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Report of Independent Auditors

The Board of Directors and Stockholders
Luzon Development Bank
LDB Corporate Center
National Highway, Paciano Rizal
Calamba City, Laguna

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Luzon Development Bank (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of profit or loss, 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 (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits 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.

Emphasis of Matter

We draw attention to Note 27 in the notes to financial statements, which describes the likely negative impact of the business disruption as a result of the coronavirus outbreak to the Bank's financial condition and performance after the end of the reporting period. Management has determined that these are non-adjusting events and as such, had no impact on the Bank's financial statements as at and for the year ended December 31, 2019. As further stated in Note 27, the Bank has also done a baseline assessment of the impact of said events on its financial condition and operations subsequent to the reporting period. Our opinion is not modified in respect to this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2019 required by the Bangko Sentral ng Pilipinas and Bureau of Internal Revenue as disclosed in Notes 29 and 30, respectively, to the financial statements are presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

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TIN 906-174-059
PTR No. 8116550, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-4 (until Sept. 4, 2022)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-022-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

November 24, 2020

LUZON DEVELOPMENT BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
RESOURCES			
CASH AND OTHER CASH ITEMS	7	**P 90,019,593**	P 119,741,187
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**727,399,087**	440,195,486
DUE FROM OTHER BANKS	7	**79,562,010**	93,819,054
SECURITIES PURCHASED UNDER RESALE AGREEMENTS	7	**252,391,252**	328,000,000
HELD-TO-COLLECT FINANCIAL ASSETS	8	**154,840,431**	154,825,185
LOANS AND OTHER RECEIVABLES - Net	9	**3,265,150,096**	3,327,246,833
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	**185,984,725**	209,545,144
RIGHT-OF-USE ASSETS - Net	11	**58,713,668**	-
INVESTMENT PROPERTIES - Net	12	**1,086,438,205**	552,531,033
INVESTMENT IN AN ASSOCIATE	14	**18,887,589**	21,984,965
INTANGIBLE ASSETS - Net	13	**38,483,560**	39,972,972
DEFERRED TAX ASSETS - Net	25	**24,045,622**	27,872,994
OTHER RESOURCES - Net	15	**247,398,524**	225,210,097
TOTAL RESOURCES		**P 6,229,314,362**	P 5,540,944,950
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	17	**P 5,034,152,787**	P 4,629,590,934
MANAGER'S CHECKS	18	**13,723,310**	86,715,324
LEASE LIABILITIES	11	**68,486,066**	-
BILLS PAYABLE	23	**171,092,035**	-
ACCRUED INTEREST AND OTHER EXPENSES	19	**42,563,665**	70,026,392
INCOME TAX PAYABLE		**3,474,356**	4,464,317
RETIREMENT LIABILITY - Net	24	**23,102,663**	18,103,331
DEPOSIT FOR FUTURE STOCK SUBSCRIPTION	21	**168,350,200**	-
OTHER LIABILITIES	20	**121,015,198**	123,376,063
Total Liabilities		**5,645,960,280**	4,932,276,361
EQUITY	21	**583,354,082**	608,668,589
TOTAL LIABILITIES AND EQUITY		**P 6,229,314,362**	P 5,540,944,950

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
INTEREST INCOME			
Loans and other receivables	9	**P 351,093,284**	P 329,376,922
Due from Bangko Sentral ng Pilipinas, other banks and securities purchased under resale agreements	7	**25,534,218**	27,351,720
Held-to-collect financial assets	8	**5,363,081**	5,214,728
		381,990,583	361,943,370
INTEREST EXPENSE			
Deposit liabilities	17	**118,014,066**	99,412,725
Long-term leases	11	**8,552,485**	149,187
Bills payable	23	**2,292,516**	-
Retirement benefit obligation	24	**1,334,216**	743,232
		130,193,283	100,305,144
NET INTEREST INCOME		**251,797,300**	261,638,226
OTHER INCOME	22	**98,937,065**	140,501,849
TOTAL OPERATING INCOME		**350,734,365**	402,140,075
OPERATING EXPENSES			
Salaries and employee benefits	24	**95,661,306**	110,430,338
Provision for credit and impairment losses - net	16	**76,074,979**	53,418,503
Depreciation and amortization	10, 11, 12, 13, 15	**75,148,547**	51,343,726
Security, messengerial and janitorial services		**18,536,278**	19,188,919
Occupancy and other equipment - related costs	23, 26	**15,001,805**	37,957,819
Legal and foreclosure expenses	12	**15,289,085**	18,092,755
Taxes and licenses		**13,966,675**	17,815,705
Insurance		**12,432,051**	12,118,767
Information technology		**9,060,479**	10,670,507
Transportation and travel		**8,091,268**	10,619,035
Loss on foreclosure of investment properties and other properties acquired		**6,485,335**	17,489,925
Management and professional fees		**5,831,647**	7,564,127
Office supplies		**4,596,440**	4,777,429
Communication		**2,829,764**	5,004,451
Commissions		**2,679,828**	2,705,036
Entertainment, amusement and recreation		**1,380,476**	1,677,913
Miscellaneous expense	22	**25,386,848**	37,738,710
		388,452,811	418,613,665
LOSS BEFORE SHARE IN NET INCOME OF AN ASSOCIATE AND INCOME TAX		**(37,718,446)**	(16,473,590)
SHARE IN NET INCOME (LOSS) OF AN ASSOCIATE	14	**(3,097,376)**	4,239,149
LOSS BEFORE INCOME TAX		**(40,815,822)**	(12,234,441)
TAX EXPENSE	25	**15,314,485**	12,240,384
NET LOSS		**(P 56,130,307)**	(P 24,474,825)

