprehensive income (OCI) under 'Cumulative translation adjustment' in the statement of comprehensive income.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the 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 the 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. 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.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), foreign currency notes and coins, petty cash fund, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) with the BSP that are convertible to known amounts of cash with original maturities of three months or less from dates 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 wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments – Initial Recognition and Subsequent Measurement

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognizes a financial asset or financial liability in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Date of recognition

Regular way purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Any change in fair value of financial asset is recognized in the statement of income for financial assets at FVPL and it is recognized in OCI for assets classified as FVOCI investments. Deposits, amounts due to banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

All financial assets and financial liabilities are recognized initially at fair value plus, in the case of financial assets and financial liabilities not at FVPL, any directly attributable cost of acquisition or issue.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a 'Day 1'difference) in the statement of income. In cases where 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.

Classification of financial instruments

The Bank classifies its financial assets in the following categories: financial assets at FVTPL, financial assets at amortized cost, financial assets classified under FVOCI. The classification and measurement of financial instruments is driven by the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flow. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. 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.

Financial liabilities are categorized into financial liabilities at FVPL and other financial liabilities carried at amortized cost. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

SPPI test

The Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test or SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrange are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, The Bank applies judgement and considers relevant factors such as the currency in which the financial assets is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Business model assessment
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 and is based on observable factors such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The 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
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank's measurement categories are described below:

Financial assets at FVPL
Debt instruments that do not meet the amortized cost or FVOCI criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, are measured at fair value through profit or loss.

Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity instrument that is not held for trading as at FVOCI at initial recognition.

The Bank's financial assets at FVTPL include government securities and derivative instruments.

As of December 31, 2019 and 2018, the Bank has not designated any debt instrument that meets the amortized cost or FVOCI criteria as at FVPL.

Financial assets at FVPL are carried at fair value, with net changes in fair value recognized as 'Net trading gains (losses) – net' in the statement of income. Interest earned on these investments is reported as 'Interest income' in the statement of income.

Derivative instruments
A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Bank enters into derivative transactions with various counterparties. These includes interest rate swaps, foreign exchange swaps and forward foreign exchange contract. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The Bank's derivative assets and derivatives are presented as 'Financial assets at FVPL' and Financial liabilities at FVPL', respectively, in the statement of financial position.

Financial assets at FVOCI – Debt investments
The Bank applies this category when both the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

Subsequently, these are measured at fair value with gains or losses arising due to changes in fair value recognized in OCI under 'Net unrealized gain (loss) on financial assets carried at FVOCI'. Interest income and foreign exchange gains and losses are recognized in the statement of income in the same manner as for financial assets measured at amortized cost. When the Bank holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. On derecognition, cumulative gains or losses recognized in OCI are reclassified from OCI to the statement of income.

Financial assets at FVOCI – Equity investments
At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity instruments at FVOCI. Designation at FVOCI is not permitted if the investment in equity instrument is held for trading.

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in 'Net unrealized gain (loss) on financial assets carried at FVOCI' in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in 'Net unrealized gain (loss) on financial assets carried at FVOCI' is not reclassified to the statement of income, but is reclassified to 'Surplus'.

Dividends earned on these investments in equity instruments are recognized in the statement of income when the Bank's right to receive the dividends is established in accordance with PFRS 9, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under 'Miscellaneous income'

Financial assets at amortized cost
This accounting policy relates to 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and securities purchased under resale agreements', 'Loans and receivables' and financial investments under 'Financial assets at amortized cost'.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model of "Hold" and are managed to realize cash flows by collecting contractual payments over the life of the instrument.
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value. The amortization is included in 'Interest income' in the statement of income. Gains or losses are recognized in statement of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statement of income under provision for impairment and credit losses: The effects of revaluation or foreign currency-denominated investments are recognized in the statement of income. Gains or losses arising from disposals of these instruments are included in 'Gains (losses) on disposal of investment securities at amortized cost' in the statement of income.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting match had the financial asset been measured at amortized cost

Reclassification of financial instruments
The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost (ii) from FVPL to amortized cost or FVOCI, if the objective of the business model changes so that the amortized cost or FVOCI criteria start to be met and the characteristic of the instrument's contractual cash flows are SPPI; and, (iii) from amortized cost to FVOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVOCI at initial recognition is not permitted.

Financial liabilities
Financial liabilities are measured at amortized cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Issued financial instruments or their components, which are not designated at FVPL, are classified under 'Deposit liabilities', 'Bills payable', 'Subordinated debt' and 'Accrued interest, taxes and other expenses', 'Manager's checks' and 'Other liabilities' or other appropriate financial liability accounts where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial assets to the holder, or to satisfy the obligation other than by the exchange of fixed amount of cash or another financial asset. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component at the date of issue.

Impairment of Financial Assets

The Bank recognizes allowance for expected credit losses for all debt financial assets except those measured at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment.

Staging assessment

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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.

Refer to Note 4 for the discussion of the Bank's expected credit loss models.

Derecognition of Financial Assets and Financial Liabilities

Derecognition due to substantial modification of terms and conditions

The Bank derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired (POCI).

When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than substantial modification
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a Bank of financial assets) is derecognized when:

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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognize the transferred asset to the extent of the Bank's continuing involvement. In that 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 the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Bank, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The Bank is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized in the statement of financial position 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 EIR amortization method.

Write-off
Financial assets are written off either partially or in their entirety when the Bank no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

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

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

The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and 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 insolvency or bankruptcy of the Bank and all of the counterparties.

Financial Guarantees
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value under ‘Other liabilities’. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in ‘Service charges, fees and commissions’, over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in ‘Provision for impairment and credit losses’. Any financial guarantee liability remaining is recognized in the statement of income in ‘Service charges, fees and commissions’, when the guarantee is discharged, cancelled or has expired.

Property and Equipment
Depreciable properties, including condominium units, furniture, fixtures and equipment and leasehold improvements, are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the equipment if the recognition criteria are met, but excludes repairs and maintenance cost.

The initial cost of property and equipment consists of its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization are computed using the straight-line method over the estimated useful life (EUL) of the assets.

The EUL of property and equipment are as follows:

Condominium units	50 years
Furniture, fixtures and equipment	5 to 7 years
Leasehold improvements	5 years or term of the lease, whichever is shorter

Construction in progress (CIP) represents furniture, fixtures and equipment and leasehold improvements under construction or purchased by the Bank but not yet used in operations. CIP is not depreciated until such time that the relevant assets become completed and ready for use in operations.

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

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, an impairment loss is recognized in the statement of income (see accounting policy on Impairment of Nonfinancial Assets).

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.

Right-of-Use Assets

Effective January 1, 2019, the Bank recorded right-of-use assets in its statement of financial position. Prior to that date, the Bank's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

The EUL of right-of-assets arising from lease arrangements is equivalent to its lease term.

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 an asset cannot be measured, in which case the investment property acquired is measured at the fair value of the asset given up. Foreclosed properties are classified under 'Investment properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

The difference between the fair value of the foreclosed properties and the carrying value of the related receivables given up is recognized in 'Gain or loss on foreclosures' account in the statement of income.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to profit or loss in the year in which the costs are incurred.

Subsequent to initial recognition, land is carried at cost less any impairment in value while depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over 5-10 years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

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 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 development with a view to sale.

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 under 'Gain or loss on sale of properties' in the year of retirement or disposal.

Chattel Properties Acquired
Chattel properties acquired include mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Bank applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the EUL of three years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of chattel properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Intangible Assets
The Bank's intangible assets included under 'Other assets' in the statement of financial position consist of software costs.

Software costs
Costs associated with developing or maintaining computer software programs are recognized as expense as incurred. Costs that are directly associated with identifiable and unique software controlled by the Bank and will generate economic benefits beyond one year, are capitalized. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as capital improvements and added to the original cost of the software. Capitalized computer software costs are amortized on a straight-line basis over four years.

Impairment of Nonfinancial Assets
Property and equipment, Right-of-use assets, Investment properties, Chattel properties acquired and Software costs
At each reporting date, the Bank assesses whether there is any indication that its property and equipment; right-of-use assets, investment properties, chattel properties acquired and software costs 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 recoverable amount. Recoverable amount is the greater of its fair value less costs to sell and 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 cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a 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.

Income Taxes

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

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided using the balance sheet liability method on all temporary differences at the reporting 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, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused MCIT over RCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

Deferred tax relating to items recognized directly in OCI is also recognized in OCI and not in the statement of income.

Share-Based Payment Transactions

Employees of the Bank receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuation expert using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Parent Company.

The cost of equity-settled transactions is recognized in the statement of income together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the vesting date. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Bank's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

Treasury Shares
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the statement of income on the purchase and sale of the Bank's own equity instruments.

Revenue Recognition
Revenue from contract with customers is recognized upon transfer of promised goods or services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Bank exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the five-step model to contracts with customers.

In-scope of PFRS 15
Service, charges, fees and commissions
Fees or components of fees that are linked to a certain performance are recognized when services are rendered. These fees include corporate finance fees and remittance fees.

Gain (loss) on foreclosures and sale of properties
Gains or losses arising from the disposal of property and equipment, investment properties and chattel properties acquired shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period of the disposal.

Other income
Credit-related income due to late payments and other loan-related fees are recognized in the period when service has been rendered.

Outside the scope of PFRS 15
Interest income
Interest on interest-bearing financial assets at FVPL are recognized based on contractual rate. Interest on financial instruments measured at amortized cost and debt instruments classified as FVOCI is recognized based on the EIR method.

The EIR method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, 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.

Net trading gains (losses)
Net trading gain (loss) represents results arising from trading activities including all gains and losses from changes in fair value of financial assets and liabilities at FVPL and gains and losses from disposal of financial assets at FVPL, and debt financial assets at FVOCI.

Dividend income
Dividend income is recognized when the Bank's right to receive payment is established.

Expenses
Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in an asset or increase in a liability has occurred and that the decrease in economic benefits can be measured reliably.

Accounting policy on Leases effective 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.

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 the 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 expenses in the period in 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.

Short-term leases and leases of low-value assets
The Bank applies the short-term lease recognition exemption to its short-term leases of ATM sites (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) and some of its retail branches. It also applies the lease of low-value assets recognition exemption to leases of ATM sites that are considered to be of low value. 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.

Refer to page 13 for the accounting policy on right-of-use assets.

Policy prior to January 1, 2019
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless 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 gave 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 asset are classified as operating leases. Operating lease payments are recognized as an expense under 'Occupancy' in the statement of income on a straight-line basis over the lease term.

Bank as lessor
Leases where the Bank does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating lease. Lease payments received are recognized as an income in the statement of income on a straight-line basis over the lease term.

<u>Retirement Cost</u>
Defined benefit plan
The Bank has a funded, noncontributory defined benefit plan administered by a trustee. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation. The Bank's retirement cost is determined using the projected unit credit method. The retirement cost is generally funded through payments to a trustee-administered fund, determined by periodic actuarial calculations.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. 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 plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- 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 the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

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 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 the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets (excluding net interest on defined benefit asset) 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. All remeasurements recognized in the OCI account 'Remeasurement gains (losses) on retirement plan' are not reclassified to another equity account in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. 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).

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.

Defined contribution plan
The Bank also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by the employees and is recorded as an expense under 'Compensation and fringe benefits' in the statement of income. Unpaid contributions, if any, are recorded as a liability.

Employee leave entitlement
Employee entitlement to annual leave is recognized as a liability when the employees render the services that increases their annual leave entitlement. The cost of accumulating annual leave are measured as the additional amount that the Bank expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

<u>Provisions</u>
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 assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When 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 an 'Interest expense'.

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

Events after the Reporting Date
Post year-end events that provide additional information about the Bank's position at the reporting date (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

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.

Equity
Capital stock (preferred stock and common stock) is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital Paid in Excess of Par Value' account.

Deposit for stock subscription represents payment made on subscription of shares which cannot be directly credited to capital stock pending approval of the SEC of the increase in the authorized capital stock of the Bank.

'Surplus' represents accumulated earnings of the Bank.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

Standards Issued but not yet effective

Pronouncements issued but not yet effective are listed below. The Bank intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Bank's financial statements.

Effective beginning on or after January 1, 2020
- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

Effective beginning on or after January 1, 2021
- PFRS 17, *Insurance Contracts*

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

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates 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.

<u>Judgments</u>

a) Contingencies
The Bank has suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsel that the ultimate outcome of such cases and claims will not involve sums having a material effect on its financial statements. It is possible, however, that the future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 27).

b) *Fair value of financial assets*
When the fair values of financial instruments recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

The carrying values and corresponding fair values of financial instruments as well as the manner in which fair values were determined are discussed in Note 5.

c) *Evaluation of business model in managing financial instruments*
The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers.

The business model criteria may be applied at the level of a portfolio of financial instruments (i.e. group of financial instruments that are managed together by the Bank) but not on an instrument-by-instrument basis (i.e. not based on intention for each individual financial instrument). This may include, for instance, a portfolio of investments that the Bank manages in order to collect contractual cash flows and another portfolio of investments that the Bank manages in order to trade to realize fair value changes. The Bank's business model is determined at portfolio level, which reflects how group of financial assets are managed together to achieve a particular business objective. Business model test assessment is a matter of fact, rather than merely an assertion.

As of December 31, 2019 and 2018, the Bank's financial assets are classified as at FVTPL, FVOCI and amortized costs. There were no reclassifications made among the three categories during the year.

e) *Determination of lease term of contracts with renewal and termination options*
The Bank has several lease contracts that include extension and termination options. The Bank applies judgement 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 that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses 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 (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

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.

<u>Estimates</u>

a. *Credit losses on loans and receivables*
The measurement of credit losses requires significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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. Elements of the ECL models that are considered accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- Criteria for assessing if there has been a SICR so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- Segmentation of debt financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Refer to Note 4 for detailed discussions regarding the abovementioned significant judgments and estimates in relation to ECL estimation.

The gross carrying amounts of loans and receivables subject to ECL as of and related ECL allowances for credit losses as of December 31, 2019 and 2018 are disclosed in Note 9.

b. *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that taxable income will be available against which losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies. Key assumptions used in forecast of future taxable income include loan portfolio and deposit growth rates.

As of December 31, 2019 and 2018, the Bank recognized deferred tax assets amounting to ₱1,179.8 million and ₱1,187.7 million, respectively (Note 25). Based on forecast, management assessed that it is probable that future taxable income will be available to utilize the deferred tax assets.

c. *Defined benefit retirement plan*
The cost of the defined benefit retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuation. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases and mortality rates. 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 reporting date.

In determining the appropriate single weighted average discount rate, management considers the interest rates of government securities, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases pension increases are based on historical annual merit, market and promotional increase and future inflation rates. The carrying amount of retirement liability as of December 31, 2019 and 2018 and the details of the assumptions used in the actuarial valuation are provided in Note 20.

d) *Incremental borrowing rate used for lease liabilities*
If the Bank cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate in measuring its lease liabilities. The incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value in a similar economic environment. The Bank estimates the incremental borrowing rate using observable inputs (prevailing risk-free market rates) adjusted by the credit risk of the Bank (i.e., credit spread).

4. Financial Risk Management Objectives and Policies

General Risk Management Structure
Risk Management structure within the Bank consists of three lines of defense consisting of risk-taking units, risk control units, and Internal Audit. The BOD, through the Risk Management Committee (RMC), performs overall supervision of risk management. Loan proposals and other transactions beyond the approval level of the management committees, particularly those involving directors, officers, stockholders and related interests (DOSRI), are elevated to the BOD, which is the highest authority within the Bank. The RMC is a Board-level Committee that is responsible for setting the Bank's corporate risk policy and strategies. It ensures the adequacy of the risk management infrastructure of the Bank to address the risks it faces in its banking activities including credit, market, operational, liquidity and other material risks.

Senior Management also plays an integral role in ensuring proper implementation of risk policies and strategies. The Bank has the following committees that manage the Bank's key risk areas:

- Credit Committee (CC) is responsible for the approval of credit facilities as well as policies, frameworks and methodologies pertaining to credit risk.

- The CC has a maximum approving limit of ₱250.0 million for secured and ₱100.0 million for unsecured loans. Proposals beyond this level have to be escalated to Bank's Management Credit Committee for endorsement to BOD for approval.
- Asset and Liability Management Committee (ALCO) is responsible for recommending strategies, policies and frameworks to identify, measure, control, monitor and manage market and liquidity risks, as well as balance sheet and capital management to the RMC/Board for approval.
- Management Committee is responsible for directing and reviewing the Bank's overall operations to achieve its objectives and targets.

Risk Management is functionally independent of risk-taking units within the Bank. It is composed of Regional Group Credit Management (RGCM), Credit Risk Management (CRM), Market Risk Management (MRM), Operational Risk Management (ORM), Enterprise Risk Management (ERM), Credit Risk Review, Credit Investigation and Appraisal, and Credit Risk Portfolio Analytics (CRPA). It is responsible for the development of measures to ensure that the risk inherent in the Bank's activities are properly identified, measured, controlled and reported.

Risk Management has the following general objectives:

- To promote risk management culture and philosophy of risk awareness
- To assist risk-taking business and operating units in understanding and measuring risk/return profiles
- To develop risk and control infrastructure
- To develop, disseminate, and maintain formalized risk policies, frameworks, methodologies and tools
- To provide effective means of differentiating the degree of risk in the various business portfolio of the Bank

Internal Audit provides independent assurance of the effectiveness of the risk management approach. The Audit Committee, which is a Board-level committee, is responsible for the overall supervision of the audit function within the organization.

Risk Measurement and Reporting

To measure risk of default for corporate and commercial loans, the Bank makes use of the International Risk Rating System (IRRS) which consists of 25 risk grades that are mapped to external ratings, as well as risk classification according to BSP guidelines. The IRRS is used as a tool for decision making as well as in determining appropriate pricing for loan accounts. The key risk indicators measure the Bank's credit risk position against targets, historical performance or industry average in selected areas as of a given period.

In terms of measuring the Bank's ability to withstand the impact of stress conditions, stress testing methodology is used. Through stress testing, the impact of exceptional events on the Bank's asset quality, profitability and capital adequacy is measured.

In terms of reporting, CRPA prepares regular loan portfolio reports covering areas such as business growth, asset quality, concentration of exposures and compliance to applicable regulatory and internal guidelines. These reports are submitted to the CC, RMC, BOD and other end-users.