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Note	2019	2018
NET LOSS		**(P 56,130,307)**	(P 24,474,825)
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment defined benefit plan	24	**(834,000)**	1,363,157
TOTAL COMPREHENSIVE LOSS		**(P 56,964,307)**	(P 23,111,668)

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Preferred Stock (See Note 21)	**Capital Stock** (See Note 21)	**Treasury Stock - Preferred** (See Note 21)	**Remeasurement Gain on Net Defined Benefit Liability** (See Note 24)	**Suplus Reserves** (See Note 21)	**Deficit** (See Notes 21)	**Total Equity**
Balance at January 1, 2019	P 391,394,600	P 376,955,600	(P 89,500)	P 21,126,441	P 5,304,528	(P 186,023,079)	P 608,668,589
Issuance of additional preferred stock	31,649,800	-	-	-	-	-	31,649,800
Total comprehensive loss for the year	-	-	-	(834,000)	-	(56,130,307)	(56,964,307)
Balance at December 31, 2019	**P 423,044,400**	**P 376,955,600**	**(P 89,500)**	**P 20,292,441**	**P 5,304,528**	**(P 242,153,386)**	**P 583,354,082**
Balance at January 1, 2018	P 23,044,400	P 376,955,600	(P 89,500)	P 19,763,284	P 5,304,528	(P 161,548,254)	P 263,430,058
Issuance of additional preferred stock	368,350,200	-	-	-	-	-	368,350,200
Total comprehensive loss for the year	-	-	-	1,363,157	-	(24,474,825)	(23,111,668)
Balance at December 31, 2018	P 391,394,600	P 376,955,600	(P 89,500)	P 21,126,441	P 5,304,528	(P 186,023,079)	P 608,668,589

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Peso)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(P 40,815,822)	(P 12,234,441)
Adjustments for:			
Interest received		384,494,987	362,602,931
Interest income	7, 8, 9	(381,990,583)	(361,943,370)
Interest expense	11, 17, 23, 24	130,193,283	100,305,144
Interest paid		(120,393,326)	(97,130,980)
Provision for credit and impairment losses	16	76,074,979	53,418,503
Depreciation and amortization	10, 11, 12, 13, 15	75,148,547	51,343,726
Gain on sale of non-financial assets - net	22	(33,401,886)	(94,322,005)
Share in net loss (income) of an associate	14	3,097,376	(4,239,149)
Retirement expense	24	3,665,116	4,402,787
Loss on foreclosure of assets held-for-sale	15	6,485,335	17,489,925
Operating income before changes in resources and liabilities		102,558,006	19,693,071
Increase in loans and other receivables		(16,482,646)	(170,297,678)
Increase in other resources		(269,031,441)	(347,472,227)
Increase (decrease) in deposit liabilities		404,561,853	(82,132,950)
Increase (decrease) in manager's checks		(72,992,014)	50,140,651
Increase (decrease) in accrued interest and other expenses		(22,094,326)	1,906,540
Increase (decrease) in other liabilities		7,160,450	(4,295,454)
Cash from (used in) operations		133,679,882	(532,458,047)
Cash paid for income taxes		(12,477,074)	(9,390,364)
Net Cash From (Used in) Operating Activities		121,202,808	(541,848,411)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investment properties	23	(213,299,845)	-
Bank premises, furnitures, fixtures and equipment	10	(7,950,256)	(22,406,398)
Software cost	13	-	(168,676)
Proceeds from disposals of:			
Bank premises, furnitures, fixtures and equipment	10	20,528,760	6,226,244
Investment properties	12	31,217,955	160,745,318
Asset held-for-sale	15	19,742,700	25,536,783
Other properties acquired	15	12,035,190	12,032,995
Maturity of investment held at amortized cost	8	-	11,000,000
Net Cash From (Used in) Investing Activities		(137,725,496)	192,966,266
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from deposit for future stock subscription	21	168,350,200	24,142,500
Issuance of preferred stock	21	31,649,800	-
Repayment of lease liability	11	(15,861,097)	-
Net Cash From Financing Activities		184,138,903	24,142,500
NET DECREASE IN CASH AND CASH EQUIVALENTS		167,616,215	(324,739,645)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash and other cash items		119,741,187	157,897,422
Due from Bangko Sentral ng Pilipinas		440,195,486	686,434,269
Due from other banks		93,819,054	60,692,460
Securities purchased under resale agreement		328,000,000	401,471,221
		981,755,727	1,306,495,372
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash and other cash items		90,019,593	119,741,187
Due from Bangko Sentral ng Pilipinas		727,399,087	440,195,486
Due from other banks		79,562,010	93,819,054
Securities purchased under reverse repurchase agreement		252,391,252	328,000,000
		P 1,149,371,942	P 981,755,727

Supplemental Information on Non-cash Activities:

1) The Bank foreclosed investment properties and other properties acquired totalling to P184.3 million and P77.2 million, respectively, in 2019, and P265.4 million and P77.4 million, respectively, in 2018, in settlement of certain loan accounts (see Notes 12 and 15).
2) In 2019, the Bank acquired certain land and building from its associate amounting to P381.7 million and is recorded as part of Investment Properties in the 2019 statement of financial position. The Bank fully acquired the land and building from its associate through assumption of the loan obligation of the associate with Bank of the Philippine Islands amounting to P168.4 million (see Notes 12 and 23.4).
3) On January 1, 2019, the Bank recognized right-of-use asset and lease liability amounting to P70.1 million and P79.8 million, respectively, in relation to the adoption of PFRS 16, Leases. As of December 31, 2019, the carrying amount of the Bank's right-of-use asset and lease liability amounting to P58.7 million and P68.5 million, respectively (see Note 11).
4) In 2018, deposit for future stock subscription amounting to P368.35 million was applied for the issuance of the newly authorized Preferred D shares of the Bank (see Note 21).

See Notes to Financial Statements.

LUZON DEVELOPMENT BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation

Luzon Development Bank (the Bank) was incorporated in the Philippines on March 13, 1961 and operates as a private development bank and provides services such as deposits, loans and domestic and foreign fund transfers through a network of 38 branches as of December 31, 2019 and 2018.

On January 26, 2010 and April 24, 2010, the Board of Directors (BOD) and the stockholders of the Bank, respectively, approved the amendment of its Articles of Incorporation on the extension of the corporate term for another 50 years from the date of expiration of its original corporate life on March 13, 2011. The amendment was approved by the Bangko Sentral ng Pilipinas (BSP) on September 13, 2010 and the Philippine Securities and Exchange Commission (SEC) on October 6, 2010.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitute and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other related banking laws.

The Bank's registered office address, which is also its principal place of business, is located at LDB Corporate Center, National Highway, Paciano Rizal, Calamba City, Laguna.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2019 (including the comparative financial statements as of and for the year ended December 31, 2018) were authorized for issue by the Bank's BOD on November 24, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expenses in two statements: a statement of profit or loss and a statement of comprehensive income.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2019 that are Relevant to the Bank

The Bank adopted for the first time the following new PFRS, amendments to PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation

PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends

Discussed below and in the succeeding pages are the relevant information about these standards interpretation and improvements.

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Bank's financial statements.

(ii) PAS 28 (Amendments), *Investment in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures*. The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long-term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9, which shall also include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The application of this amendment had no significant impact on the Bank's financial statements.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). The application of this amendment had no significant impact on the Bank's financial statements.

(iv) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases,* and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27*, Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Bank adopted PFRS 16 using the modified retrospective approach as allowed by the standard. This allowed the Bank not to restate its prior periods' financial statements. The impact of PFRS 16 at the date of initial adoption, which is at January 1, 2019, is on the recognition of right-of-use asset and lease liability in the statement of financial position. Difference arising from the adoption of PFRS 16 in relation to remeasurements is recognized in the opening balance of Deficit in the current year [see Note 2.2(a)(iv)(c)]. However, there is no adjustment in the Deficit account as of January 1, 2019 since the amount of the right-of-use asset and lease liability is the same.

The new accounting policies of the Bank as a lessee are disclosed in Note 2.14(a), while the accounting policies of the Bank as a lessor, as described in Note 2.14(b), were not significantly affected.