Risk Mitigation

As part of its risk management, the Bank uses derivatives and other treasury products to manage exposures resulting from changes in interest rates and fluctuations in foreign exchange levels.

Where appropriate, the Bank requires a second way out in the form of eligible collaterals or guarantee/surety to mitigate credit risk.

Credit Risk

Credit risk comprises bulk of the Bank's risk capital. Credit risk is managed through a two-pronged approach: the credit risk management and credit portfolio management.

CRM undertakes the improvement and implementation of Group risk frameworks, tools, and methodologies for the identification, measurement, monitoring, control and pricing of credit risk in accordance to the Bank's risk appetite and lending direction and strategies. Methodologies are implemented in coordination with the Parent Company to ensure consistency of risk management approach across the Maybank Group. Where applicable, methodologies and tools are adopted from the Parent Company and customized to the local operating environment.

CRM is responsible for setting concentration limits and monitoring exposures against these limits. CRPA Unit also prepares various credit risk reports and undertakes the development of credit risk application and behavioral scoring models which are submitted to Management, RMC, and the BOD, and subsequently deployed in the daily credit underwriting and portfolio management operations of the various lending units.

Part of the Bank's Credit Risk Management processes are to develop and implement various mechanisms to support business generation, capital optimization, portfolio management, and Basel III implementation. It ensures that credit approval structures follow the "four eyes policy" for appropriate check and balance. The Credit Review Unit undertakes the post-approval review of selected loan accounts.

Collateral and other credit enhancements

There are various collaterals and securities that are acceptable to the Bank. In evaluating acceptability of collateral, three factors are considered: control, disposability and margin.

The Account Officer is primarily responsible in ensuring the acceptability of collaterals/security obtained to secure the loan based on established minimum acceptance criteria and maximum margin of financing.

The Account Officer is responsible in ensuring that the collaterals are duly and regularly inspected and appraised, adequately insured where necessary, and payment of applicable taxes are updated.

The Account Officer also ensures that the approved margin of financing is maintained throughout the life of the loan.

Loans or portions thereof that are covered by collateral/security including but not limited to the following are considered secured:

- Registered First Real Estate Mortgage over eligible real estate properties with road right of way
- Peso or US Dollar-denominated deposits that are maintained with the Bank
- Government securities
- Motor vehicles
- Machinery and equipment
- Publicly-traded shares of stocks

Direct and indirect borrowings of the Philippine government is treated as non-risk and considered as secured.

Borrowings secured by guarantees/collateral issued by the Parent Company and Maybank branches and subsidiaries are considered secured.

Maintenance, marketing and disposal of the Bank's acquired assets are being undertaken by its affiliate, Philmay Properties, Inc. (PPI). Pending disposal of acquired assets, PPI arranges for the properties to be leased on a short-term basis by interested parties.

Credit risk exposures
The table below shows the Bank's maximum exposure to credit risk on loans and receivable as of December 31, 2019 and 2018:

	December 31, 2019			
	Maximum Exposure			
	Gross maximum exposure	**Fair value of collateral**	**Financial effect of collateral**	**Net exposure**
Loans and receivables:				
Loans:				
Corporate	**₱19,311,645,232**	**₱2,451,446,521**	**₱1,598,173,451**	**₱17,713,471,781**
Commercial	**3,173,204,417**	**3,890,306,355**	**1,662,314,947**	**1,510,889,470**
Consumer:				
Auto loans	**34,549,880,501**	**67,938,608,102**	**31,957,185,482**	**2,592,695,019**
Housing loans	**11,641,163,871**	**19,354,539,506**	**11,342,162,379**	**299,001,492**
Others	**1,780,087,117**	**17,952,300**	**10,511,937**	**1,769,575,180**
	70,455,981,138	**93,652,852,784**	**46,570,348,196**	**23,885,632,942**
Accounts receivable:				
Corporate	**941,225,271**	**619,666,837**	**619,666,837**	**321,558,434**
Individual	**9,754,596**	**–**	**–**	**9,754,596**
	950,979,867	**619,666,837**	**619,666,837**	**331,313,030**
Sales contract receivable:				
Individual	**423,021,069**	**500,024,023**	**423,021,069**	**–**
Corporate	**37,151,546**	**86,652,145**	**37,151,546**	**–**
	460,172,615	**586,676,168**	**460,172,615**	**–**
RCOCI	**339,396**	**–**	**–**	**339,396**
	₱71,867,473,016	**₱94,859,195,789**	**₱47,650,187,648**	**₱24,217,285,368**

	December 31, 2018			
	Maximum Exposure			
	Gross maximum exposure	Fair value of collateral	Financial effect of collateral	Net exposure
Loans and receivables:				
Loans:				
Corporate	₱23,495,518,996	₱5,344,105,770	₱1,863,074,106	₱21,632,444,890
Commercial	3,420,257,972	3,267,640,130	1,659,891,446	1,760,366,526
Consumer:				
Auto loans	35,297,894,164	66,405,820,270	32,944,805,571	2,353,088,593
Housing loans	11,011,337,129	18,320,036,714	10,785,548,803	225,788,326
Others	2,204,185,357	5,170,716	4,678,679	2,199,506,678
	75,429,193,618	93,342,773,600	47,257,998,605	28,171,195,013
Accounts receivable:				
Corporate	910,181,172	604,365,421	604,365,421	305,815,751
Individual	9,976,484	–	–	9,976,484
	920,157,656	604,365,421	604,365,421	315,792,235
Sales contract receivable:				
Individual	24,643,382	83,591,596	24,643,382	–
Corporate	4,934,640	7,925,262	4,934,640	–
	29,578,022	91,516,858	29,578,022	–
RCOCI	451,886	–	–	451,886
	₱76,379,381,182	₱94,038,655,879	₱47,891,942,048	₱28,487,439,134

For the other financial assets, the carrying amounts represent the maximum exposure to credit risk as at December 31, 2019 and 2018.

Credit risk management has set concentration limits according to various categories such as individual/group borrower, banks, countries, collateral, economic sectors, and product types to ensure optimal portfolio diversification.

Risk Concentration
Concentration of credit arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. Concentration limits are set by CRM, endorsed by RMC, and approved by the BOD. These include limits by business segments, credit facility/portfolio, collateral/security, economic sector, loan size and obligor type. These limits are established to ensure diversification, capital optimization and appropriate management of concentration risk.

The tables below show the distribution of maximum credit exposure by industry sector of financial assets and off-balance sheet items before taking into account the fair value of the loan collateral or other credit enhancements (amounts in thousands):

	December 31, 2019		December 31, 2018	
	Amount	**%**	Amount	%
Loans and Receivables				
Construction and real estate	**₱18,383,248**	**25.58**	₱12,549,626	16.43
Wholesale and retail, repair of motor vehicles, motorcycles and personal household goods	**16,106,660**	**22.41**	18,724,765	24.51
Transportation, storage and communication	**6,311,777**	**8.78**	6,883,419	9.01
Power, electricity and water distribution	**4,615,909**	**6.42**	6,082,797	7.96
Trading and manufacturing	**4,128,984**	**5.75**	5,093,786	6.67
Agriculture	**1,575,606**	**2.19**	1,593,445	2.09
Government	**1,329,343**	**1.85**	1,098,789	1.44
Financial intermediaries	**1,098,986**	**1.53**	3,413,139	4.47
Other	**18,316,959**	**25.49**	20,939,615	27.42
	71,867,472	**100.00**	76,379,381	100.00
Loans and Advances to Banks*				
Government	**9,767,155**	**73.68**	13,670,379	51.08
Financial intermediaries	**3,489,488**	**26.32**	13,090,490	48.92
	13,256,643	**100.00**	26,760,869	100.00
Trading and Financial Investment Securities**				
Government	**10,586,768**	**71.81**	12,892,810	74.95
Construction and real estate	**1,707,566**	**11.58**	960,393	5.59
Financial intermediaries	**1,681,206**	**11.40**	1,693,908	9.86
Activities of holding companies	**469,286**	**3.19**	–	–
Power, electricity and water distribution	**298,327**	**2.02**	–	–
Trading and manufacturing	**–**	**–**	1,632,107	9.50
	14,726,603	**100.00**	17,179,218	100.00
Others***				
Wholesale and retail, repair of motor vehicles, motorcycles and personal household goods	**341,798**	**44.24**	41,500	1.43
Trading and manufacturing	**183,621**	**23.77**	447,351	15.45
Financial intermediaries	**70,635**	**9.14**	2,154,950	74.42
Power, electricity and water distribution	**13,837**	**1.79**	117,881	4.07
Construction and real estate	**–**	**–**	6,573	0.23
Others	**162,723**	**21.06**	127,445	4.40
	772,614	**100.00**	2,895,700	100.00
	₱100,623,332		₱123,243,245	

* Consists of Due from BSP, Due from other banks and Interbank loans receivables and SPURA
** Consists of Financial assets at FVPL, financial assets at FVOCI and investment securities at amortized cost and excludes equity securities
*** Consists of Miscellaneous COCI and Contingent liabilities relating to outstanding letters of credit

Credit quality per class of financial assets
For investment securities and depository accounts, the Bank relies on acceptable third-party issuer or issue ratings, international or local, as applicable. Any exposure, whether direct or indirect, to the sovereign entity – Republic of the Philippines (ROP) and BSP, is considered non-risk or high grade. Issuances by ROP and BSP are considered as high grade since the chance of default is virtually nil.

Private entities, such as financial institutions or corporations, issuing debt securities, with risk rating similar to ROP/BSP are likewise classified as high grade. Such entities are generally held as top-tier. Companies with third party ratings lower than ROP are classified as standard grade. These are companies that exhibit moderate credit risk with acceptable capacity to meet its financial commitments.

Companies without third party ratings are classified as unrated or adopt the Bank's internal risk rating.

For loans and receivables, the following are subject to risk rating and behavioral scoring:

- Corporate and commercial loans (except those fully secured by hold-out on deposits)
- Contract-to-sell financing (risk rating on the developer)
- Consumer loans (except truck and salary loans)

Accounts which are not subjected to risk rating, such as consumer loans (i.e. salary loans, truck loans) are considered unrated.

Loan Grades
- Performing Grade is from Grade 1 to 22 – Grade 1 (i.e. lowest probability of default) is the best grade while Grade 22 (i.e. highest probability of default) is the worst grade.

  a.) High grade (accounts with risk grade of 1 to 10)
  Accounts falling within this classification have good to highly exceptional capacity to meet its financial commitments with very low to low credit risk.

  b.) Standard grade (accounts with risk grade of 11 to 15)
  Accounts falling within this classification have fairly good to fairly acceptable capacity to meet their financial commitments with moderate credit risk.

  c.) Substandard grade (accounts with risk grade of 16 to 22)
  Accounts under this category exhibit high credit or default risk with impairment characteristics that are neither classified under 'past due but not impaired' nor 'individually impaired'.

Start-up companies, regardless of the strength of their percentage have default grade cap of 19.

- Non-Performing Grade is from Grade 23 to 25 which is under past due or impaired.

  a.) Grade 23 is a non-performing grade assigned to borrowers classified as Substandard accounts. These are loans and other credit accommodations that have well-defined weakness/(es), that may jeopardize repayment/ liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. Basic characteristics include the following:

- Weak financial condition and results of operation that leads to the borrower's inability to generate sufficient cash flow for debt servicing, except for start-up firms which shall be evaluated on a case-to-case basis;
- Past due secured loans and other credit accommodations where properties offered as collateral have been found with defects as to ownership or with other adverse information.
- Breach of any key financial covenants/agreements that will adversely affect the capacity to pay-off the borrower; or
- Classified "Especially Mentioned" as of the last credit review without adequate corrective action
- Loans past due for more than 90 days.

b.) Grade 24 is a non-performing grade assigned to borrowers classified as Doubtful accounts. These are loans and credit accommodations that exhibit severe weaknesses than those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets.

c.) Grade 25 is a non-performing grade assigned to borrowers classified as Loss. These are loans or portions thereof which are considered uncollectible or worthless.

- Start-up companies, regardless of the strength of their percentage have default grade cap of 19.

The credit quality of the Bank's receivables from customers as of December 31, 2019 follow (in thousands):

	Stage 1	Stage 2	Stage 3	TOTAL
Auto				
Unrated	**₱31,364,344**	**₱990,477**	**₱–**	**₱32,354,821**
Especially Mentioned	–	**1,369,867**	–	**1,369,867**
Doubtful	–	**492,166**	–	**492,166**
Non-performing grade	–	–	**766,986**	**766,986**
Auto Total	**31,364,344**	**2,852,510**	**766,986**	**34,983,840**
Commercial				
High Grade	**1,769,592**	**2,355**	–	**1,771,947**
Standard grade	**1,284,131**	**19,408**	–	**1,303,539**
Substandard Grade	**39,646**	**29,933**	–	**69,579**
Especially Mentioned	–	**3,101**	–	**3,101**
Doubtful	–	–	**4,827**	**4,827**
Non-performing grade	–	–	**170,928**	**170,928**
Commercial Total	**3,093,369**	**54,797**	**175,755**	**3,323,921**
Corporate				
High Grade	**6,321,046**	–	–	**6,321,046**
Standard grade	**11,820,006**	**29,265**	–	**11,849,271**
Substandard Grade	**271,254**	**500,347**	–	**771,601**
Especially Mentioned	–	–	–	–
Doubtful	–	–	–	–
Non-performing grade	–	–	**893,164**	**893,164**
Corporate Total	**18,412,306**	**529,612**	**893,164**	**19,835,082**
Housing				
Unrated	**10,849,594**	**467,858**	–	**11,317,452**

(Forward)

	Stage 1	Stage 2	Stage 3	TOTAL
Especially Mentioned	**₱–**	**₱288,016**	**₱–**	**₱288,016**
Doubtful	–	**72,868**	–	**72,868**
Non-performing grade	–	–	**93,535**	**93,535**
Housing Total	**10,849,594**	**828,742**	**93,535**	**11,771,871**
Other				
High Grade	**1,891,922**	**35,870**	–	**1,927,792**
Substandard Grade	–	**16,156**	–	**16,156**
Especially Mentioned	–	**9,148**	–	**9,148**
Doubtful	–	–	**21,703**	**21,703**
Non-performing grade	–	–	**34,334**	**34,334**
Other Total	**1,891,922**	**61,174**	**56,037**	**2,009,133**
Grand Total	**₱65,611,535**	**₱4,326,835**	**₱1,985,477**	**₱71,923,847**

The credit quality of the Bank's financial assets other than loans and receivables as of December 31, 2019 follow (in thousands):

	Stage 1	Stage 2	Stage 3	TOTAL
Due from BSP				
High Grade	**₱9,767,155**	**₱–**	**₱–**	**₱9,767,155**
Due from other banks				
High Grade	**₱2,776,581**	**₱–**	**₱–**	**₱2,776,581**
Standard Grade	**714,532**	**–**	**–**	**714,532**
Due from other banks Total	**₱3,491,113**	**₱–**	**₱–**	**₱3,491,113**
Financial Instruments at FVTPL				
High Grade	**₱367,173**	**₱–**	**₱–**	**₱367,173**
Financial Instruments at FVOCI				
High Grade	**₱2,831,021**	**₱–**	**₱–**	**₱2,831,021**
Substandard Grade	**30,139**	**–**	**–**	**30,139**
Financial Instruments at FVOCI Total	**₱2,861,160**	**₱–**	**₱–**	**₱2,861,160**
Financial Instruments at Amortized Cost				
High Grade	**₱11,198,526**	**₱–**	**₱–**	**₱11,198,526**
Substandard Grade	**51,319**	**300,729**	**–**	**352,048**
Financial Instruments at Amortized Cost-Total	**₱11,249,845**	**₱300,729**	**₱–**	**₱11,550,574**

The credit quality of the Bank's receivables from customers as of December 31, 2018 follow (in thousands):

	Stage 1	Stage 2	Stage 3	TOTAL
Auto				
High Grade	₱30,056,219	₱450,940	₱–	₱30,507,159
Especially Mentioned	2,289,160	427,889	–	2,717,049
Substandard Grade	–	1,865,687	136,789	2,002,476
Doubtful	–	–	695,871	695,871
Auto Total	32,345,379	2,744,516	832,660	35,922,555
Commercial				
High Grade	1,863,681	–	5,351	1,869,032
Standard grade	1,281,322	71,229	–	1,352,551
Substandard Grade	101,245	22,384	–	123,629
Especially Mentioned	49,629	–	–	49,629
Doubtful	–	–	7,274	7,274
Non-performing grade	–	–	235,980	235,980
Commercial Total	3,295,877	93,613 –	248,605	3,638,095
Corporate				
High Grade	9,251,667	–	–	9,251,667
Standard grade	13,252,239	678,489	-	13,930,728
Substandard Grade	183,039	227,665	-	410,704
Non-performing grade	–	–	414,125	414,125
Corporate Total	22,686,945	906,154	414,125	24,007,224

(Forward)

	Stage 1	Stage 2	Stage 3	TOTAL
Housing				
High Grade	₱9,970,065	₱134,106	₱-	₱10,104,171
Substandard Grade	–	429,745	27,935	457,680
Especially Mentioned	505,958	131,528	-	637,486
Doubtful	–	–	94,359	94,359
Non-performing grade	–	–	625	625
Housing Total	10,476,023	695,379	122,919	11,294,321
Other				
High Grade	2,035,496	67,818	31,293	2,134,607
Substandard Grade	–	22,023	1,261	23,284
Especially Mentioned	33,170	3,268	1,947	38,385
Doubtful	–	8,230	4,688	12,918
Non-performing grade	–	–	25,644	25,644
Other Total	2,068,666	101,339	64,833	2,234,838
Grand Total	₱70,872,890	₱4,541,001	₱1,683,142	₱77,097,033

The credit quality of the Bank's financial assets other than loans and receivables as of December 31, 2018 follow:

	Stage 1	Stage 2	Stage 3	TOTAL
Due from BSP				
High Grade	₱13,670,379	₱–	₱–	₱13,670,379
Especially Mentioned	–	–	–	–
Doubtful	–	–	–	–
Substandard Grade	–	–	–	–
Due from BSP Total	₱13,670,379	₱–	₱–	₱13,670,379
Due from other banks				
High Grade	₱13,094,057	₱–	₱–	₱13,094,057
Substandard Grade	–	–	–	–
Especially Mentioned	–	–	–	–
Doubtful	–	–	–	–
Due from other banks Total	₱13,094,057	₱–	₱–	₱13,094,057
Financial Instruments at FVTPL				
High Grade	₱613,496	₱–	₱–	₱613,496
Financial Instruments at FVOCI				
High Grade	₱4,289,577	₱–	₱–	₱4,289,577
Substandard Grade				
Financial Instruments at FVOCI Total	₱4,289,577	₱–	₱–	₱4,289,577
Financial Instruments at Amortized Cost				
High Grade	₱11,449,605	₱300,000	₱–	₱11,749,605
Substandard Grade	570,000			570,000
Financial Instruments at Amortized Cost-Total	₱12,019,605	₱300,000	₱–	₱12,319,605

As of December 31, 2019 and 2018, allowance on individually impaired receivables of the Bank amounted to ₱498.6 million and ₱416.7 million, respectively.