Discussed below are the relevant information arising from the Bank's adoption of PFRS 16 and how the related accounts are measured and presented on the Bank's financial statements as at January 1, 2019.

a. For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

b. The Bank recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as of January 1, 2019. The Bank's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 13.0%.

c. The Bank has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Bank also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid lease payments and accrued rent expense that existed as at January 1, 2019.

d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

e. For those leases previously classified as finance leases, the Bank recognized the related right-of-use asset and lease liability at the date of initial application at the same amounts as the carrying amount of the capitalized asset and finance lease obligation under PAS 17 immediately before transition.

f. The Bank has also used the practical expedient, apart from those already mentioned above, of reliance on its historical assessment on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the Bank has no onerous contracts.

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at January 1, 2019.

	Notes	Carrying Amount (PAS 17) December 31, 2018	Reclassification	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
Resources:					
Bank premises, furniture, fixtures and equipment – net	e	P 209,545,144	(P 9,061,752)	P -	P 200,483,392
Right-of-use assets – net	c, e	-	730,885	69,408,032	70,138,917
Other resources – net	c	225,210,097	(77,792)	-	225,132,305
Liabilities:					
Lease liabilities	b, e	-	10,355,316	69,408,032	79,763,348
Accrued interest and other expenses	c	70,026,392	(8,408,659)	-	61,617,733
Other liabilities	e	123,376,063	(10,355,36)	-	113,020,747
Impact on net assets			P -	P -	

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	Notes	
Operating lease commitments, December 31, 2018 (PAS 17)	26.1	P 120,135,431
Recognition exemptions:		
Leases with remaining term of less than 12 months	2.2(a)(iv)(d)	(71,400)
Operating lease liabilities before discounting		120,064,031
Discount using incremental borrowing rate	2.2(a)(iv)(b)	(50,655,999)
Operating lease liabilities		69,408,032
Obligation from finance leases	2.2(a)(iv)(e)	10,355,316
Lease liabilities, January 1, 2019 (PFRS 16)		P 79,763,348

(v) IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management has assessed that the interpretation had no significant impact on the Bank's financial statements.

(vi) Annual Improvements to PFRS 2015-2017 Cycle. PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. The application of this amendment had no significant impact on the Bank's financial statements.

(b) Effective in 2019 that are not Relevant to the Bank

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the Bank's financial statements:

Annual Improvements to PFRS (2015-2017 Cycle)		
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 and 11 (Amendments)	:	Business Combination and Joint Arrangements – Remeasurements of Previously Held Interests in a Joint Operation

(c) Effective Subsequent to 2019 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements.

(i) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.

(ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

2.3 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, financial assets at FVOCI, and financial assets at fair value through profit or loss (FVTPL). The classification and measurement of financial assets is driven by the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets that are relevant to the Bank are described below.

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 whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All of the Bank's financial assets meet these criteria and are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Securities Purchased Under Resale Agreements (SPURA), Held-To-Collect (HTC) Financial Assets, Loans and Other Receivables, and Security deposits, Due from other banks – restricted and portion of Miscellaneous account which are presented under Other Resources account.

For purposes of cash flows reporting and presentation, cash and cash equivalents include Cash and Other Cash Items, Due from BSP, Due from Other Banks and SPURA. These financial assets cover cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Also included in this category are securities purchased under repurchase agreements wherein the Bank enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the effective interest method.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2019 and 2018, the Bank has not made such designation.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

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: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) Recognition of Interest Income Using Effective Interest Rate Method

Interest income on financial assets at amortized cost, is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired and those that are purchased or originated credit-impaired assets.

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

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

The interest earned is recognized as part of Interest Income account in the statement of profit or loss.

(c) Impairment of Financial Assets

The Bank recognizes allowances for expected credit losses (ECL) on a forward-looking basis associated with its financial assets at amortized cost.

Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Bank recognizes lifetime ECL when there has been a significant increase in credit risk (SICR) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

The Bank's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets, definition of default for purposes of determining ECL, and credit risk assessment are further discussed in Note 4.2.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.2(h).

The Bank calculates ECL either on an individual or a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties.

Also, the Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provisioning matrix that considers historical changes in the behavior of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Bank's lending activities. For these instruments, the Bank measures the loss allowance of an amount equal to lifetime ECL.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

(d) Items of Income and Expenses Related to Financial Assets

All income relating to financial assets that are recognized in profit or loss are presented as part of Interest Income in the statement of profit or loss.

Impairment losses are presented as a separate line item under Operating Expenses section in the statement of profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(e) Derecognition of Financial Assets

(i) Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition; such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition other than Modification of Loans

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment loss. As no finite useful life for land can be determined, related carrying amount is not depreciated. All other bank premises, furniture, fixtures and equipment are carried at acquisition costs less accumulated depreciation, amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets as presented below.

Buildings and improvements	20 to 30 years
Leasehold improvements	5 to 10 years
Furniture, fixtures and equipment	3 to 5 years

Leasehold improvements are amortized using the estimated useful lives or the remaining term of the lease whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and fully amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, accumulated amortization and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

2.5 Investment Properties

Investment properties represent properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in providing services or for administrative purposes.

The Bank adopted the cost model in measuring its investment properties; hence, these are stated at cost less accumulated depreciation and any impairment in value (see Note 12). The cost of an investment property comprises its purchase price and directly attributable costs incurred. For these assets, the cost is recognized initially at the lower of the outstanding loan balance, bid price or appraised value of the property.

Loss on foreclosure of investment properties and other properties acquired is recognized upon derecognition of existing receivables through foreclosure of assets used as collateral and is determined that the fair value of the foreclosed asset is lower than the net carrying amount of the receivable settled.

Direct operating expenses such as repairs and maintenance and real estate taxes are normally charged against current operations during the period in which these costs are incurred.

Investment properties, except land, are depreciated using the straight-line basis over the estimated useful life of the asset ranging from three to ten years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

Investment properties including the related accumulated depreciation and any impairment losses are derecognized upon disposal or when no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Gain on sale of non-financial assets – net under Other Income in the statement of profit or loss in the year of retirement or disposal.

2.6 Intangible Assets

Intangible assets include branch licenses, which arose from acquisition of branches by the Bank, Philippine Clearing House Corporation (PCHC) membership and acquired software costs, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Capitalized costs from acquired software costs are amortized on a straight-line basis over the estimated useful life (ranging from one to five years) as the lives of these intangible assets are considered finite. In addition, this kind of intangible asset is subject to impairment testing as described in Note 2.15.

Branch licenses and PCHC membership, on the other hand, were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Branch licenses and PCHC membership are tested for impairment annually either individually or at the cash-generating unit (CGU) level.

2.7 Assets Held-for-Sale

Assets held-for-sale pertain to chattel mortgage properties, presented under Other Resources account in the statement of financial position (see Note 15), acquired through repossession or foreclosure which the Bank intends to sell within one year from the date of classification as held for sale and remains committed to immediately dispose the assets through an active marketing plan.

The Bank classifies an asset as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Assets held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. These assets are not subject to depreciation. If the Bank has classified an asset as held-for-sale or disposal group, but the criteria for it to be recognized as held-for-sale or disposal group are no longer satisfied, the Bank shall cease to classify the asset as such.

The Bank recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale and disposal group to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss. On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

Assets that cease to be classified as held-for-sale is recognized as Other properties acquired – net under Other Resources account in the statement of financial position and is measured at the lower of: (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell as determined by the Bank's internal appraisers. Any adjustment to the carrying amount of an asset that ceases to be classified as held for sale resulting in either a gain or loss, is recognized in profit or loss.

Other properties acquired are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and any impairment value. The Bank applies cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years (see Note 15).

The gain or loss arising from the sale or re-measurement of assets held-for-sale or disposal group is recognized in profit or loss and is included in the Gain on sale of non-financial assets – net account under Other Income in the statement of profit or loss.

2.8 Investment in an Associate

Associates are those entities over which the Bank is able to exert significant influence but which are neither subsidiaries nor interests in joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Bank recognizes in profit or loss its share in the net earnings or losses of the associate. The cost of the investment is increased or decreased by the Bank's equity in net earnings or losses of the associate since the date of acquisition. Dividends received are accounted for as reduction in the carrying value of the investment.

Acquired investments in an associate is subject to purchase method of accounting. However, any goodwill that represents the excess of identifiable net assets of the acquiree at the date of acquisition or fair value adjustment attributable to the Bank's share in the associate is included in the amount recognized as investment in an associate. All subsequent changes to the ownership of interest in the equity of the associate are recognized in the Bank's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited against Share in Net Income (Loss) of an Associate account in the Bank's statement of profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in other comprehensive income or equity of the Bank as applicable.

When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between Bank and its associate are eliminated to the extent of the Bank's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Bank.

The Bank reassesses whether or not an entity qualifies as an associate in the occurrence of changes to facts and circumstances surrounding its ability to exert significant influence.

2.9 Other Resources

Other resources pertain to other assets that are controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.10 Financial Liabilities

Financial liabilities, which include deposit liabilities, manager's check, lease liabilities, bills payable, accrued interest and other expenses, deposit for future stock subscription, and other liabilities (except tax-related payables), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss. Deposit liabilities are recorded or stated at amounts in which they are to be paid, which approximate their fair values.

Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.11 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount considered as a single financial asset or financial liability is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.12 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.13 Revenue and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred.

All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any.