Impairment assessment

The Bank uses a provision matrix to calculate ECL for receivables from retail customers. The provision matrix is initially based on the Bank's historical observed default rates. The Bank calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in the financial sector, the historical default rates will be adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

Market Risk

The Bank recognizes market risk as the adverse impact on earnings or capital, either immediate or over time, arising from changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates, commodity prices and equity prices. Market risk arises through the Bank's trading and balance sheet activities. The primary categories of market risk for the Bank are:

i. Interest rate risk: arising from changes in prevailing interest rates and implied volatilities on interest rate options; and
ii. Foreign exchange (FX) rate risk: arising from changes in exchange rates or risk arising from adverse movements/mismatches in currencies.

The RMC is the overall risk oversight body. Management of market, interest rate risk in the banking book and liquidity risks is delegated to the ALCO. ALCO is responsible for the establishment of appropriate risk policies and limits, duly approved by the RMC; and execution of both strategic and tactical actions to maintain the exposure within the set tolerances and meet the risk and reward objectives of the Bank.

The Bank established the MRM to assist the BOD, RMC, ALCO in monitoring and managing the Bank's market risk exposures independently from the risk-taking units. MRM also acts as business partners with Global Markets in the daily monitoring of its positions against approved risk measures. MRM's roles include the following:

- Ensure that the market, IRRBB and liquidity risk management objectives of the Bank are achieved through the development, implementation, maintenance and enhancement of a comprehensive risk management process that comprises of qualitative and quantitative methodologies to identify, measure, control and monitor, among others, the following:
  - Market risks, which covers the risk of loss of earnings arising from changes in interest rates, foreign exchange rates, equity and commodity prices and their implied volatilities
  - Liquidity risks, which covers liquidity crisis, funding structure, fund raising policies and strategies, diversification of funding sources, gap analysis and management
- Provide support functions to the ALCO to facilitate informed strategic management decision making
- Provide consultative services and support functions to all relevant units within the Bank on matters pertaining to market and liquidity risks management and treasury operations
- Participate, in collaboration with other risk management units within the Bank on cross border risk management issues, to identify and mitigate various risks inherent in new Global Markets and core banking products prior to product introduction
- Provide revaluation prices of relevant Global Markets products transacted by various business units within the Bank
- Perform regular independent supervision of Global Markets operations

An Integrated Risk Management Framework is in place to provide a set of general principles to guide the Bank to identify, measure, control and monitor the various risks the Bank is undertaking as well as roles and responsibility in managing these risks. All market risk policies being issued are reviewed at least annually to ensure compliance with regulatory requirements and up to par with international best practices.

The Bank's traded market risk exposures are primarily from proprietary trading, client servicing and market making. Various risk measurement techniques are used by the Bank to monitor and manage market risk and IRRBB, such as Price-Value-of-a-Basis-Point (PV01), FX net open position (NOP), Value-at-Risk (VaR), Stop Loss, Earnings-at-Risk (EaR) and Impact on Economic Value (IEV). In addition, a variety of stress testing techniques are performed to complement the reporting to Management.

Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows. Interest rate risk exposure is identified, measured, monitored and controlled through thresholds limits and procedures set by the Management to protect total net interest income from changes in market interest rates.

Trading: PV01

PV01 measures the change in the value of the portfolio with 1 basis point increase in the yield curve and is applicable for the trading portfolio. Thresholds are set annually to re-assess the Bank's risk appetite and strategy. The PV01 is computed and reported daily to Global Markets and monthly to ALCO.

Shown in the table below is the Interest Rate Sensitivities (PV01) Report – By Portfolio as at December 31, 2019 and 2018 (amounts expressed in thousands).

	Rates Trading	
Desk	**2019**	2018
PHP	**(₱50.64)**	(₱1,482)
USD	**0.000**	0.000
Net	**(₱50.64)**	(₱1,482)

	Interest Rate Derivatives	
Desk	**2019**	2018
PHP	**(₱72,206)**	(₱46,064)
USD	**53,623**	12,824
Net	**(₱18,583)**	(₱33,240)

Non-Trading: PV01

PV01 measures the change in the value of the portfolio with 1 basis point increase in the yield curve and is applicable to the FVOCI portfolio.

Shown in the table below is the Interest Rate Sensitivities (PV01) Report of GM's Rates Banking Book Investments as at December 31, 2019 and 2018 (amounts expressed in thousands).

	Rates Banking	
Desk	**2019**	2018
PHP	**(₱2,556)**	(₱2,842)
USD	**(596)**	(1,579)
NET	**(₱3,152)**	(₱4,421)

Interest Rate Risk in Banking Book: EaR and IEV

IRRBB is defined as a Pillar 2 risk under the BSP Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2) guidelines. IRRBB is one of the Pillar 2 risks that is quantifiable and reliably measured and quantified, with acceptable risk identification and measurement methodologies that have been reasonably tested and accepted within the industry.

The Bank emphasizes the importance of managing interest rate risk in the banking book as most of the balance sheet items of the Bank generate interest income and interest expense, which are indexed to interest rates. Volatility of earnings can pose a threat to the Bank's profitability while economic value provides a more comprehensive view of the potential long-term effects on the Bank's overall capital adequacy.

All policies, procedures and limits related to IRRBB are presented and deliberated in ALCO prior endorsement to RMC for final resolution. Balance sheet management is the prime responsibility of ALCO and key strategies on how to optimize assets and liabilities are discussed very meeting.

As a measurement tool, the Bank utilizes EaR to estimate the sensitivity of the Bank's Net Interest Income (NII) due to a 100 basis points (bps) change in the underlying interest rates over a period of one year. IEV, on the other hand, shows the sensitivity of economic value on the long term to a 100 bps change in the market yield curve.

EaR and IEV are calculated based on the repricing gaps, or the difference between the amounts of rate sensitive assets and the amounts of rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, which may restrain the growth of its net income or result in a decline in net interest income. To reflect sensitivity of certain assets and liabilities, analysis of balances and its movement is done via application of behavioral assumptions to repricing cash flow.

The Bank monitors the exposure of financial assets and financial liabilities to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Bank's interest-related income and expenses. The EaR and IEV is computed and reported monthly to ALCO and bi-monthly to RMC. Additionally, the Bank uses sensitivity analysis for stress testing of IRRBB. Parallel shock of 300 and 400 basis points are simulated and reported for perspective.

The following tables provide additional information on the statistical impact on net income and equity as of December 31, 2019 and 2018 (amounts in thousands):

	December 31, 2019			
Currency	**PHP**		**US$**	
Changes in interest rates (in basis points)	**+100**	**-100**	**+100**	**-100**
Change in net income	**(₱206,496)**	**₱206,496**	**(₱124,752)**	**₱124,752**
Change in equity	**(150,519)**	**150,519**	**(64,746)**	**64,746**

	December 31, 2018			
Currency	PHP		US$	
Changes in interest rates (in basis points)	+100	-100	+100	-100
Change in net income	(₱281,186)	₱281,186	(₱182,356)	₱182,356
Change in equity	(23,788)	23,788	(41,699)	41,699

The sensitivity in the statements of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at the reporting date. The sensitivity of equity is calculated by revaluing fixed-rate FVOCI investments at reporting date for the effects of the assumed changes in interest rates. The impact on the equity as stated above already excludes the impact on transactions affecting the statements of income.

Foreign exchange rate risk
Foreign exchange (FX) rate risk is the risk that the Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position in a currency. Where the value of asset/inflow exposures in one currency is not equal to the value of liability/outflow exposures in that currency, it is described as an open position. It may be short (liabilities exceed assets) or long (assets exceed liabilities).

The Bank controls its FX exposures by transacting in permissible currencies. Management of FX risk is done via monitoring of FX NOP and PV01 for those FX positions in the trading book. If the level reaches the trigger point, action is required to bring back the level to within the normal range. FX risk is reviewed together with other risks to determine the Bank's overall risk profile.

Foreign currency-denominated liabilities generally consist of: (a) foreign currency-denominated deposits in the Bank's FCDU, (b) accounts maintained in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, and (c) foreign currency-denominated borrowings appearing in the regular books of the Bank.

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books.

The Bank has significant exposure to US$ monetary assets and liabilities as of December 31, 2019 and 2018.

The tables below summarize the reasonable possible movement of the currency rate against each significant foreign currency with all other variables held constant on the statements of income (US$ against PHP) (amounts in thousands).

Bankwide FX Position

	December 31, 2019	
Changes in foreign currency exchange rate	**+5.0%**	**-5.0%**
Effect on profit before tax (in thousands)	**(₱17,663)**	**₱17,663**

	December 31, 2018	
Changes in foreign currency exchange rate	+5.0%	-5.0%
Effect on profit before tax (in thousands)	(₱44,929)	₱44,929

Trading FX USD Position

	December 31, 2019			December 31, 2018		
	Spot	**Forwards**	**FX Options**	Spot	Forwards	FX Options
PV01	**0**	**(455.72)**	**0**	(12.23)	(758.58)	(0.34)

Liquidity Risk

Liquidity risk management overview
Liquidity risk is the risk that the Bank's financial condition or overall safety and soundness is adversely affected by an inability (or perceived inability) to meet its obligations and may result in the Bank incurring unacceptable losses. The Bank's obligations and the funding sources used to meet them, depend significantly on its business mix, its balance sheet structure and the cash flow profile of its on- and off-balance sheet obligations.

The Non-Trading Book Policy Statement, which includes policies on liquidity risk management, is reviewed annually and endorsed by ALCO and approved by RMC. The Bank's liquidity risk position is actively discussed and managed at the ALCO and RMC in line with the approved guidelines and policies.

The Bank, in line with the Group, has implemented leading practices as a foundation to manage and measure its liquidity risk exposure. The Bank uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap, early warning signals/liquidity indicators and stress testing. The liquidity positions of the Bank are monitored regularly against the established policies, procedures and thresholds.

Management of liquidity risk
For day to day liquidity management, Global Markets will ensure sufficient funding to meet the Bank's intraday payment and settlement obligations on a timely basis. In addition, the process of managing liquidity risk includes:

- Maintaining an adequate portfolio that can easily be liquidated as protection against any unforeseen interruption in cashflows;
- Maintaining a stable funding to support illiquid assets and business activities;
- Daily and monthly monitoring of liquidity ratios against internal and regulatory requirements;
- Monthly monitoring of gaps arising from mismatched maturity of assets and liabilities;
- Monthly monitoring and managing of concentration ratios of deposits;
- Conducting monthly liquidity stress testing under various scenarios as part of prudent liquidity control;
- Maintaining a robust contingency funding plan that includes strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios; and
- Conducting Contingency Funding Plan (CFP) testing to examine the effectiveness and robustness of the plans.

Liquidity coverage ratio

On March 10, 2016, the BSP issued Circular No. 905 which provides the implementing guidelines on Liquidity Coverage Ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100.00%. Compliance with the minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

The Bank monitors its LCR on a daily basis; joint management and monitoring are carried out by Global Markets and Group Finance. As of December 31, 2019, bank-wide LCR level as reported to the BSP stood at 105.93%.

Stress testing and Contingency Funding Plan
The Bank uses stress testing and scenario analysis to evaluate the impact of sudden stress events on liquidity position. Scenarios are based on hypothetical events that include bank specific crisis and general market crisis scenarios. The stress test result provides an insight of the Bank's funding requirements during different levels of stress environments and is closely linked to the Bank's CFP, which provides a systemic approach in handling any unexpected liquidity disruptions. The plan encompasses strategies, decision-making authorities, internal and external communication and courses of action to be taken under different liquidity crisis scenarios.

The Bank also conducts CFP tests to ensure the effectiveness and operational feasibility of the CFP. The key aspects of the testing are to focus on the preparedness of key senior management and their respective alternate in handling a simulated distress funding situation. It also provides exposure and develops capabilities on how to respond to a liquidity crisis situation and operate effectively with each other under challenging circumstances.

Analysis of financial assets and financial liabilities by remaining contractual maturities
The tables below show the maturity profile of the Bank's financial assets and financial liabilities based on contractual undiscounted cash flows (amount in thousands).

	December 31, 2019					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash and other cash items	**₱1,525,384**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,525,384**
Due from BSP	**9,767,155**	**–**	**–**	**–**	**–**	**9,767,155**
Due from other banks	**3,489,488**	**–**	**–**	**–**	**–**	**3,489,488**
Financial assets at FVPL:						
Government securities	**–**	**–**	**–**	**–**	**109,478**	**109,478**
Derivative assets	**41,805**	**158,425**	**150,000**	**153,110**	**2,026,588**	**2,529,928**
Financial assets at FVOCI:						
Government	**–**	**68,881**	**–**	**–**	**2,074,117**	**2,142,998**
Private debt securities	**–**	**–**	**–**	**264,119**	**442,585**	**706,704**
Quoted					**8,761**	**8,761**
Unquoted	**–**	**–**	**–**	**–**	**15,184**	**15,184**
Financial assets at amortized cost:						
Government	**3,169,061**	**–**	**83,065**	**7,799**	**5,146,135**	**8,406,060**
Private	**–**	**–**	**51,319**	**1,342**	**3,174,341**	**3,227,002**
Loans and receivables:						
Loans:						
Corporate	**3,560,429**	**4,592,194**	**1,556,302**	**75,227**	**15,559,861**	**25,344,013**
Commercial	**1,198,800**	**871,708**	**611,088**	**308,789**	**520,664**	**3,511,049**
Consumer:						
Auto loans	**115,013**	**158,491**	**401,972**	**1,680,733**	**48,983,510**	**51,339,719**
Housing loans	**947**	**630**	**2,627**	**18,347**	**21,941,375**	**21,963,926**
Others	**1,005,087**	**16,239**	**50,536**	**170,189**	**1,225,558**	**2,467,609**
	23,873,169	**5,866,568**	**2,906,909**	**2,679,655**	**101,228,157**	**136,554,458**
Sales contract receivable:						
Individual	**–**	**–**	**258**	**330**	**35,458**	**36,046**
Corporate	**–**	**416,000**	**–**	**3,500**	**2,564**	**422,064**
		416,000	**258**	**3,830**	**38,022**	**458,110**
Accounts receivable:						
Corporate	**312,045**	**7,179**	**16,778**	**12,238**	**669,443**	**1,017,683**
Individual	**445**	**950**	**433**	**99**	**7,828**	**9,755**
	312,490	**8,129**	**17,211**	**12,337**	**677,271**	**1,027,438**
RCOCI	**339**	**–**	**–**	**–**	**–**	**339**
	₱24,185,998	**₱6,290,697**	**₱2,924,378**	**₱2,695,822**	**₱101,943,450**	**₱138,040,345**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱23,267,475**	**₱–**	**₱–**	**₱–**	**₱–**	**₱23,267,475**
Savings	**18,700,707**	**1,245,482**	**26,881**	**14,031**	**–**	**19,987,101**
Time	**8,561,564**	**4,804,624**	**2,132,264**	**16,966,079**	**161,698**	**32,626,229**
	50,529,746	**6,050,106**	**2,159,145**	**16,980,110**	**161,698**	**75,880,805**
Financial liabilities at FVPL:						
Interest rate swaps	**11,280**	**910,770**	**150,000**	**150,000**	**2,671,046**	**3,893,096**
Forward contracts	**54,907**	**29,954**	**33,521**	**8,293**	**–**	**126,675**
Bills payable	**860,795**	**506,350**	**6,785,090**	**759,525**	**–**	**8,911,760**
Manager's checks	**698,383**	**–**	**–**	**–**	**–**	**698,383**
Accrued interest payable	**41,637**	**183,637**	**31,323**	**39,136**	**61,046**	**356,779**
Accounts payable	**779,855**	**–**	**–**	**–**	**–**	**779,855**
Subordinated debt	**–**	**–**	**55,917**	**55,917**	**2,781,000**	**2,892,834**
Due to Treasurer of the Philippines	**–**	**–**	**–**	**–**	**16,106**	**16,106**
	2,446,857	**1,630,711**	**7,055,851**	**1,012,871**	**5,529,198**	**17,675,488**
Contingent liabilities	**45,553**	**318,732**	**185,000**	**210,670**	**12,659**	**772,614**
	₱57,072,956	**₱7,999,549**	**₱9,399,996**	**₱18,203,651**	**₱5,703,555**	**₱98,379,707**