The Bank also earns service fees and commissions on various banking services, and gains on sale of properties, which are supported by contracts and approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

For revenues arising from various banking services, which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

(a) *Service Charges and Fees*

(i) *Commission and fees* – these income arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions with customers which are generally when the services has been performed.

(ii) *Late payment fees* – these are billed on late payments of loans and are recognized as income upon occurrence of the late payment event.

(iii) *Referral fees* – these pertain to fees earned from insurance referrals involving loan accounts.

(iv) *Penalties* – these are charges from deposit accounts that fall under dormancy or maintaining balance. These fees are recognized at the time of dormancy.

(b) Gain on Sale of non-financial Assets

Gain on sale of non-financial assets arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, assets held-for-sale and other properties acquired. The Bank recognizes the gain on sale at the time the control of the assets is transferred to the buyer, when the Bank does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured. Gain on sale of non-financial assets is presented under Other Income account in the statement of profit or loss.

Collections from accounts, which did not qualify from revenue recognition, are treated as customers' deposits and are included as part of Accounts payable under Other Liabilities account in the statement of financial position.

2.14 Leases

The Bank accounts for its leases as follows:

(a) Bank as Lessee

(i) Accounting for Leases in Accordance with PFRS 16 (2019)

For any new contracts entered into on or after January 1, 2019, the Bank considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.15).

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from property, plant and equipment and other liabilities, respectively.

(ii) Accounting for Leases in Accordance with PAS 17 (2018)

Leases which transfer to the Bank substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Finance lease obligations, net of finance charges, are included in Lease Liabilities account in the statement of financial position.

Leases which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific or identified asset or assets and the arrangement conveys a right to use the asset for a period of time in exchange for consideration *(b) Bank as Lessor*

Leases wherein the Bank substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Bank's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

2.15 Impairment of Non-financial Assets

The Bank's investment in an associate, bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, intangible assets, asset held-for-sale, other properties acquired, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Branch licenses and PCHC membership with an indefinite useful life are tested for impairment at least annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). As a result, some assets are tested individually for impairment and some are tested at CGU level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each CGU and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements.

Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. All assets, except for intangible assets with indefinite useful life, are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or CGU's recoverable amount exceeds its carrying amount.

2.16 Employee Benefits

The Bank provides post-employment benefits to employees through defined benefit plan and defined contribution plans, and other employee benefits which are recognized as presented on the succeeding page.

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies.

The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are reported as part of Accrued Interest and Other Expenses account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.17 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.18 Related Party Transactions and Relationships

Related party transactions are transfer of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

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

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

2.19 Equity

Capital stock represents the nominal value of shares that have been issued.

Deposit for future stock subscription refers to the amount of money or property received by the Bank with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize.

As adopted from SEC Financial Reporting Bulletin 006 issued in 2012 and amended in 2013 and 2017, the Bank does not consider a deposit for future subscription as an equity instrument unless all of the following elements are present:

(i) The unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;

(ii) There is BOD's approval on the increase in authorized capital stock (for which a deposit was received by the Bank);

(iii) There is stockholders' approval of said proposed increase; and,

(iv) The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability. The amount of deposits for future stock subscription will be reclassified to equity account when the Bank meets the foregoing criteria.

Treasury shares are stated at cost of reacquiring such shares and are deducted from equity attributable to the Bank's equity holders until the shares are cancelled, reissued or disposed of.

Remeasurement gain on net defined benefit liability pertains to remeasurements of post-employment defined benefit plan.

Surplus reserves represent amount appropriated for the future plan and unforeseen expenditure.

Deficit includes all current and prior period results of operations as reported in the statement of profit or loss income and which are available and not restricted for use by the Bank, reduced by the amounts of dividends declared, if any.

In pursuant to BSP Circular No. 1011, *Guidance on the Adoption of PFRS 9*, the Bank is required to set up general loan loss provision (GLLP) equivalent to 1.00% of all outstanding 'Stage 1' on-balance sheet loan accounts. GLLP pertains to the appropriation of the Surplus account, brought about by the cases when the allowance for credit losses on 'Stage 1' loan accounts computed under the requirement of PFRS 9 is less than the 1.00% GLLP required by the BSP. No appropriation was made in 2019 and 2018 since the ECL for 'Stage 1' loan accounts is more than 1.00% of the GLLP required by BSP.

2.20 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (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.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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. Actual results may ultimately vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Principles

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Evaluation of Business Model Applied in Classifying 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 its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment activities consistent with its risk appetite.

The Bank's business models reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument), except for designation of equity instruments at FVOCI.

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those related to the Bank's investment and lending strategies.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

(b) Testing the Cash Flow Characteristics of Financial Assets

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the SPPI test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

(c) Classifying and Determining Fair Value of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets held-for-sale presented under the Other Resources account if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Bank's methodologies in determining the fair value of acquired properties are further discussed in Note 6.

The Bank provides additional criterion for recognizing personal and chattel properties as Assets held-for-sale such that the personal and chattel properties should have a ready buyer or the Bank is committed to dispose the properties through active marketing and disposal program in case the sale will not happen within one year. Accounts with no ready buyers were classified as Investment Properties for real properties and as Other properties acquired under Other Resources account for other properties.

(d) Distinguishing Investment Properties and Owner-occupied Properties

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in its banking operations.

The Bank classifies its acquired properties as bank premises, furniture, fixtures and equipment if used in operations or as investment properties if the Bank intends to hold the properties for capital appreciation or for rental.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in its banking operation and services or for administrative purposes. If a portion can be sold separately (or leased out separately under finance lease), the Bank accounts for the portion separately. If a portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in its banking operation or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(e) Determination of Branch Licenses and PCHC Membership Having Indefinite Useful Lives

The Bank's branch licenses and PCHC membership were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

(f) Determination of Lease Term (2019)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The Bank did not include renewal options as part of the lease term as the terms are renewable upon mutual agreement of both parties. The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period are presented below and in the succeeding pages.

(a) Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) Estimation of Allowance for ECL on Financial Assets at Amortized Cost

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also considers the use of reasonable and supportable forward-looking information (FLI), which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

sSignificant factors affecting the estimates on the ECL model include:

- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;
- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Explanation of the inputs, assumptions and estimation used in measuring ECL, and the analysis of the allowance for ECL on various groups of financial instruments is further detailed in Note 4.2.

(c) Determining the Fair Value Measurement for Financial Instruments

Fair value measurements for financial assets are generally based on listed or quoted market prices. Where active market quotes are not available, management applies valuation techniques to determine the fair value of financial instruments. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying value of the Bank's investment securities at amortized cost, as well as the fair values, are disclosed in Notes 6 and 8, respectively.

(d) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Computer Software, and Other Properties Acquired

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, computer software and other properties acquired based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, computer software, and other properties acquired are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, computer software and other properties acquired are presented in Notes 10, 11, 12, 13 and 15, respectively. Based on management's assessment as of December 31, 2019 and 2018, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determination of Fair Value Measurement of Investment Properties

The Bank's investment properties consist of parcels of land and buildings, including improvements thereon, which are held for capital appreciation or held under operating lease agreements, and are measured using the cost model. The estimated fair value of the investment properties disclosed in Note 6.4 is determined on the basis of appraisals conducted by professional appraisers applying the relevant valuation methodologies as discussed therein.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in an adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(f) Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The Bank did not recognize deferred tax assets on certain temporary differences in 2019 and 2018.

Management assessed that the carrying amount of deferred tax assets recognized in the statements of financial position as disclosed in Note 25 can be utilized in the coming years or within their prescriptive period.

(g) Estimating Impairment Losses on Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a CGU based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.15). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized for bank premises, furniture, fixtures and equipment, right-of-use assets, intangible assets, and other properties acquired. Impairment losses recognized on the Bank's investment properties are disclosed in Note 12.

(h) Valuation of Post-Employment Defined Benefits

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 24.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

4.1 Risk Management Framework

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Bank's strategic planning process.

Risk Management Structure
The BOD is ultimately responsible for the formulation of written policies and procedures relating to the management of risks throughout the Bank. The risk management policy includes: a comprehensive risk management approach; a detailed structure of limits; guidelines and other parameters used to govern risk-taking; a clear delineation of lines of responsibilities for managing risks; an adequate system for measuring risks; and, effective internal controls and a comprehensive risk-reporting process.

Risk Management Committee
The Risk Management Committee (RMC) has the overall responsibility for the development and oversight of the Bank's Risk Management Program and development of the risk management strategies geared towards loss prevention or minimization to preserve the Bank's earnings and capital in the short-term, increase shareholder value in the medium term and capital allocation across all risk-taking activities in the long-term.

Risk Management
The initial activity in identifying and facilitating the activities to undertake its risk management program development and oversight function rests with RMC.

Bank Treasury
Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also responsible for the funding and liquidity risks of the Bank.

Internal Audit
Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures, adequacy of the Bank's internal control and compliance with existing laws, rules and regulations. Internal audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

As at December 31, 2019 and at 2018, the responsibility for risk management was given to the Audit Committee of the Bank.

4.2 Credit Risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to meet its contractual obligation. The Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of person in excess of 25.0% of its net worth. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, enters collateral arrangements with counterparties, and limits the duration of exposures.