	December 31, 2018					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash and other cash items	₱1,685,366	₱–	₱–	₱–	₱–	₱1,685,366
Due from BSP	13,670,379	–	–	–	–	13,670,379
Due from other banks	13,090,490	–	–	–	–	13,090,490
Financial assets at FVPL:						
Government securities	13	162	1,753	1,213,319	65,410	1,280,657
Derivative assets	43,754	12,803	3,332	132	4,989	65,010
Financial assets at FVOCI:						
Government	3,215,633	19,899	1,058,715	107,585	4,816,417	9,218,249
Private debt securities	–	–	2,001	–	3,080,040	3,082,041
Quoted equity	–	–	–	–	8,761	8,761
Unquoted	–	–	–	–	3,164	3,164
Financial assets at amortized cost:						
Government	2,465	64,079	39,683	50,017	1,229,713	1,385,957
Private	–	7,288	24,980	40,653	1,809,743	1,882,664
Loans and receivables:						
Loans:						
Corporate	6,114,687	4,368,547	1,546,281	557,993	17,705,395	30,292,903
Commercial	1,382,083	933,883	648,618	379,257	457,536	3,801,377
Consumer:						
Auto loans	112,366	131,781	382,506	1,425,084	45,781,952	47,833,689
Housing loans	1,792	853	1,985	11,928	20,035,092	20,051,650
Others	973,596	14,701	35,046	183,380	1,592,544	2,799,267
	40,292,624	5,553,996	3,744,900	3,969,348	96,590,756	150,151,624
Sales contract receivable:						
Individual	191	697	–	987	32,722	34,597
Corporate	–	–	–	–	6,928	6,928
	191	697	–	987	39,650	41,525
Accounts receivable:						
Corporate	36,718	20,627	9,978	14,307	673,155	754,785
Individual	1,196	1,023	1,132	1,129	240,268	244,748
	37,914	21,650	11,110	15,436	913,423	999,533
Accrued interest receivable	3,055	15,470	10,240	24,399	570,051	623,215
RCOCI	452	–	–	–	–	452
	₱40,334,236	₱5,591,813	₱3,766,250	₱4,010,170	₱98,113,880	₱151,816,349
Financial Liabilities						
Deposit liabilities:						
Demand	₱19,973,208	₱–	₱–	₱–	₱–	₱19,973,208
Savings	19,792,876	1,363,541	97,005	184,239	–	21,437,661
Time	15,340,533	9,231,634	1,961,544	3,969,425	16,042,700	46,545,836
	55,106,617	10,595,175	2,058,549	4,153,664	16,042,700	87,956,705
Financial liabilities at FVPL:						
Interest rate swaps	–	–	–	–	337,636	337,636
Forward contracts	135,233	140,759	–	–	–	275,992
Bills payable		20,685,920	–	–	–	20,685,920
Manager's checks	544,534	–	–	–	–	544,534
Accrued interest payable	27,406	16,604	34,517	20,570	64,429	163,526
Accounts payable	61,106	37,021	76,961	45,864	143,654	364,606
Due to Treasurer of the Philippines	685,682	–	–	–	–	685,682
Subordinated debt			28,111	55,000	2,990,000	3,073,111
	1,453,961	20,880,304	139,589	121,434	3,535,719	26,131,007
Contingent liabilities	1,426,555	20,863,701	105,072	100,864	3,486,336	25,982,528
	₱57,987,133	₱52,339,180	₱2,303,210	₱4,375,962	₱23,064,755	₱140,070,240

5. Fair Value Measurement

The following table provides the fair value hierarchy of the Bank's assets and liabilities measured at fair value and those for which fair values are required to be disclosed:

	December 31, 2019				
		Fair Value			
	Carrying value	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
HFT investments:					
Government securities	**₱108,381,259**	**₱108,381,259**	**₱108,381,259**	**₱–**	**₱–**
Derivative assets	**258,792,099**	**258,792,099**	**–**	**258,792,099**	**–**
Financial assets at FVOCI:					
Government securities	**2,138,152,559**	**2,138,152,559**	**2,138,152,559**	**–**	**–**
Private debt securities	**698,862,102**	**698,862,102**	**698,862,102**	**–**	**–**
Quoted equity securities	**8,761,382**	**8,761,382**	**8,761,382**	**–**	**–**
Unquoted equity securities	**15,383,600**	**15,383,600**	**–**	**–**	**15,383,600**
	3,228,333,001	**3,228,333,001**	**2,954,157,302**	**258,792,099**	**15,383,600**
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	**8,510,345,574**	**8,671,216,816**	**8,671,216,816**	**–**	**–**
Private debt securities	**3,028,618,925**	**2,958,318,110**	**2,958,318,110**	**–**	**–**
	11,538,964,499	**11,629,534,926**	**11,629,534,926**	**–**	**–**
Loans and receivables					
Receivable from customers:					
Corporate lending	**19,046,523,674**	**20,380,059,556**	**–**	**–**	**20,380,059,556**
Commercial lending	**3,167,759,233**	**3,381,194,098**	**–**	**–**	**3,381,194,098**
Consumer lending	**47,536,555,018**	**60,647,589,386**	**–**	**–**	**60,647,589,386**
	69,750,837,925	**84,408,843,040**	**–**	**–**	**84,408,843,040**
Non-financial assets					
Investment properties	**1,136,172,532**	**2,021,713,905**	**–**	**–**	**2,021,713,905**
Total assets	**₱85,654,307,957**	**₱101,288,424,872**	**₱14,583,692,228**	**₱258,792,099**	**₱86,445,940,545**
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	**₱288,170,199**	**₱288,170,199**	**₱–**	**₱288,170,199**	**₱–**
Liabilities for which fair values are disclosed					
Financial liabilities					
Time deposits	**32,626,228,575**	**32,620,820,599**	**–**	**–**	**32,620,820,599**
Bills payable	**8,911,760,000**	**8,911,760,000**	**–**	**–**	**8,911,760,000**
Subordinated debt	**1,991,777,972**	**2,793,435,609**	**–**	**–**	**2,793,435,609**
Total liabilities	**₱43,817,936,746**	**₱44,614,186,407**	**₱–**	**₱288,170,199**	**₱ 44,326,016,208**

	December 31, 2018				
		Fair Value			
	Carrying value	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱179,972,246	₱179,972,246	₱179,972,246	₱–	₱–
Derivative assets	433,523,619	433,523,619	–	433,523,619	–
Financial assets at FVOCI:					
Government securities	3,459,013,375	3,459,013,375	3,459,013,375	–	–
Private debt securities	806,419,000	806,419,000	806,419,000	–	–
Quoted equity securities	8,761,382	8,761,382	8,761,382	–	–
Unquoted equity instruments	15,383,600	15,383,600	–	–	15,383,600
	4,903,073,222	4,903,073,222	4,454,166,003	433,523,619	15,383,600

(Forward)

	December 31, 2018				
		Fair Value			
	Carrying value	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	₱9,218,248,309	₱9,245,706,436	₱9,245,706,436	₱–	₱–
Private debt securities	3,082,041,940	3,091,222,328	3,091,222,328	–	–
	12,300,290,249	12,336,928,764	12,336,928,764	–	–
Loans and receivables					
Receivable from customers:			–	–	
Corporate lending	23,368,667,506	22,375,261,864	–	–	22,375,261,864
Commercial lending	3,413,458,729	3,623,121,405	–	–	3,623,121,405
Consumer lending	47,972533,308	54,140,559,375	–	–	54,140,559,375
	74,754,659,543	80,138,942,644	–	–	80,138,942,644
Non-financial assets					
Investment properties	1,338,292,042	2,034,858,752	–	–	2,034,858,752
Total assets	₱93,296,315,056	₱99,413,803,382	₱16,791,094,767	₱433,523,619	₱82,189,184,996
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱619,298,849	₱619,298,849	₱–	₱619,298,849	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Time deposits	32,626,228,575	32,089,681,868	–	–	32,089,681,868
Bills payable	8,911,760,000	8,911,760,000	–	–	8,911,760,000
Subordinated debt	1,991,777,972	2,966,242,540	–	–	2,966,242,540
Total liabilities	₱44,149,065,396	₱44,586,983,257	₱–	₱619,298,849	₱43,967,684,408

In 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 measurements.

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

COCI, due from BSP and other banks and IBLR – The carrying amounts approximate fair values due to the short-term nature of these accounts. IBLR consists mostly of overnight deposits and floating rate placements.

Trading and investment securities – Fair values of debt securities (financial assets at FVPL and AFS investments and financial investments at FVOCI) and equity investments are generally based on quoted market prices. Where the government debt securities are not quoted or the market prices are not readily available, the fair value is determined in reference to interpolated PH BVAL reference rates provided by the Philippine Dealing and Exchange Corporation (PDEx). For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the lack of suitable methods of arriving at a reliable fair value.

Derivative instruments – Fair values of derivative instruments, mainly forward foreign exchange contracts, are valued using a valuation technique with market observable inputs. The most frequently applied valuation technique is forward pricing, which uses present value calculations. The model incorporates various inputs including the foreign exchange rates and interest rate curves prevailing at the reporting date.

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

Fair values of loans and receivables are estimated based on the discounted cash flow methodology, using interest rates offered for similar loans to borrowers with ranging from 3.16% to 5.24% in 2019 and 5.41% to 7.50% in 2018. Where the instrument reprices on a periodical basis or has a relatively short maturity, the carrying amounts approximated fair values.

Investment properties – The fair values of Bank's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining fair values include the following:

	Valuation Techniques	**Significant Unobservable Inputs**
Land	Market data approach	Price per square meter, size, location, shape, time element and corner influence
Land and building	Market data approach for building and condominium for sale/lease and cost approach method for land improvements	Reproduction cost new

Significant Unobservable Inputs

Reproduction cost new	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

Liabilities – The fair values of liabilities approximate their carrying amounts due to either the demand nature or the relatively short-term maturities of these liabilities except for time deposit liabilities and subordinated debt whose fair values are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

6. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	2019	2018
Derivative assets (Note 17)	**₱258,792,099**	₱433,523,620
Government securities	**108,381,260**	179,972,246
	₱367,173,359	₱613,495,866

As of December 31, 2019 and 2018, financial assets at FVPL include net unrealized loss of ₱8.4 million and ₱3.4 million, respectively.

Effective interest of government securities ranges from 1.04% to 7.12% and 4.93% to 6.60% in 2019 and 2018, respectively.

Interest income on financial assets at FVPL amounted to ₱64.7 million and ₱21.5 million in 2019 and 2018, respectively.

7. Financial Assets at Fair Value Through Other Comprehensive Income

This account consists of:

	2019	2018
Debt instruments:		
Government securities	**₱2,138,152,559**	₱3,459,013,375
Private	**698,862,102**	806,419,000
	2,837,014,661	4,265,432,375
Quoted equity instruments	**8,761,382**	8,761,382
Unquoted equity instruments	**15,383,600**	15,383,600
	₱2,861,159,643	₱4,289,577,357

As of December 31, 2019 and 2018, the ECL on debt securities at FVOCI (included in 'Net unrealized loss in investment securities at FVOCI') amounted to ₱1.87 million and ₱3.06 million, respectively.

Interest income from FVOCI investments in 2019 and 2018 amounted to ₱240.3 million and ₱196.5 million, respectively.

Peso-denominated financial instruments at FVOCI have effective interest rates ranging from 3.35% to 6.49% and 3.88% to 7.88% in 2019 and 2018, respectively. Foreign currency-denominated financial instruments at FVOCI bear interest of 2.75% in 2019 and 2018.

8. Investment Securities at Amortized Cost

This account consists of:

	2019	2018
Government securities (Note 26)	**₱8,512,152,437**	₱9,225,954,921
Private debt securities	**3,038,421,753**	3,093,649,646
	11,550,574,190	12,319,604,567
Allowance for credit losses	**(11,609,691)**	(19,314,318)
	₱11,538,964,499	₱12,300,290,249

Peso-denominated bonds have effective interest rates ranging from 3.20% to 6.64% and 2.97% to 6.64% in 2019 and 2018, respectively. Foreign currency-denominated bonds have effective interest rates ranging from 1.46% to 5.53% and 2.28% to 5.52% in 2019 and 2018, respectively.

Interest income from financial assets held at Amortized Cost amounted to ₱506.2 million and ₱334.9 million in 2019 and 2018, respectively.

9. Loans and Receivables

This account consists of:

	2019	2018
Receivables from customers:		
Corporate (Note 28)	**₱19,835,082,039**	₱24,007,223,631
Commercial (Note 28)	**3,323,920,952**	3,638,094,814
Consumer:		
Auto loans	**34,983,839,699**	35,922,555,222
Housing loans	**11,771,870,796**	11,294,320,769
Others	**2,009,132,895**	2,234,837,560
	71,923,846,381	77,097,031,996
Less unearned discounts and other deferred income	**32,009,605**	22,788,412
	71,891,836,776	77,074,243,584
Accounts receivable:		
Corporate (Note 28)	**1,017,681,679**	979,223,456
Individual	**9,754,597**	10,117,121
	1,027,436,276	989,340,577
Less unearned discounts and other deferred income	**–**	–
	1,027,436,276	989,340,577
Accrued interest receivable (Note 28)	**741,065,991**	757,142,440
Sales contract receivable:		
Individual	**420,735,595**	34,596,919
Corporate	**37,151,546**	6,927, 757
	457,887,141	41,524,676
RCOCI	**339,396**	451,886
	74,118,565,580	78,862,703,163
Less allowance for credit losses	**2,251,092,564**	2,483,321,981
	₱71,867,473,016	₱76,379,381,182

Loans consist of:

	2019	2018
Loans and discounts	**₱69,029,175,240**	₱73,165,966,269
Customers' liabilities and other loans	**2,712,757,507**	3,680,806,367
Bills purchased (Note 16)	**78,267,897**	100,906,484
Restructured loans	**103,645,737**	149,352,881
	₱71,923,846,381	₱77,097,032,001

Changes in the staging assessment of loans receivable are presented below:

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans				
Gross carrying amount as at December 31, 2018	**₱22,686,946**	**₱906,153**	**₱414,126**	**₱24,007,225**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**9,401,915**	**–**	**–**	**9,401,915**
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	**–**	**–**	**200,635**	**200,635**
Effect of collections and other movements in receivable balance	**(13,258,204)**	**(355,313)**	**69,306**	**(13,544,211)**
Write-offs	**–**	**–**	**(230,482)**	**(230,482)**
Transfers to Stage 1	**21,228**	**(21,228)**	**–**	**–**
Transfers to Stage 3	**(439,579)**	**–**	**439,579**	**–**
At December 31, 2019	**18,412,306**	**529,612**	**893,164**	**19,835,082**
Commercial loans				
Gross carrying amount as at December 31, 2018	**3,295,878**	**93,613**	**248,603**	**3,638,094**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**2,872,135**	**–**	**–**	**2,872,135**
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	**–**	**21,053**	**41,124**	**62,177**
Effect of collections and other movements in receivable balance	**(3,038,217)**	**(93,613)**	**(116,516)**	**(3,248,346)**
Write-offs	–	**–**	**(139)**	**(139)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**(1,733)**	**33,744**	**(32,011)**	**–**
Transfers to Stage 3	**(34,694)**	**–**	**34,694**	**–**
At December 31, 2019	**3,093,369**	**54,797**	**175,755**	**3,323,921**
Auto loans				
Gross carrying amount as at December 31, 2018	**32,345,380**	**2,744,515**	**832,660**	**35,922,555**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**12,227,209**	**–**	**–**	**12,227,209**
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	**–**	**458,416**	**44,223**	**502,639**
Effect of collections and other movements in receivable balance	**(11,844,981)**	**(1,365,671)**	**(221,297)**	**(13,431,949)**
Write-offs	**–**	**–**	**(236,614)**	**(236,614)**
Transfers to Stage 1	**341,261**	**(332,580)**	**(8,681)**	**–**
Transfers to Stage 2	**(1,545,350)**	**1,562,306**	**(16,956)**	**–**
Transfers to Stage 3	**(159,175)**	**(214,476)**	**373,651**	**–**
At December 31, 2019	**31,364,344**	**2,852,510**	**766,986**	**34,983,840**
Housing loans				
Gross carrying amount as at December 31, 2018	**10,476,023**	**695,379**	**122,918**	**11,294,320**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**2,294,723**	**–**	**–**	**2,294,723**
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	**–**	**59,246**	**–**	**59,246**
Effect of collections and other movements in receivable balance	**(1,642,855)**	**(144,870)**	**(88,693)**	**(1,876,418)**
Transfers to Stage 1	**177,304**	**(176,140)**	**(1,164)**	**–**
Transfers to Stage 2	**(427,792)**	**427,792**	**–**	**–**
Transfers to Stage 3	**(27,809)**	**(32,665)**	**60,474**	**–**
At December 31, 2019	**10,849,594**	**828,742**	**93,535**	**11,771,871**

(Forward)

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Others				
Gross carrying amount as at December 31, 2018	**₱2,068,667**	**₱101,339**	**₱64,832**	**₱2,234,838**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**568,480**	**–**	**–**	**568,480**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**11,690**	**118,830**	**130,520**
Effect of collections and other movements in receivable balance	**(710,727)**	**(68,391)**	**–**	**(779,118)**
Write-offs	**–**	**–**	**(145,587)**	**(145,587)**
Transfers to Stage 1	**6,597**	**(4,420)**	**(2,177)**	**–**
Transfers to Stage 2	**(22,380)**	**22,523**	**(143)**	**–**
Transfers to Stage 3	**(18,715)**	**(1,567)**	**20,282**	**–**
At December 31, 2019	**₱1,891,922**	**₱61,174**	**₱56,037**	**₱2,009,133**

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans				
Gross carrying amount as at January 1, 2018	₱21,816,085	₱1,507,713	₱497,107	₱23,820,905
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	12,963,269	–	–	12,963,269
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	248,939	–	248,939
Payments and assets derecognized (excluding write offs)	(12,508,520)	(399,098)	(118,271)	(13,025,889)
Transfers to Stage 1	674,901	(674,901)	–	–
Transfers to Stage 2	(258,790)	258,790	–	–
Transfers to Stage 3	–	(35,290)	35,290	–
At December 31, 2018	22,686,945	906,153	414,126	24,007,224
Commercial loans				
Gross carrying amount as at January 1, 2018	3,235,503	250,909	171,329	3,657,741
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	3,061,594	–	–	3,061,594
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	93,613	61,142	154,755
Payments and assets derecognized (excluding write offs)	(3,012,942)	(96,097)	(126,956)	(3,235,995)
Transfers to Stage 1	120,275	(120,275)	–	–
Transfers to Stage 2	(49,461)	49,461	–	–
Transfers to Stage 3	(59,091)	(83,998)	143,089	–
At December 31, 2018	3,295,878	93,613	248,604	3,638,095
Auto loans				
Gross carrying amount as at January 1, 2018	31,045,586	2,298,079	724,517	34,068,182
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	13,720,709	–	–	13,720,709
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	646,916	81,378	728,294
Payments and assets derecognized (excluding write offs)	(10,708,587)	(1,423,668)	(462,375)	(12,594,630)
Transfers to Stage 1	583,852	(564,335)	(19,517)	–
Transfers to Stage 2	(2,016,834)	2,048,608	(31,774)	–
Transfers to Stage 3	(279,346)	(261,085)	540,431	–
At December 31, 2018	32,345,380	2,744,515	832,660	35,922,555
Housing loans				
Gross carrying amount as at January 1, 2018	7,051,042	571,941	87,571	7,710,554
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	4,456,333	–	–	4,456,333
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	118,135	9,038	127,173
Payments and assets derecognized (excluding write offs)	(640,300)	(305,280)	(54,160)	(999,740)
Transfers to Stage 2	(354,669)	356,403	(1,734)	–
Transfers to Stage 3	(36,383)	(45,820)	82,203	–
At December 31, 2018	10,476,023	695,379	122,918	11,294,320

(Forward)

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Others				
Gross carrying amount as at January 1, 2018	₱1,948,756	₱75,446	₱66,288	₱2,090,490
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	788,610	–	–	788,610
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	14,879	5,473	20,352
Payments and assets derecognized (excluding write offs)	(603,797)	(18,108)	(42,709)	(664,614)
Transfers to Stage 1	5,586	(4,539)	(1,047)	–
Transfers to Stage 2	(37,384)	38,342	(958)	–
Transfers to Stage 3	(33,104)	(4,681)	37,785	–
At December 31, 2018	₱2,068,667	₱101,339	₱64,832	₱2,234,838

Movement of ECL during the year is presented in the table below:

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans				
Balance at beginning of the year	**₱251,565**	**₱19,228**	**₱361,524**	**₱632,317**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**173,149**	–	–	**173,149**
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	–	**230,200**	**230,200**
Effect of collections and other movements in receivable balance	**(9,542)**	**(7,797)**	–	**(17,339)**
Write-offs	–	–	**(230,482)**	**(230,482)**
Transfers to Stage 1	**1**	**(1)**	-	-
Transfers to Stage 3	**(164,905)**	–	**164,905**	-
At December 31, 2019	**250,268**	**11,430**	**526,147**	**787,845**
Commercial loans				
Balance at beginning of the year	**37,014**	**8,714**	**168,254**	**213,982**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**22,147**	–	–	**22,147**
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	**1,024**	**23,236**	**24,260**
Effect of collections and other movements in receivable balance	**(19,700)**	**(8,715)**	**(88,883)**	**(117,298)**
Write-offs	–	–	**(139)**	**(139)**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	**2,172**	**(2,172)**	–
Transfers to Stage 3	**(15,892)**	–	**15,892**	–
At December 31, 2019	**23,569**	**3,195**	**116,188**	**142,952**
Auto loans				
Balance at beginning of the year	**543,190**	**67,486**	**348,866**	**959,542**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**155,570**	–	–	**155,570**
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	**110,758**	**70,051**	**180,809**
Effect of collections and other movements in receivable balance	**(248,895)**	–	–	**(248,895)**
Write-offs	–	–	**(236,614)**	**(236,614)**
Transfers to Stage 1	**3,948**	**(3,804)**	**(144)**	–
Transfers to Stage 2	**(118,306)**	**119,507**	**(1,201)**	–
Transfers to Stage 3	**(51,162)**	**(68,925)**	**120,087**	–
At December 31, 2019	**284,345**	**225,022**	**301,045**	**810,412**

(Forward)

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Housing loans				
Balance at beginning of the year	**₱234,998**	**₱54,126**	**₱42,836**	**₱331,960**
New assets originated or purchased that remained at Stage 1 as at December 31, 2019	**23,457**	**–**	**–**	**23,457**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**8,191**	**–**	**8,191**
Effect of collections and other movements in receivable balance	**(122,785)**	**(13,979)**	**(33,239)**	**(170,003)**
Transfers to Stage 1	**3,098**	**(3,084)**	**(14)**	**–**
Transfers to Stage 2	**(34,752)**	**34,752**	**–**	**–**
Transfers to Stage 3	**(8,085)**	**(9,457)**	**17,542**	**–**
At December 31, 2019	**95,931**	**70,549**	**27,125**	**193,605**
Others				
Balance at beginning of the year	**116,730**	**17,361**	**47,693**	**181,784**
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	**21,135**	**–**	**–**	**21,135**
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	**38,631**	**21,745**	**121,738**	**182,114**
Effect of collections and other movements in receivable balance	**–**	**–**	**–**	**–**
Write-offs	**–**	**–**	**(145,587)**	**(145,587)**
Transfers to Stage 1	**278**	**(224)**	**(54)**	**–**
Transfers to Stage 2	**(8,514)**	**8,531**	**(17)**	**–**
Transfers to Stage 3	**(16,807)**	**(1,341)**	**18,148**	**–**
At December 31, 2019	**₱151,453**	**₱46,072**	**₱41,921**	**₱239,446**

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans				
Balance at beginning of the year	₱255,348	₱49,626	₱255,172	₱560,146
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	638	–	–	638
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	115,882	–	115,882
Effect of collections and other movements in receivable balance	(13,647)	(5,910)	(24,792)	(44,349)
Transfers to Stage 1	11,113	(11,113)	–	–
Transfers to Stage 2	(1,887)	1,887	–	–
Transfers to Stage 3	–	(15,262)	15,262	–
At December 31, 2018	251,565	135,110	245,642	632,317
Commercial loans				
Balance at beginning of the year	33,049	10,895	117,406	161,350
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	72	–	–	72
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	93,613	61,142	154,755
Effect of collections and other movements in receivable balance	1,874	(93,775)	(10,294)	(102,195)
Transfers to Stage 1	3,177	(3,177)	–	–
Transfers to Stage 2	(487)	487	–	–
Transfers to Stage 3	(671)	671	–	–
At December 31, 2018	37,014	8,714	168,254	213,982
Auto loans				
Balance at beginning of the year	509,185	53,565	279,883	842,633
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	264,476	–	–	264,476
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	25,276	214,223	239,499
Effect of collections and other movements in receivable balance	(208,292)	(38,851)	–	(247,143)
Write-offs	–	–	(139,923)	(139,923)
Transfers to Stage 1	19,672	(13,241)	(6,431)	–
Transfers to Stage 2	(36,330)	47,293	(10,963)	–
Transfers to Stage 3	(5,521)	(6,556)	12,077	–
At December 31, 2018	543,190	67,486	348,866	959,542

(Forward)

	December 31, 2018			
	Stage 1		Stage 1	
Housing loans				
Balance at beginning of the year	₱97,238	₱30,741	₱28,741	₱156,720
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	134,108	–	–	134,108
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	31,185	13,056	44,241
Effect of collections and other movements in receivable balance	(3,109)	–	–	(3,109)
Transfers to Stage 1	12,281	(10,833)	(1,448)	–
Transfers to Stage 2	(5,001)	5,570	(569)	–
Transfers to Stage 3	(519)	(2,537)	3,056	–
At December 31, 2018	234,998	54,126	42,836	331,960
Others				
Balance at beginning of the year	156,032	22,984	48,267	227,283
New assets originated or purchased that remained at Stage 1 asset December 31, 2019	52,358	–	–	52,358
Newly originated assets that moved to Stages 2 and 3 as at December 31, 2019	–	1,736	4,349	6,085
Effect of collections and other movements in receivable balance	(89,999)	(8,572)	(5,371)	(103,942)
Transfers to Stage 1	1,116	(352)	(764)	–
Transfers to Stage 2	(1,471)	1,985	(514)	–
Transfers to Stage 3	(1,306)	(420)	1,726	–
At December 31, 2018	₱116,730	₱17,361	₱47,693	₱181,784

As of December 31, 2019 and 2018, allowance for credit losses on accounts receivable and sales contract receivable amounted to ₱76.8 million and ₱163.7 million.

Interest income on loans and receivables consists of:

	2019	2018
Loans and discounts	**₱6,247,900,375**	₱6,337,242,942
Customers' liabilities and other loans	**217,495,603**	176,713,090
Accounts receivable – PPI (Note 29)	**25,185,248**	33,103,843
Restructured loans	**7,303,422**	12,001,113
Sales contract receivable	**3,414,858**	3,453,461
	₱6,501,299,506	₱6,562,514,449

Of the total peso-denominated loans of the Bank as of December 31, 2019 and 2018, 93.32% and 40.67% respectively, are subject to periodic interest repricing. Remaining peso-denominated loans earned annual EIR ranging from 2.99% to 33.13% and from 2.99% to 31.68% for the years ended December 31, 2019 and 2018, respectively. All foreign currency-denominated loans of the Bank as of December 31, 2019 and 2018 are subject to periodic interest repricing and earned annual EIR ranging from 3.05% to 8.40% and from 3.04% to 8.43% for the years ended December 31, 2019 and 2018, respectively.

All sales contract receivable as of December 31, 2019 and 2018 are subject to periodic interest repricing.

Receivable from Philmay Property, Incorporated (PPI)

As of December 31, 2019 and 2018, receivable from PPI (included under Accounts Receivable – Corporate) has a carrying value of ₱619.67 million and ₱600.5 million,, respectively. The receivable bears an interest rate based on one-month PH BVAL reference rates plus 1.00%, repriceable every month. The Memorandum of Agreement (MOA) originally signed on September 15, 2009 between the Bank and PPI has expired on September 19, 2019. On October 1, 2019, the Bank and PPI has signed an addendum to the original MOA extending the payment terms whereas PPI will settle the receivable within ten (10) years beginning October 1, 2019 until September 30, 2029.

The receivable from PPI is secured by deposit hold-out agreement, executed by the Parent Company, amounting to US$20.0 million. In the event that PPI fails to perform its obligation under the Memorandum of Agreement, and that the same is not cured or corrected within a period of thirty (30) days from notice by the Bank, the Bank is authorized by the Parent Company to immediately offset and apply the deposit as partial or full payment of the obligation without need of demand.

10. Property and Equipment

The composition of and movements in this account follow:

	December 31, 2019			
	Condominium Units	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost				
Balances at beginning of year	**₱262,553,193**	**₱897,538,921**	**₱564,214,539**	**₱1,724,306,653**
Additions	**–**	**67,560,491**	**6,760,372**	**74,320,863**
Disposals/write-off	**–**	**(137,325,193)**	**(2,319,985)**	**(139,645,178)**
Balances at end of year	**262,553,193**	**827,774,219**	**568,654,926**	**1,658,982,338**
Accumulated Depreciation and Amortization				
Balances at beginning of year	**181,193,045**	**719,801,578**	**536,041,649**	**1,437,036,272**
Depreciation and amortization	**6,141,244**	**68,063,417**	**13,988,148**	**88,192,809**
Disposals/write-off	**–**	**(132,327,064)**	**(2,319,967)**	**(134,647,031)**
Balances at end of year	**187,334,289**	**655,537,931**	**547,709,830**	**1,390,582,050**
Net Book Value at end of year	**₱75,218,904**	**₱172,236,288**	**₱20,945,096**	**₱268,400,288**

	December 31, 2018			
	Condominium Units	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost				
Balances at beginning of year	₱262,553,193	₱839,964,250	₱555,477,996	₱1,657,995,439
Additions	–	71,166,169	8,736,543	79,902,712
Disposals/write-off	–	(13,591,498)	–	(13,591,498)
Balances at end of year	262,553,193	897,538,921	564,214,539	1,724,306,653
Accumulated Depreciation and Amortization				
Balances at beginning of year	156,012,041	645,562,147	504,858,752	1,306,432,940
Depreciation and amortization	25,181,004	80,164,202	31,182,897	136,528,103
Disposals/write-off	–	(5,924,771)	–	(5,924,771)
Balances at end of year	181,193,045	719,801,578	536,041,649	1,437,036,272
Net Book Value at end of year	₱81,360,148	₱177,737,343	₱28,172,890	₱287,270,381

Depreciation and amortization consist of:

	2019	2018
Right-of-use assets (Note 24)	**₱126,595,247**	₱–
Chattel properties acquired (Note 12)	**116,894,679**	122,606,050
Property and equipment	**88,192,809**	136,528,103
Investment properties (Note 11)	**76,081,724**	56,753,709
Software costs (Note 12)	**42,553,275**	47,992,394
	₱450,317,734	₱363,880,256

As of December 31, 2019 and 2018, the cost of fully depreciated property and equipment still in use by the Bank amounted to ₱1,034.4 million.

11. Investment Properties

The composition of and movements in this account follow:

	December 31, 2019		
	Land	**Building**	**Total**
Cost			
Balances at beginning of year	**₱633,657,199**	**₱879,865,443**	**₱1,513,522,642**
Additions	**96,170,085**	**176,128,409**	**272,298,494**
Disposals	**(378,707,176)**	**(34,082,472)**	**(412,789,648)**
Balances at end of year	**351,120,108**	**1,021,911,380**	**1,373,031,488**
Accumulated Depreciation			
Balances at beginning of year	**–**	**153,451,880**	**153,451,880**
Depreciation	**–**	**76,081,724**	**76,081,724**
Disposals	**–**	**(11,943,152)**	**(11,943,152)**
Balances at end of year	**–**	**217,590,452**	**217,590,452**
Accumulated Impairment Loss			
Balances at beginning of year	**19,361,308**	**2,417,412**	**21,778,720**
Provision (Reversals)	**(400,603)**	**(1,075,931)**	**(1,476,534)**
Disposals	**–**	**(1,033,682)**	**(1,033,682)**
Balances at end of year	**18,960,705**	**307,799**	**19,268,504**
Net Book Value at end of year	**₱332,159,403**	**₱804,013,129**	**₱1,136,172,532**

	December 31, 2018		
	Land	Building	Total
Cost			
Balances at beginning of year	₱655,056,111	₱765,088,175	₱1,420,144,286
Additions	22,211,696	141,701,456	163,913,152
Disposals	(43,610,608)	(26,924,188)	(70,534,796)
Balances at end of year	633,657,199	879,865,443	1,513,522,642
Accumulated Depreciation			
Balances at beginning of year	–	105,144,959	105,144,959
Depreciation	–	55,753,709	55,753,709
Disposals	–	(7,446,788)	(7,446,788)
Balances at end of year	–	153,451,880	153,451,880
Accumulated Impairment Loss			
Balances at beginning of year	22,061,671	6,143,358	28,205,029
Provision (Reversals)	(20,000)	(3,725,946)	(3,745,946)
Disposals	(2,680,363)	–	(2,680,363)
Balances at end of year	19,361,308	2,417,412	21,778,720
Net Book Value at end of year	₱614,295,891	₱723,996,151	₱1,338,292,042

Annually, management reviews the recoverable amount of investment properties. Several factors are considered such as real estate prices and physical condition of properties. The fair value of the investment properties as of December 31, 2019 and 2018 amounted to ₱2.0 billion as determined by independent and/or in-house appraisers (see Note 5).

Direct operating expenses, included in the 'Litigation and assets acquired expenses' in the statements of income, arising from investment properties amounted to ₱104.4 million and ₱88.7 million for the years ended December 31, 2019 and 2018, respectively.

12. **Other Assets**

This account consists of:

	2019	2018
Chattel properties acquired	**₱256,180,992**	₱354,293,864
Software costs	**150,595,939**	169,976,589
Security deposits	**67,909,207**	81,273,716
Documentary stamps	**57,465,311**	64,465,935
Prepaid expenses	**35,989,717**	39,676,571
Sundry debits	**2,674,852**	27,588,014
Prepaid interest	**1,741,545**	3,847,173
Miscellaneous	**43,669,647**	86,722,894
	₱616,227,210	₱827,844,756

Prepaid interest represents advance interest payments on certain time deposit product.

Allowance for impairment loss on certain other assets amounted to ₱4.7 million of December 31, 2019 and 2018.

Movements in chattel properties acquired follow:

	2019	2018
Cost		
Balances at beginning of year	**₱524,761,425**	₱509,055,310
Additions (Note 31)	**706,018,241**	667,380,045
Disposals	**(855,223,860)**	(651,673,930)
Balances at end of year	**375,555,806**	524,761,425
Accumulated Depreciation		
Balances at beginning of year	**170,467,561**	168,826,538
Depreciation	**116,894,679**	122,606,050
Disposals	**(170,423,432)**	(120,965,027)
Balances at end of year	**116,938,808**	170,467,561
Accumulated Impairment Loss		
Balances at beginning of year	**-**	131,375
Provision	**5,316,309**	(99,900)
Disposals	**(2,880,303)**	(31,475)
Balances at end of year	**2,436,006**	–
Net Book Value at end of year	**₱256,180,992**	₱354,293,864

Movements in software costs follow:

	2019	2018
Cost		
Balances at beginning of year	**₱344,197,842**	₱287,087,585
Additions	**23,172,624**	57,110,257
Balances at end of year	**367,370,466**	344,197,842
Accumulated Depreciation		
Balances at beginning of year	**174,221,253**	126,228,859
Amortization	**42,553,274**	47,992,394
Balances at end of year	**216,774,527**	174,221,253
Net Book Value at end of year	**₱150,595,939**	₱169,976,589

As of December 31, 2019 and 2018, the cost of fully amortized software still in use by the Bank amounted to ₱56.7 million and ₱81.2 million, respectively.

13. Deposit Liabilities

In 2019, BSP Circular Nos. 1041 and 1056 were issued reducing the reserve requirements against deposit and deposit substitute liabilities. As of December 31, 2019, non-FCDU deposit liabilities of the Parent Company and deposit substitutes are subject to required reserves of 15.0% from 18.0% in 2018.Peso-denominated LTNCDs are subject to reserves equivalent to 4.0%. The required reserves can be kept in the form of deposits maintained in the demand deposit accounts with the BSP and any government securities used as compliance until they mature. The Bank is in compliance with such regulations as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, the total statutory and liquidity reserves (under 'Due from BSP' account) as reported to the BSP amounted to ₱9.76 billion and ₱13.7 billion, respectively.

Interest expense on deposit liabilities consists of:

	2019	2018
Time	**₱1,445,597,795**	₱1,414,659,213
Savings	**370,013,116**	213,949,960
Demand	**174,064,558**	149,894,714
	₱1,989,675,469	₱1,778,503,887

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 5.88% and from 0.25% to 7.5% for the years ended December 31, 2019 and 2018, respectively, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 2.80% and from 0.25% to 3.35% for the years ended December 31, 2019 and 2018, respectively.

14. Bills Payable

This account consists of borrowings from banks including related parties (see Note 28) amounting to ₱8.91 billion and ₱20.7 billion as of December 31, 2019 and 2018, respectively. These are unsecured borrowings by the Bank.

Dollar-denominated borrowings are subject to annual EIR ranging from 2.70% to 3.45% and from 3.30% to 3.85% % for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, there are no peso-denominated borrowings.

As of December 31, 2019 and 2018, the terms of the borrowings range from 36 to 500 days and 5 to 352 days, respectively.

Interest expense on bills payable and other borrowings consists of:

	2019	2018
Bills payable	**₱662,382,494**	₱370,248,800
Subordinated debt (Note 28)	**112,351,299**	112,690,210
	₱774,733,793	₱482,939,010

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2019	2018
Accrued interest payable	**₱364,943,965**	₱364,605,391
Accrued employee benefits	**283,989,865**	319,336,435
Accrued taxes and licenses	**138,670,822**	121,912,896
Accrued rent	**2,539,368**	167,745,353
Accrued other expenses	**395,626,330**	419,952,948
	₱1,185,770,350	₱1,393,553,023

Accrued other expenses include accrual for various administrative expenses, professional fees and information technology expenses.

16. Other Liabilities

This account consists of:

	2019	2018
Accounts payable	**₱779,855,262**	₱685,682,211
Net pension liability (Note 20)	**379,016,277**	228,373,804
Withholding taxes payable (Note 31)	**67,000,852**	51,143,592
Bills purchased – contra	**29,074,041**	46,296,667
Other dormant credits	**10,176,855**	18,337,251
Due to the Treasurer of the Philippines	**16,105,965**	15,046,647
Other deferred credits	**3,803,318**	637,089
Miscellaneous	**24,281,609**	42,751,187
	₱1,309,314,179	₱1,088,268,448

17. Derivative Financial Instruments

As of December 31, 2019 and 2018, the Bank's derivative financial instruments represent interest rate swaps and currency forwards used by the Bank to manage exposures arising from changes in interest rates and foreign exchange rates.

The table sets out the information about the Bank's derivative financial instruments and the related fair values, together with the notional amounts:

	December 31, 2019			December 31, 2018		
	Notional Amount	**Derivative Asset**	**Derivative Liability**	Notional Amount	Derivative Asset	Derivative Liability
Interest rate swaps	**US$2,500,000**	**₱6,897,967**	**₱6,592,672**	US$1,051,600,000	₱–	₱47,675,824
	₱2,350,000,000	**188,299,585**	**193,366,594**	₱2,900,000,000	329,364,424	289,960,391
Cross-currency interest rate swap	**US$2,400,000**	–	**3,350,309**	–	–	–
Non-deliverable swaps (NDS)	**₱5,343,750,000**	–	**20,321,016**	–	–	–
Forward contracts	**US$18,652,896**	**63,570,027**	**58,163,123**	US$527,328,236	103,865,520	275,992,573
Non-deliverable forwards	**–**	**24,520**	**6,376,485**	–	293,676	5,670,061
		₱258,792,099	**₱288,170,199**		₱433,523,620	₱619,298,849

For foreign currency-denominated interest rate swaps, the Bank pays quarterly interests ranging from 1.52% to 8.14% and 3.73% to 5.95% for the years ended December 31, 2019 and 2018 and receives quarterly interests based on 3-month London Interbank Offered Rate (LIBOR).

Interest income from NDS in 2019 and 2018 amounted to ₱46.10 million and nil, respectively.

The movements in the Bank's derivative financial instruments follow:

	2019	2018
Derivative Assets		
Balance at beginning of year	**₱433,523,620**	₱65,009,362
Changes in fair value (Note 21)	**158,377,280**	255,137,636
Net addition (settlement)	**(333,108,8001)**	113,376,622
Balance at end of year	**₱258,792,099**	₱433,523,620

	2019	2018
Derivative Liabilities		
Balance at beginning of year	**₱619,298,849**	₱146,483,530
Changes in fair value (Note 21)	**(13,123,596)**	353,082,026
Net addition (settlement)	**(318,005,054)**	119,733,293
Balance at end of year	**₱288,170,199**	₱619,298,849

18. Maturity Analysis of Assets and Liabilities

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	December 31, 2019			December 31, 2018		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Financial Assets						
Cash and other cash items	**₱1,525,384,334**	**₱–**	**₱1,525,384,334**	₱1,685,366,097	₱–	₱1,685,366,097
Due from BSP	**9,767,154,508**	**–**	**9,767,154,508**	13,670,378,655	–	13,670,378,655
Due from other banks	**3,489,488,184**	**–**	**3,489,488,184**	13,090,490,156	–	13,090,490,156
Financial assets at FVPL:						
Government securities	**108,381,260**	**–**	**108,381,260**	179,972,246	–	179,972,246
Derivative assets	**258,792,099**	**–**	**258,792,099**	433,523,619	–	433,523,619
	15,149,200,385	**–**	**15,149,200,385**	29,059,730,773	–	29,059,730,773
Financial assets at FVOCI						
Government debt securities	**68,881,054**	**2,069,271,505**	**2,138,152,559**	–	3,459,013,375	3,459,013,375
Private debt securities	**261,376,405**	**437,485,697**	**698,862,102**	–	806,419,000	806,419,000
Private equity securities:						
Quoted	**–**	**8,761,382**	**8,761,382**	–	8,761,382	8,761,382
Unquoted	**–**	**15,383,600**	**15,383,600**	–	15,383,600	15,383,600
	330,257,459	**2,530,902,184**	**2,861,159,643**	–	4,289,577,357	4,289,577,357
Financial assets at amortized cost						
Government debt securities	**3,243,717,500**	**5,268,434,937**	**8,512,152,437**	–	9,218,248,309	9,218,248,309
Private debt securities	**52,123,190**	**2,986,298,563**	**3,038,421,753**	–	3,082,041,940	3,082,041,940
	3,295,840,690	**8,254,733,500**	**11,550,574,190**	–	12,300,290,249	12,300,290,249
Loans and receivables:						
Loans:						
Corporate	**9,683,554,526**	**10,151,527,512**	**19,835,082,038**	12,452,585,107	11,554,638,524	24,007,223,631
Commercial	**2,953,050,310**	**370,870,642**	**3,323,920,952**	3,265,514,157	372,580,656	3,638,094,813
Consumer:			-			
Auto loans	**2,127,123,724**	**32,856,715,975**	**34,983,839,699**	1,866,808,374	34,055,746,848	35,922,555,222
Housing	**21,249,438**	**11,750,621,357**	**11,771,870,795**	15,467,426	11,278,853,343	11,294,320,769
Others	**1,206,537,576**	**802,595,320**	**2,009,132,896**	1,175,258,281	1,059,579,279	2,234,837,560
	15,991,515,574	**55,932,330,806**	**71,923,846,380**	18,775,633,345	58,321,398,650	77,097,031,995
Sales contract receivable:						
Corporate	**419,478,355**	**1,257,240**	**420,735,595**	–	6,927,757	6,927,757
Individual	**2,518,024**	**34,633,522**	**37,151,546**	672,170	33,924,748	34,596,918
	421,996,379	**35,890,762**	**457,887,141**	672,170	40,852,505	41,524,675
Accounts receivable:						
Corporate	**362,326,256**	**663,954,876**	**1,026,281,132**	264,273,462	490,511,648	754,785,110
Individual	**815,150**	**339,994**	**1,155,144**	234,555,468	–	234,555,468
	363,141,406	**664,294,870**	**1,027,436,276**	498,828,930	490,511,648	989,340,578
Accrued interest receivable	**741,065,991**	–	**741,065,991**	757,142,440	–	757,142,440
RCOCI	**339,396**	–	**339,396**	451,886	–	451,886
	17,518,058,746	**56,632,516,438**	**74,150,575,184**	20,032,728,771	58,852,762,803	78,885,491,574
	36,293,357,280	**67,418,152,122**	**103,711,509,402**	49,092,459,544	75,442,630,409	124,535,089,953
Nonfinancial Assets						
Property and equipment	–	**268,400,288**	**268,400,288**	–	287,270,381	287,270,381
Right-of-Use Assets	–	**661,697,559**	**661,697,559**			
Investment properties	–	**1,136,172,532**	**1,136,172,532**	–	1,338,292,042	1,338,292,042
Deferred tax assets	–	**975,645,803**	**975,645,803**	–	913,480,037	913,480,037
Other assets	**141,541,073**	**474,686,138**	**616,227,211**	153,737,477	674,107,279	827,844,756
	141,541,073	**3,516,602,320**	**3,658,143,393**	153,737,477	3,213,149,739	3,366,887,216
Less: Allowance for impairment and credit losses	–	–	**(2,251,092,564)**	–	–	2,483,321,981
Unearned discounts and other deferred income	–	–	**(32,009,605)**	–	–	22,788,412
Total Assets	**₱36,433,173,052**	**₱70,924,870,052**	**₱105,074,940,935**	₱49,246,197,021	₱78,655,780,148	₱130,408,087,562
Financial Liabilities						
Deposit liabilities:						
Demand	**₱23,267,475,263**	**₱–**	**₱23,267,475,263**	₱19,973,207,626	₱–	₱19,973,207,626
Savings	**19,987,100,447**	**–**	**19,987,100,447**	21,437,661,176	–	21,437,661,176
Time	**32,464,530,779**	**161,697,796**	**32,626,228,575**	30,389,135,510	13,971,969,492	44,361,105,002
	75,719,106,489	**161,697,796**	**75,880,804,285**	71,800,004,312	13,971,969,492	85,771,973,804
8Financial liabilities at FVPL:						
Derivative liabilities	**288,170,199**	**–**	**288,170,199**	619,298,849	–	619,298,849

(Forward)

	December 31, 2019			December 31, 2018		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Bills payable	**8,911,760,000**	–	**8,911,760,000**	20,685,920,000	–	20,685,920,000
Manager's checks	**698,382,887**	–	**698,382,887**	544,534,813	–	544,534,813
Accrued interest payable	**₱364,943,965**	**₱–**	**₱364,943,965**	₱364,605,391	₱–	₱364,605,391
Outstanding acceptances	**33,127,228**	–	**33,127,228**	106,945,606	–	106,945,606
Accounts payable	**779,855,263**	–	**779,855,263**	685,741,257	–	685,741,257
Subordinated debt	–	**1,991,777,972**	**1,991,777,972**	–	1,990,956,784	1,990,956,784
Due to Treasurer of the Philippines	–	**16,105,965**	**16,105,965**	–	15,046,647	15,046,647
	11,076,239,542	**2,007,883,937**	**13,084,123,479**	23,007,045,916	2,006,003,431	25,013,049,347
Nonfinancial Liabilities						
Lease Liabilities	**125,294,262**	**695,760,720**	**821,054,982**	–	–	–
Income tax payable	**29,174,050**	–	**29,174,050**	–	–	–
Accrued taxes and other expenses	**820,826,352**	–	**820,826,352**	1,028,947,632	–	1,028,947,632
Other liabilities	**513,352,983**	–	**513,352,983**	387,480,542	–	387,480,542
	1,488,647,647	**695,760,720**	**2,184,408,367**	1,416,428,174	–	1,416,428,174
Total Liabilities	**₱88,283,993,678**	**₱2,865,342,453**	**₱91,149,336,131**	₱96,223,478,402	₱15,977,972,923	₱112,201,451,325

19. Capital Funds

The Bank's capital stock as of December 31, 2019 and 2018 consists of:

Preferred stock -₱3.7 par value	
"A" – Authorized and issued – 1,200,000 shares	₱4,440,000
"B" – Authorized and issued – 2,400,000 shares	8,880,000
"C" – Authorized – 291,400,000 shares	
Issued – 59,208,574 shares	219,071,724
Subscribed – 1,602,500 shares, net of subscriptions receivable of ₱5,781,250	148,000
	232,539,724
Common stock – ₱35.0 par value	
Authorized – 473,366,128 shares	
Issued and outstanding – 294,636,458 shares	10,313,164,669
Subscribed shares – 11,380 shares, net of subscriptions receivable of ₱218,750	179,550
	10,313,344,219
	₱10,545,883,943

Preferred shares of stock are cumulative with a guaranteed quarterly dividend of 2.50%, nonparticipating, nonvoting and with preference in asset distribution and payable in full at par plus accumulated dividends in case of dissolution or liquidation. Dividends are declared at the discretion of the BOD.

Preferred Series "A" and "B" shares of stock are redeemable at the option of the Bank at par value plus unpaid accumulated dividends after 15 years from date of issue. Where the Bank exercises the option to redeem the shares, the holder will have an option to convert to new preferred shares or certificate of indebtedness in lieu of redemption. Preferred Series "B" shares of stock embraced in the increase in capitalization authorized under the resolution passed by stockholders on October 20, 1962, are redeemable after ten (10) years from date of issue and convertible, at the option of the holder, into voting common shares of stock in lieu of redemption. Both Preferred Series "A" and "B" shares of stock were issued on October 1, 1961.

Preferred Series "C" shares of stock have preference in payment of dividends over other preferred or common shares which have unpaid accumulated and accrued dividends, and are convertible into voting common stock at the option of the holder thereof, provided that such conversion be made only after 7-1/2 years from date of issue. Preferred Series "C" shares of stock were issued on September 14, 1974.

As of December 31, 2019 and 2018, dividends in arrears on cumulative preferred shares amounted to ₱1.2 billion and ₱1.1 billion, respectively.

Treasury shares consist of 5,130 common shares, 38,000 Preferred Series “A” shares of stock and 17,150 Preferred Series “B” shares of stock, which are carried at cost.

Employee Stock Option Scheme (ESOS)

Prior to August 25, 2009, all employees of the Bank are entitled to a grant of stock options from the Parent Company once they have been in service for two years. Options awarded to an employee that are made available immediately, with no vesting period, are expensed outright. Options which are exercisable based on the schedule in ESOS over a period of five years from the date of grant are expensed over the vesting period. The exercise price of the options is equal to the weighted average market price of the shares subject to a discount within the limit allowed by the relevant authorities but shall, in no event, be less than the par value of the shares. The option has a maximum contractual life of five years and has no cash settlement alternatives. The stock option plan has expired on August 25, 2009.

The cost of the share-based payments arising from this stock option plan from the Parent Company was recognized as an equity-settled award in the Bank’s financial statements and was recognized in equity.

Capital Management

The Bank manages its capital to ensure it complies with externally imposed capital requirements and maintains healthy capital ratios to support business growth and maximize shareholder value.

Surplus reserves

Surplus reserves of the Bank include reserve for trust business amounting to ₱28.2 million and ₱25.1 million as of December 31, 2019 and 2018, respectively. In compliance with existing BSP regulations, 10.00% of the net profits realized by the Bank from its trust business are appropriated to surplus reserve. The yearly appropriation is required until the surplus reserve for trust business equals 20.00% of the Bank’s regulatory capital.

Regulatory Qualifying Capital

BSP, as the Bank’s lead regulator, sets and monitors capital requirements. Under current banking regulations, the Bank’s compliance with regulatory requirements and ratios is based on the “unimpaired capital” (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects. Moreover, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than ten percent (10.00%). Qualifying capital and risk-weighted assets are computed based on BSP regulations. The Bank is also required to meet the minimum capital of ₱2.4 billion.

Effective January 1, 2014, the Bank complied with BSP Circular No. 781, Basel III *Implementing Guidelines on Minimum Capital Requirements*, which provides 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 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.

In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The BSP prescribes certain sanctions for non-compliance with the minimum capital requirements depending on the degree of capital deficiency incurred by the Bank such as suspension of authority to invest in allied undertakings, branching privileges and declaration of dividends, among others.

On June 27, 2014, the BSP issued Circular No. 839, REST Limit for Real Estate Exposures which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Bank should maintain CET1 and CAR levels at the regulatory prescribed minimums, on a solo and consolidated basis, even after the simulated results of a 25.00% write-off to the Bank's real estate exposures. These shall be complied with at all times.

The table below summarizes the (CAR) of the Bank as reported to the BSP as of December 31, 2019 and 2018 (amounts in millions):

	2019	2018
Tier 1 capital	**₱12,576**	₱11,356
Tier 2 capital	**2,715**	2,870
Total Qualifying Capital	**₱15,291**	₱14,226
Risk-Weighted Assets	**₱88,408**	₱98,930
Tier 1 capital ratio	**14.23%**	11.48%
Total capital ratio	**17.30%**	14.38%

The qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. Under Basel III, the regulatory Gross Qualifying Capital of the Bank consists of Tier 1 (core), composed of Common Equity Tier 1 and Additional Tier 1, and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred income tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated debts, revaluation reserves and general loan loss provision.

Risk-weighted assets are determined by assigning defined risk weights to the statements of financial position exposure and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

Below is a summary of risk weights and selected exposure types:

Risk weight	Exposure/Asset type*
0.00%	Cash on hand; claims collateralized by securities issued by the national government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20.00%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation

Risk weight	Exposure/Asset type*
50.00%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75.00%	Direct loans of defined Small Medium Enterprise (SME) and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage
100.00%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred income tax)
150.00%	All nonperforming loans (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities

** Not all inclusive*

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.00% to 100.00%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.00%, while items not involving credit risk has a CCF of 0.00%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.00% to 1.50% (interest rate-related) and from 1.00% to 7.50% (exchange rate-related), depending on the residual maturity of the contract. For credit-linked notes and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

The risk-weighted CAR is calculated by dividing the sum of its Tier 1 and Tier 2 capital, as defined under BSP regulations, by its risk-weighted assets. The risk-weighted assets, as defined by the BSP regulations, consist of all of the assets on the statement of financial position at their respective book values, together with certain other off-balance sheet items, weighted by certain percentages depending on the risks associated with the type of assets. The determination of compliance with regulatory requirements and ratios is based on the amount of the Bank's 'unimpaired capital' (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

As of December 31, 2019 and 2018, the Bank has complied with the CAR requirement of the BSP.

Internal Capital Adequacy Assessment Process (ICAAP)
In 2009, the BSP issued Circular No. 639 covering the ICAAP which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The Bank has a Board-approved ICAAP Framework with areas that cover Capital Management, Pillar 1 and Pillar 2 Risk Measurement, Minimum Internal Capital Requirement Calculation, Use of the ICAAP, Governance Structure, and Reporting Framework. The Bank complies with the required annual submission of updated ICAAP.

Leverage Ratio
On June 9, 2015, BSP issued circular No. 881, which approved the guidelines for the implementation of the Basel 3 Leverage Ratio (BLR) in the Philippines. The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes

which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator). The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on July 1, 2018.

The BLR of the Bank as of December 31, 2019 as reported to the BSP are shown in the table below (amounts in millions).

	2019
Tier 1 Capital	**₱12,576**
Exposure Measure	**109,413**
Leverage Ratio	**11.49%**

Liquidity Coverage Ratio
On February 18, 2016, the BSP issued Circular No. 905 which approved the attached liquidity standards, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. Banks are required to adopt Basel III's Liquidity Coverage Ratio (LCR) aimed at strengthening the short-term liquidity position of banks. This requires banks to have available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflow for a 30-day period under stress conditions. The standard prescribes that, under a normal situation, the value of the liquidity ratio be no lower than 100% on a daily basis because the stock of unencumbered HQLA is intended to serve as a defense against potential onset of liquidity stress.

As of December 31, 2019, the LCR of the Bank as reported to the BSP in single currency is 105.93%.

Net Stable Funding Ratio
On May 24, 2018, the BSP issued Circular No. 1007 which approved the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR). Banks are required to adopt Basel III's NSFR aimed to promote long-term resilience of banks against liquidity risk. Banks shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The NSFR complements the LCR, which promotes short-term resilience of a Bank's liquidity profile.

As of December 31, 2019, the NSFR of the Bank as reported to the BSP is 114.00%.

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. The Bank has complied with all externally imposed capital requirement throughout the period.

20. Retirement Plan

The Bank has a funded noncontributory defined benefit retirement plan (the Plan) covering substantially all of its officers and regular employees. Under the Plan, all covered officers and employees are entitled to cash benefits are based on the employee's final plan salary and years of service. The Bank's retirement plan is in the form of a trust administered by the Bank's Trust Division under the supervision of the Staff Committee.

Under the existing regulatory framework, Republic Act 7641 requires companies with at least ten (10) employees to pay retirement benefits 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 net pension liability included in 'Other liabilities' in the statements of financial position is as follows:

	2019	2018
Present value of the defined benefit obligation	**₱660,934,694**	₱471,561,833
Fair value of plan assets	**(281,918,417)**	(243,188,029)
Net pension liability	**₱379,016,277**	₱228,373,804

Changes in the present value of the defined benefit obligation as of December 31, 2019 and 2018 recognized in the statements of financial position follow:

	2019	2018
Balance at beginning of year	**₱471,561,833**	₱564,892,020
Current service cost	**66,163,597**	79,270,514
Interest cost	**33,677,690**	31,367,809
Remeasurement loss (gain):		
Actuarial loss arising from experience adjustments	**42,932,588**	7,379,304
Actuarial (gain) arising from changes in demographic assumptions	**(12,093,966)**	(14,369,966)
Actuarial loss (gain) arising from changes in financial assumptions	**105,743,295**	(138,365,756)
Benefits paid	**(47,050,343)**	(58,612,092)
Balance at end of year	**₱660,934,694**	₱471,561,833

Changes in fair value of plan assets are as follows:

	2019	2018
Balance at beginning of year	**₱243,188,029**	₱200,128,854
Contributions	**75,593,357**	100,207,919
Interest income	**24,247,930**	10,430,404
Remeasurement loss	**(14,060,556)**	(8,967,056)
Benefits paid	**(47,050,343)**	(58,612,092)
Balance at end of year	**₱281,918,417**	₱243,188,029

The fair value of plan assets by each class is as follows:

	2019	2018
Cash and cash equivalents	**₱197,798,269**	₱100,812,825
Accrued interest and other receivables	**3,354,536**	36,556,853
Debt instruments		
Government securities	**42,178,168**	69,137,501
Private securities	**20,442,820**	19,447,552
Equity instruments		
Manufacturing	**16,949,000**	16,949,000
Wholesale and Retail	**–**	3,920,000
Revaluation	**1,195,624**	(3,635,702)
Fair value of plan assets	**₱281,918,417**	₱243,188,029

The Bank's plan assets are carried at fair value. All equity and debt instruments held have quoted prices in active market. The fair value of cash and cash equivalents, accrued interest and other receivables approximates its carrying amount due to the short-term nature of these accounts.

Each year, an Asset-Liability Matching Study (ALM) is performed with the result being analyzed in terms of risk-and-return profiles. The portfolio mix of the Bank's plan assets as of December 31, 2019 and 2018 was approved by the Staff Committee.

The Bank expects to contribute ₱128.1 million to the plan in 2020.

The cost of defined benefit retirement plans as well as the present value of the benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used are shown below:

	2019	2018
Discount rate		
At January 1	**7.35%**	5.74%
At December 31	**4.82%**	7.35%
Future salary increase rate	**5.00%**	5.00%
Average remaining working life	**8**	14

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019 and 2018, assuming all other assumptions were held constant.

	2019	2018
Increase in discount rate by 1%	**(₱46,069,109)**	(₱38,973,584)
Decrease in discount rate by 1%	**52,942,043**	45,257,611
Increase in salary increase rate by 1%	**55,265,540**	49,249,922
Decrease in salary increase rate by 1%	**(48,909,717)**	(43,004,979)

The amounts included in 'Compensation and fringe benefits' expense in the statements of income are as follows:

	2019	2018
Current service cost	**₱66,163,597**	₱79,270,514
Net interest cost	**9,429,760**	20,937,405
Expense recognized during the year	**₱75,593,357**	₱100,207,919

The Bank also has a defined contribution plan for certain employees. The pension expense recognized under this plan amounting to ₱27.6 million and ₱26.0 million for the years ended December 31, 2019 and 2018, respectively, is included in 'Compensation and fringe benefits' in the statements of income.

The average duration of the retirement liability is 14.7 years in 2019. Maturity analysis of the undiscounted benefit payments follow:

	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱29,266,476	₱43,609,405	₱72,875,881
More than one to five years	68,341,023	197,295,565	265,636,588
More than five to 10 years	161,433,163	268,654,914	430,088,077
More than 10 to 15 years	365,244,107	223,124,616	588,368,723
More than 15 to 20 years	275,376,364	157,877,409	433,253,773
More than 20 years	643,289,769	158,302,527	801,592,296

21. **Net Trading Gains (Losses)**

This account consists of:

	2019	2018
Financial instruments at FVPL:		
HFT investments (Note 6)	**₱49,896,868**	₱28,971,897
Derivatives (Note 17)	**145,253,684**	(97,944,390)
Financial assets at FVOCI	**38,168,576**	(25,212,935)
	₱233,319,128	(₱94,185,428)

22. **Service Charges, Fees and Commissions**

This account consists of:

	2019	2018
Credit-related (Note 28)	**₱629,296,222**	₱648,024,630
Deposit-related	**81,743,606**	73,519,843
Others	**33,403,379**	21,759,858
	₱744,443,207	₱743,304,331

23. Miscellaneous Income and Expense

Miscellaneous income consists of:

	2019	2018
Trust fees (Note 28)	**₱144,593,707**	₱42,516,209
Recovery on written-off accounts	**31,366,847**	68,242,912
Gain from derecognition of financial asset (Note 9)	**13,943,409**	–
Others	**65,972,907**	156,785,461
	₱255,876,870	₱267,544,582

Others include miscellaneous income from penalties, inspection and appraisal and processing fees on charged off assets and rental income.

Miscellaneous expense consists of:

	2019	2018
Outsourced services	**₱178,334,279**	₱148,795,990
Information and technology	**162,076,325**	175,138,852
Cards-related expenses	**90,597,814**	75,800,458
Advertising and publications	**54,811,408**	43,353,563
Fines and Penalties	**48,635,758**	48,866,774
Commissions and service charges	**46,579,909**	69,828,719
Banking fees	**36,124,923**	31,626,010
Membership fees and dues	**28,499,689**	23,611,234
Freight	**17,771,151**	17,779,609
Minor tools and equipment	**3,575,074**	368,579
Fuel and lubricants	**2,724,167**	2,295,840
Philippine Clearing House Corporation fees	**1,976,480**	2,352,093
Others	**23,073,168**	13,967,944
	₱694,780,145	₱653,785,665

Cards-related expenses include costs relating to cards acquiring business of the Bank, settlement expenses and credit investigation expenses.

Others include periodicals, various office supplies, registration fee for various seminars, donations and charitable contribution.

24. Lease Contracts

The rollforward analysis of right-of-use assets follows:

	2019
Effect of adoption of standard	**₱768,505,677**
Additions	**23,373,841**
Disposals	**(3,586,712)**
Depreciation	**(126,595,247)**
Net Book Value	**₱661,697,559**

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

	2019
Expenses	
Depreciation expense of right-of-use assets	**₱126,595,247**
Interest expense on lease liabilities	**74,159,490**
Rent expense – short-term leases and leases of low-value assets	**47,203,582**
Total amounts recognized in statement of income	**₱247,958,319**

The Bank entered into lease agreements with third parties.

The rollforward analysis of lease liabilities follows:

	2019
Effect of adoption of standard	**₱915,351,129**
Payments	**(191,829,478)**
Interest expense	**74,159,490**
Additions	**23,373,841**
As at December 31, 2019	**₱821,054,982**

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

	2019	2018
Within one year	**₱201,072,499**	₱197,282,928
More than 1 years to 2 years	**192,153,187**	194,742,359
More than 2 years to 3 years	**173,983,961**	182,452,726
More than 3 years to 5 years	**145,715,084**	167,230,380
More than 5 years	**1,434,430,111**	1,548,174,560
	₱2,147,354,842	₱2,289,882,953

The Bank leases the premises occupied by its head office and branches for periods ranging from 4 to 10 years and are renewable upon mutual agreement of both parties under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rent expense charged against current operations (included under 'Occupancy' in the statements of income) amounted to ₱47.2 million and ₱244.5 million for the years ended December 31, 2019 and 2018, respectively.

25. **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 documentary stamp tax and gross receipts tax (GRT).

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Republic Act (RA) No. 9337, An Act Amending the National Internal Revenue Code, provides that the RCIT rate shall be 30.00% and interest expense allowed as deductible expense shall be reduced by 33.00% of the interest income subject to final income tax.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception.

RA No. 9294 exempts from income tax the income derived by the FCDU from foreign currency transactions with nonresidents, offshore banking units (OBUs) and local commercial banks including branches of foreign banks authorized by the BSP to transact business with FCDUs and other depository banks under the expanded foreign currency deposit system. Interest income on foreign currency-denominated loans by the FCDUs to residents other than OBUs or other depository banks under the expanded system is subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at either 7.50% or 15.00%, while all other income of the FCDU is subject to the 30.00% corporate income tax.

On March 15, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 4-2011 which prescribed the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU, and further the allocation within RBU based on different income earning activities. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

On April 6, 2015, the Bank and other member banks of the Bankers Association of the Philippines (BAP), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati (Makati Trial Court). Further, in Civil Case No. 15-287, the Bank and other BAP member banks assailed the validity of RR 4-2011 on the ground, among others, that (a) the RR violates the petitioner-banks substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribes method of allocation; and € it violates the equal protection clause of the Constitution.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 25, 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Bank and other BAP member banks, including issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, the Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other BAP member banks are concerned.

On May 25, 2018, the Makati Trial Court issued a decision annulling RR 4-2011 and making the Writ of Preliminary Injunction permanent.

Provision for income tax consists of:

	2019	2018
Current:		
Final	**₱116,457,801**	₱40,916,243
RCIT and MCIT	**85,013,654**	166,017,928
	201,471,455	206,934,171
Deferred	**(21,585,310)**	(249,961,155)
	₱179,886,145	(₱43,026,984)

The details of net deferred tax assets follow:

	2019	2018
Deferred tax asset on:		
Allowance for impairment and credit losses	**₱690,748,146**	₱725,977,865
Provisions and accruals	**129,192,303**	192,760,213
Retirement liability and unamortized past service cost	**129,473,631**	133,243,127
Accumulated depreciation on investment and chattel properties	**100,358,778**	97,501,408
Unrealized foreign exchange loss	**54,573,382**	–
Lease liability net of right-of-use assets	**47,807,227**	–
Excess of MCIT over RCIT	**27,626,100**	–
Fair value loss on HFT investments	**–**	26,464,926
Fair value loss on financial assets	**–**	11,738,597
	1,179,779,567	1,187,686,136
Deferred tax liability on:		
Fair value of investment properties and chattel properties	**83,636,981**	99,097,059
Unrealized profit on assets sold	**73,361,815**	76,468,616
Fair value gain on HFT investments	**42,522,683**	–
Fair value gain on FVOCI investments	**4,612,285**	–
Unrealized foreign exchange gain	**–**	98,640,424
	204,133,764	274,206,099
	₱975,645,803	₱913,480,037

Provision for (benefit from) deferred income tax recognized directly against OCI for the years ended December 31, 2019 and 2018 amounted to (₱40.6 million) and ₱40.9 million, respectively.

As of December 31, 2019 and 2018, the Bank did not recognize deferred tax assets on certain allowance for impairment and credit losses amounting to ₱1.3 million, since the management believes that it is not probable that the related tax benefits will be realized in the future.

The Bank's excess MCIT over RCIT for the year amounting to ₱27.6 million can be utilized against annual income tax payable until 2022.

Reconciliation between the statutory income tax rate and the effective income tax rate follows:

	2019	2018
Statutory income tax rate	**30.00%**	30.00%
Tax effects of:		
Tax-exempt income and income subjected to final tax	**(36.68%)**	(30.50%)
Nondeductible expenses	**33.97**	21.09
FCDU income before income tax	**(6.03)**	(6.35)
Movements in unrecognized deferred tax assets	**–**	(20.32)
Effective income tax rate	**21.26%**	(6.08%)

26. Trust Operations

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statements of financial position since these are not assets of the Bank (Note 27).

In connection with the trust business of the Bank, government securities with total face value and ₱84.0 million and ₱82.0 million as of December 31, 2019 and 2018 are deposited with the BSP in compliance with the requirements of the General Banking Law.

27. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are outstanding commitments and other contingent liabilities which are not reflected in the accompanying financial statements. The Bank does not anticipate material losses from these commitments and contingent liabilities.

Commitments and contingencies
The following is a summary of contingencies and commitments of the Bank with the equivalent peso contractual amounts:

	2019	2018
Forward exchange sold	**₱31,085,690,607**	₱30,306,321,341
Forward exchange bought	**31,085,144,607**	30,306,321,341
Currency Swap Receivable	**10,905,507,000**	30,106,291,394
Trust department accounts (Note 26)	**7,168,590,859**	7,903,200,000
Broker Customer Securities account	**2,594,880,906**	6,900,367,554
Interest rate swap payable	**2,476,587,500**	2,418,092,238
Interest rate swap receivable	**2,476,587,500**	7,903,200,000
Export letters of credit-confirmed	**788,133,775**	3,951,600,000
Spot exchange sold	**786,672,500**	929,377,790
Spot exchange bought	**785,500,000**	2,828,559,000
Unused commercial letters of credit	**772,613,885**	2,827,578,000
Outstanding guarantees	**668,881,782**	2,896,152,048
Inward bills for collection	**601,965,445**	703,628,559
Deficiency claims receivable	**553,709,019**	1,139,201,122

(Forward)

	2019	2018
Late deposits and payments received	**₱74,615,405**	₱511,456,767
Outward bills for collection	**6,057,582**	13,011,364
Items held for safekeeping	**758,837**	44,468,519
Items held as collateral	**82,903**	19,496

28. **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 or if they are subject to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

<u>Transactions with Retirement Plan</u>
The retirement fund of the Bank's employees with fair value amounting to ₱236.0 million and ₱243.2 million as of December 31, 2019 and 2018, respectively, is being managed by the Bank's Trust Department. The transaction was made substantially on the same terms as with other individuals and businesses of comparable risks. Other than deposits with the Bank and trust fees, there were no other material transactions between the retirement fund and the Bank in 2019 and 2018. Deposits with the Bank amounted to ₱144.7 million and ₱75.8 million as of December 31, 2019 and 2018, respectively. The Bank earned ₱2.6 million and ₱17.9 million of trust fees for the years ended December 31, 2019 and 2018, respectively.

Refer to Note 20 for the details of the assets and investments of the retirement fund. The retirement fund of the Bank does not have investments in the shares of stock of the Bank.

<u>Remunerations of Directors and Other Key Management Personnel</u>
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 Executive Committee to constitute key management personnel for purposes of PAS 24.

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

	2019	2018
Salaries and other short-term benefits	**₱152,474,015**	₱130,710,446
Post-employment benefits	**13,622,217**	21,731,642
	₱166,096,232	₱152,442,088

Other Related Party Transactions

Other related party transactions entered in the normal course of business were primarily regular banking transactions. The Bank settles its related party transactions in cash. The significant year-end account balances with respect to related parties included in the financial statements follow:

	Outstanding Balance /Volume		
	2019	2018	**Nature, Terms and Conditions**
Parent Company			
Due from other banks	**₱23,832,863**	₱25,750,991	Foreign currency demand deposit accounts, non-interest bearing and no impairment
Accounts receivable	**-**	183,840	Receivables for various administrative expenses, due on demand, non-interest bearing, unsecured and no impairment
Accrued Interest Receivable	**220,495**	-	Accrued interest income on interest rate swaps
Interest income	**-**	17,195,260	Interest income from interbank loans receivable, interest rate swaps and due from other banks
Bills payable	**8,911,760,000**	20,685,920,000	Short-term foreign currency borrowings subject to annual fixed interest rate ranging from 2.7% to 3.45% and 3.32% to 3.85% and with maturity terms from 36 to 500 and 99 to 352 days in December 31, 2019 and 2018, respectively, unsecured
Net availments	**8,124,160,000**	7,349,500,000	
Financial liabilities at FVPL	**517,203**	47,675,824	Interest rate swaps where the Bank pays fixed semi-annual interest of 8.38% and receives semi-annual interests based on 6-month LIBOR, unsecured with a maturity of 110 months
Accrued interest payable	**191,705,490**	126,022,885	Accrued interest expense on bills payable and interest rate swaps
Subordinated Debt	**1,991,777,972**	1,990,956,784	Direct, unconditional, unsecured and subordinated obligation of the Bank
Interest expense	**792,169,920**	578,918,978	Interest expense on interest rate swaps, bills payable, subordinated loan and deposit liabilities
Other related parties			
Due from other banks	**61,272,325**	39,077,980	Various foreign currency demand deposit accounts, non-interest bearing and no impairment
Loans and receivables	**129,600,000**	84,000,000	Revolving credit line with maturity of two years bearing 4.50% interest rate, fully secured by hold-out deposits amounting to US$20 million and no impairment
Availments	**129,600,000**	84,000,000	
Settlements	**84,000,000**	54,500,000	
(Forward)			
Accounts receivable	**620,845,181**	604,368,921	Receivable subject to interest rate based on one-month BVAL plus 1%, with a maturity of 10 years secured by deposit hold-out and no impairment. Also includes various administrative expenses
Accrued interest receivable	**2,382,167**	3,531,589	Accrued interest income on accounts receivable

(Forward)

	Outstanding Balance /Volume		
	2019	2018	**Nature, Terms and Conditions**
Interest income	**71,896,750**	67,740,949	Net interest income from interbank loans receivable, loans and receivables, interest rate swaps and due from other banks
Financial liabilities at FVPL	**5,295,165**	25,933,817	Interest rate swaps where the Bank pays fixed semi-annual interest ranging from 8.00% to 9.88% and receives semi-annual interests based on 6-month LIBOR, unsecured with a maturity of 74 to 105 months.
Accrued interest payable	**333,680**	23,797,928	Accrued interest expense on time deposits
Interest Expense	**43,035,945**	-	Interest expense on interest rate swaps, bills payable and deposit liabilities
Service charges, fees and commissions	**19,084,017**	9,560,949	Transaction fees from various services rendered
Retirement fund of the Bank			
Deposit with the Bank	**144,670,314**	75,768,472	This deposit earns annual fixed interest rates ranging from 0.25% to 3.25%.
Interest expense	**4,858,322**	2,800,413	

Deposit liabilities to Parent Company amounted to ₱1.22 billion and ₱1.05 billion as of December 31, 2019 and 2018. Deposit liabilities to other related parties amounted to and ₱1.2 million as of December 31, 2019 and 2018, respectively.

Other related parties are other companies owned and controlled by the Bank’s Parent Company.

Service fee income
On December 15, 2010, the Bank entered into an agreement with Maybank International Labuan Limited (MILL) whereby the Bank shall perform account management in its favor. This will include the conduct of annual review on the account and collection. The Bank shall charge MILL a service fee of 0.30% of the average US$ value of loans and investments booked by MILL per annum beginning July 1, 2010 until such time that the agreement shall be terminated. Service fees earned from MILL amounted to ₱2.9 million and ₱5.3 million for the years ended December 31, 2019 and 2018, respectively (Note 22).

On December 18, 2016, the Bank entered into a Bancassurance Agreement with Asianlife & General Assurance Corporation *(now Etiqa Life General Assurance Philippines (ELGAP)),* an entity under the common control of the Parent Company, for a period of ten (10) years. Under the Bancassurance Agreement, the Bank shall receive service fees and commissions for acting as ELGAP’s distribution channel for its insurance products. In 2019 and 2018, the Bank earned service fees and commissions amounting to ₱15.8 million and ₱3.9 million, respectively (Note 22).

Subordinated debt
On October 3, 2017, the Bank and the Parent Company entered into a subordinated loan agreement (the Agreement) whereby the Parent Company agreed to make a subordinated loan available to the Bank in the aggregate amount of ₱2.0 billion. The term of the subordinated loan shall be 10 years from October 4, 2017, the drawdown date. Among the significant terms and conditions of the agreement are:

(a) The subordinated loan shall constitute direct, unconditional, unsecured and subordinated obligation of the Bank. In the event of winding up or liquidation of the Bank, the claims of the Parent Company against the Bank will be subordinated in right of payment to the claims of the depositors and all other unsubordinated creditors of the Bank and will rank at least pari passu in right of payment with all other subordinated obligations, present and future, of the Bank. However, claims in respect of the subordinated loan will rank in priority to the rights and claims of holders of subordinated liabilities which by their terms rank or expressed to rank in right of payment junior to the subordinated loan and all classes of equity securities of the Bank, including holders of common shares and preferred shares.

(b) The Parent Company shall not be entitled to set off any amount it owes to the Bank against the subordinated loan.

(c) The Bank has option to prepay, in full or in part, the subordinated loan on any call date provided that at least thirty (30) business days before the call date, a notice in writing shall be delivered to the Parent Company. Any such notice given by the Bank shall be irrevocable. On the call date, the Bank shall pay to the Parent Company the principal amount to be prepaid plus any accrued interest. Any prepayment shall be subject to the approval of the BSP.

(d) The interest payable on the principal amount of the subordinated loan shall be at the initial interest rate, which is the sum of the initial spread and the initial benchmark rate, which is 5.5%. The Bank shall pay accrued interest on the outstanding subordinated loan every six (6) months and the first payment shall be six (6) months after the drawdown date.

(e) The subordinated loan has a loss absorbency feature at the point of non-viability. As such, the subordinated loan can absorb losses upon the occurrence of a trigger event through a write-off mechanism. A non-viability trigger event is a deviation from a certain level of Common Equity Tier 1 Ratio, inability of the bank to continue business, or any other event as may be determined by the BSP, whichever comes earlier.

In 2019 and 2018, interest expense on subordinated loans included in 'Interest expense on bills payable and other borrowings' amounted to ₱112.3 million and ₱112.7 million, respectively.

29. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7 require 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 (amounts in thousands):

Financial Assets

December 31, 2019						
				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 end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Note 17)	**₱395,677**	**₱136,885**	**₱258,792**	**₱–**	**₱–**	**₱258,792**
Total	**₱395,677**	**₱136,885**	**₱258,792**	**₱–**	**₱–**	**₱258,792**

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 end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets (Note 17)	₱433,523	₱–	₱433,523	₱–	₱–	₱433,523
Total	₱433,523	₱–	₱433,523	₱–	₱	₱433,523

Financial Liabilities

December 31, 2019						
				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 end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities (Note 17)	**₱425,055**	**₱140,235**	**₱288,170**	**₱–**	**₱–**	**₱288,170**
Total	**₱425,055**	**₱140,235**	**₱288,170**	**₱–**	**₱–**	**₱288,170**

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 end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities (Note 17)	₱619,299	₱–	₱619,299	₱–	₱–	₱619,299
Total	₱619,299	₱–	₱619,299	₱–	₱–	₱619,299

30. Notes to Statements of Cash Flows

Non-cash additions to investment properties and other properties acquired in settlement of loans amounted to ₱272.3 million and ₱163.9 million, and ₱706.0 million and ₱667.4 million, respectively, for the years ended December 31, 2019 and 2018, respectively.

Changes in liabilities arising from financing activities

	January 1, 2019	**Cash flows**	**Changes on fair values**	**Others**	**December 31, 2019**
Liabilities from financing activities					
Bills payable	**₱20,685,920,000**	**(₱11,774,160,000)**	**₱–**	**₱–**	**₱8,911,760,000**
Subordinated debt	**1,990,956,784**	**–**	**821,188**	**–**	**1,991,777,972**
	₱22,676,876,784	**₱(11,774,160,000)**	**₱821,188**	**₱–**	**₱10,903,537,972**

	January 1, 2018	Cash flows	Changes on fair values	Others	December 31, 2018
Liabilities from financing activities					
Bills payable	₱9,686,420,000	₱10,999,500,000	₱–	₱–	₱20,685,920,000
Subordinated debt	1,990,180,683	–	776,101	–	1,990,956,784
	₱11,676,600,683	₱10,999,500,000	₱776,101	₱–	₱22,676,876,784

31. Events after reporting period

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until May 15, 2020, unless earlier lifted or extended. On April 6, 2020, a resolution was issued to extend the enhanced community quarantine over the entire Luzon until April 30, 2020. On April 30, 2020, an executive order was issued imposing enhanced community quarantine on high risk geographic areas and general community quarantine for the rest of the country from May 1 to May 15, 2020. On May 11, 2020, the classification of provinces, highly urbanized cities and independent component cities were revised, subjecting the high risk, medium risk and low risk areas to modified enhanced community quarantine, general community quarantine and modified general community quarantine, respectively, from May 16 to May 31, 2020, without prejudice to the declaration of localized ECQ in critical areas. On May 19, 2020, the Bank availed the regulatory relief package as outlined in the BSP memorandum No. M-2020-008, specifically on the non-imposition of monetary penalties for delays in the submission of all prudential reports to the BSP for a period of six (6) months. On May 27, the IATF issued resolution no. 40 declaring National Capital Region (NCR) to be placed under general community quarantine beginning June 1 until June 15, 2020. On June 15, it was announced that the Metro Manila general community quarantine was extended until June 30, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. Management will continuously pay close attention to the development of the COVID-19 outbreak in the Philippines, its impact to the Bank's customers and their ability to meet their obligations to the Bank.

The Bank considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak may have a financial impact, if any, on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Bank cannot determine at this time the impact to its financial position, performance and cash flows. Bank will continue to monitor the situation and assess the financial implication arising from the outbreak.

32. Supplementary Information Required Under BSP Circular 1074

Presented below is the supplementary information required by BSP under Appendix 55 of BSP Circular 1074 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

Basic quantitative indicators of financial performance
The following basic ratios measure the financial performance of the Bank:

	2019	2018
Return on average asset (ROA)	**0.58%**	0.63%
Return on average equity (ROE)	**4.91%**	5.59%
Net interest margin over average earning assets (NIM)	**4.26%**	4.42%

Description of capital instruments issued
As of December 31, 2019 and 2018, the Bank has two classes of capital stock, preferred and common stocks.

Significant credit exposures
The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentration of credit risks are managed and controlled.

	December 31, 2019		December 31, 2018	
	Gross Amount	**%**	Gross Amount	%
Real estate activities	**₱16,456,439**	**22.88**	₱12,724,184	16.5
Consumer	**13,136,901**	**18.27**	34,879,278	45.24
Wholesale and retail trade	**7,255,292**	**10.09**	7,700,958	9.99
Transportation and storage	**6,461,201**	**8.98**	2,437,497	3.16
Manufacturing	**4,568,851**	**6.35**	5,226,171	6.78
Electric, gas, steam and air-conditioning supply	**4,340,784**	**6.04**	4,358,624	5.65
Accommodation and food service activities	**4,094,925**	**5.69**	1,371,324	1.78
Construction	**3,911,101**	**5.44**	2,882,700	3.74
Human health and social work activities	**3,659,192**	**5.09**	1,470,318	1.91
Other service activities	**2,796,087**	**3.89**	607,662	0.79
Agriculture, forestry and fishing	**1,814,205**	**2.52**	484,479	0.63
Education	**1,640,151**	**2.28**	343,398	0.45
Financial and insurance activities	**1,616,751**	**2.25**	2,537,807	3.29
Mining and quarrying	**171,966**	**0.24**	72,632	0.09
	₱71,923,846	**100**	₱77,097,032	100.00

Regulatory Reporting
BSP Circular No. 772 requires banks to compute their net nonperforming loans (NPLs) by deducting the specific allowance for credit losses on the total loan portfolio from the gross NPLs. The specific allowance for credit losses shall not be deducted from the total loan portfolio in computing the NPL ratio.

NPLs of the Bank as reported to the BSP follow:

	2019	2018
Gross NPLs	**₱1,985,480,257**	₱1,683,141,285
Less: Deductions as required by the BSP	**993,347,026**	976,825,324
Net NPLs	**₱992,133,231**	₱706,315,961

Loans are considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, 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 from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Status of loans
Information on the amounts of performing and non-performing loans (NPLs) and receivables (gross of allowance for impairment and credit losses) of the Bank are as follows:

	2019			2018		
	Performing	**Non-Performing**	**Total**	Performing	Non-Performing	Total
Loans and discounts						
Corporate lending	**₱18,941,916,253**	**₱893,165,785**	**₱19,835,082,038**	₱23,593,098,539	₱414,125,092	₱24,007,223,631
Commercial lending	**3,148,165,682**	**175,755,270**	**3,323,920,952**	3,389,489,643	248,605,170	3,638,094,813
Consumer lending						
Auto	**34,216,854,004**	**766,985,695**	**34,983,839,699**	35,089,895,414	832,659,808	35,922,555,222
Housing	**11,678,333,952**	**93,536,843**	**11,771,870,795**	11,171,402,252	122,918,516	11,294,320,768
Others	**1,953,096,232**	**56,036,664**	**2,009,132,896**	2,170,004,862	64,832,699	2,234,837,561
	₱69,938,366,123	**₱1,985,480,257**	**₱71,923,846,380**	₱75,413,890,710	₱1,683,141,285	₱77,097,031,995

Loans per security
As of December 31, 2019 and 2018, secured and unsecured NPLs of the Bank, as reported to the BSP follow:

	2019	2018
Secured	**₱1,408,693,774**	₱970,707,284
Unsecured	**576,786,483**	712,434,001
	₱1,985,480,257	₱1,683,141,285

The following table shows the breakdown of loans as to secured and unsecured and the breakdown of secured loans as to type of security (amounts in thousands):

	December 31, 2019		December 31, 2018	
	Amount	**%**	Amount	%
Secured by:				
Chattel	**₱35,050,583**	**48.73**	₱32,944,806	42.73
Real estate	**16,961,832**	**23.58**	12,561,491	16.29
Deposits hold-out	**2,875,785**	**4.00**	1,759,112	2.28
Others	**-**	**-**	–	–
	54,888,200	**76.31**	47,265,409	61.31
Unsecured	**17,035,646**	**23.69**	29,831,623	38.69
	₱71,923,846	**100.00**	₱77,097,032	100.00

According to BSP Circular 941 *Amendments to the Regulations on Past Due and Non−Performing Loans* effective January 1, 2018, loans shall be considered non−performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, 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.

Related party loans
In the ordinary course of business, the Bank enters into loans and other transactions with its affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks and are settled in cash.

The amount of individual loans to DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15.00% of the total loan portfolio. As of December 31, 2019 and 2018, the Bank is in compliance with these regulatory requirements.

BSP Circular No. 423, dated March 15, 2004, amended the definition of DOSRI accounts. Further, the BSP issued BSP Circular No. 464, dated January 4, 2005, clarifying the definition of stockholders.

The following table shows information relating to DOSRI loans of the Bank:

	2019	2018
Total outstanding DOSRI loans (in thousands)	**₱830,737**	₱762,281
Percent of DOSRI loans granted prior to effectivity of BSP Circular No. 423 to total loans	**1.21%**	1.03%
Percent of DOSRI loans granted after effectivity of BSP Circular No. 423 to total loans	**1.21%**	1.03%
Percent of DOSRI loans to total loans	**1.21%**	1.03%
Percent of unsecured DOSRI loans to total DOSRI loans	–	–
Percent of past due DOSRI loans to total DOSRI loans	–	–
Percent of nonperforming DOSRI loans to total DOSRI loans	–	–

Total outstanding DOSRI loans include portion of loans covered by hold-outs on deposit and which are excluded in determining compliance with the aggregate ceiling.

Section X327 of the Manual of Regulations for Banks (MORB) states that transactions covered for loans to be classified as loans to DOSRI, shall refer to transactions of the Bank which involve the grant of any loan, advance or other credit accommodation in any form whatsoever, whether renewal, extension or increase. Thus, a non-DOSRI loan which, during its term, becomes subject to an event that results to any of the positions/relationships enumerated under Section X326.1 of the MORB shall remain a non-DOSRI loan unless the same is renewed, extended or increased at any time.

Total interest income on the DOSRI loans and receivable amounted to ₱71.90 million and ₱67.74 million for the years ended December 31, 2019 and 2018, respectively, including accretion of interest from AR-PPI amounting to ₱25.2 million and ₱32.6 million in 2019 and 2018, respectively.

For the years ended December 31, 2019 and 2018, interest rates on DOSRI loans ranged from 2.50% to 4.50% and 2.17% to 4.50%, respectively.

Commitments and contingencies
The following is a summary of contingencies and commitments of the Bank with the equivalent peso contractual amounts:

	2019	2018
Forward exchange sold	**₱31,085,690,607**	₱30,306,321,341
Forward exchange bought	**31,085,144,607**	30,306,321,341
Currency Swap Receivable	**10,905,507,000**	30,106,291,394
Trust department accounts (Note 26)	**7,168,590,859**	7,903,200,000
Broker Customer Securities account	**2,594,880,906**	6,900,367,554
Interest rate swap payable	**2,476,587,500**	2,418,092,238
Interest rate swap receivable	**2,476,587,500**	7,903,200,000
Export letters of credit-confirmed	**788,133,775**	3,951,600,000
Spot exchange sold	**786,672,500**	929,377,790
Spot exchange bought	**785,500,000**	2,828,559,000
Unused commercial letters of credit	**772,613,885**	2,827,578,000
Outstanding guarantees	**668,881,782**	2,896,152,048
Inward bills for collection	**601,965,445**	703,628,559
Deficiency claims receivable	**553,709,019**	1,139,201,122
Late deposits and payments received	**74,615,405**	511,456,767
Outward bills for collection	**6,057,582**	13,011,364
Items held for safekeeping	**758,837**	44,468,519
Items held as collateral	**82,903**	19,496

33. Supplementary Information Required Under Revenue Regulations 15-2010

The BIR issued RR 15-2010, to amend certain provisions of RR 21-2002. The Regulation provides that the notes to the financial statements will include information on taxes and licenses paid or accrued during the taxable year.

To comply with the requirements set forth in RR 15-2010, the Bank reported and/or paid the following types of taxes during the period:

Gross receipts tax (GRT) and Documentary stamp tax (DST)
Under the Philippine tax laws, financial institutions are subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid by the Bank consist principally of GRT and DST.

Other Taxes and Licenses
This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and Licenses' account in the Bank's statements of income.

For the year ended December 31, 2019, GRT, DST and other taxes and licenses consist of the following:

Gross receipts tax	₱471,152,721
Documentary stamp tax	322,630,651
License and permit fees	29,090,467
Real estate taxes	2,595,374
Registration fees	22,288,278
	₱847,757,491

Others include VAT expenses incurred by the Bank in relation to its lease contracts.

Withholding Taxes

Details of withholding taxes for the year ended December 31, 2019 are as follows:

	Total Amount Remitted	Balance as at December 31
Final withholding taxes	₱401,109,491	₱24,270,434
Expanded withholding taxes	356,305,437	22,669,160
Withholding taxes on compensation and benefits	240,381,152	19,939,607
Final withholding VAT	2,059,782	121,651
	₱999,855,862	₱67,000,852

Tax Assessments and Cases

The Bank has no outstanding assessments from the BIR as of December 31, 2019.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITORS REPORT

The Board of Directors and Stockholders
Maybank Philippines, Incorporated

We have audited the financial statements of Maybank Philippines, Incorporated (the Bank) as at and for the year ended December 31, 2019, on which we have rendered the attached report dated June 26, 2020.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Bank has one (1) stockholder owning 100 or more shares.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, valid until September 17, 2021
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332523, January 3, 2019, Makati City

June 26, 2020