(a) Maximum exposure to credit risk after collateral held or other credit enhancements

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is presented below (amounts in thousands).

	2019			
	Gross Maximum Exposure	**Fair Value of Collaterals**	**Net Exposure**	**Financial Effect of Collaterals**
Receivables from customers	P 3,393,215	P 4,920,751	P -	P 3,393,215
Sales contracts receivables	91,553	116,760	-	91,553
Unquoted debt securities	809	-	-	-
Accrued interest receivables	20,559	-	-	-
Accounts receivables	77,694	-	-	-
	P 3,583,830	**P 5,037,511**	**P -**	**P 3,484,768**

	2018			
	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
Receivables from customers	P 3,411,789	P 4,399,508	P -	P 3,411,789
Sales contracts receivables	124,370	121,741	-	121,741
Unquoted debt securities	1,923	-	-	-
Accrued interest receivables	23,063	-	-	-
Accounts receivables	80,604	-	-	-
	P 3,641,749	P 4,521,249	P -	P3,533,530sss

Due from BSP, Due from Other Banks, and Loans Arising from Reverse Repurchase Agreement are not covered with any collateral, however, the credit risks are considered negligible, since the counterparties are reputable institutions with high quality external credit ratings.

(b) Concentration of credit risks of financial assets

The Bank monitors concentrations of credit risk by industry. An analysis of concentrations of credit risk at the end of the reporting period is shown below.

	2019				
	Loans and Receivables	**HTC Financial Assets**	**Due from BSP, other banks, and SPURA**	**Other Resources**	**Total**
Real estate, renting and business activities	P 296,742,453	P -	P -	P 173,125	P 296,915,578
Wholesale and retail trade, repair of motorcycles, personal and household goods	663,202,410	-	-	-	663,202,410
Manufacturing	207,627,387	-	-	-	207,627,387
Financial intermediaries	74,576,442	154,840,431	1,059,352,349	29,560,099	1,318,329,321
Agriculture, hunting and forestry and fishing	213,504,642	-	-	-	213,504,642
Other community, social and personal services	1,300,687,331	-	-	-	1,300,687,331
Others	859,595,677	-	-	-	859,595,677
	3,615,936,342	154,840,431	1,059,352,349	29,733,224	4,859,862,346
Less:					
Unearned interests and discounts	4,057,922	-	-	-	4,057,922
Allowance for credit and impairment losses	346,728,324	-	-	-	346,728,324
	P3,265,150,096	**P 154,840,431**	**P1,059,352,349**	**P 29,733,224**	**P4,509,076,100**

	2018				
	Loans and Receivables	HTC Financial Assets	Due from BSP, other banks, and SPURA	Other Resources	Total
Real estate, renting and business activities	P 389,163,038	P -	P -	P 491,248	P 389,654,286
Wholesale and retail trade, repair of motorcycles, personal and household goods	592,360,037	-	-	-	592,360,037
Manufacturing	249,318,017	-	-	-	249,318,017
Financial intermediaries	76,079,374	154,825,185	862,014,540	29,581,586	1,122,500,685
Agriculture, hunting and forestry and fishing	226,638,378	-	-	-	226,638,378
Other community, social and personal services	1,334,711,876	-	-	-	1,334,711,876
Others	773,479,581	-	-	-	773,479,581
	3,641,750,301	154,825,185	862,014,540	30,072,834	4,688,662,860
Less:					
Unearned interests and Discounts	5,806,279	-	-	-	5,806,279
Allowance for credit and impairment losses	308,697,189	-	-	-	308,696,189
	P3,327,246,833	P 154,825,185	P 862,014,540	P 30,072,834	P4,374,159,392

(c) Credit quality per class of financial assets

Generally, accounts are classified by the Bank based on the loan credit quality as follows:

(i) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans as defined below. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(ii) Loans Especially Mentioned (LEM)

Accounts classified as LEM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to the Bank.

A credit may also be classified as LEM if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

(iii) Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to the Bank unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

(iv) Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

(v) Loss

Accounts classified as "Loss" are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

These loan classifications are also used by the Bank as inputs and basis in determining the impairment losses as described in Note 2.3.

The carrying amount of financial assets recognized in the financial statements, represents the Bank's maximum exposure to credit risk without taking into account the value of any collateral obtained and allowance for impairment recognized. The table below shows the credit quality by class of financial assets as of December 31, 2019.

	Neither Past Due nor Specifically Impaired			
	High Grade	**Standard Grade**	**Past Due and Individually Impaired**	**Total**
Cash and other cash items	P 90,019,593	P -	P -	P 90,019,593
Due from BSP	727,399,087	-	-	727,399,087
Due from other banks	79,562,010	-	-	79,562,010
SPURA	252,391,252	-	-	252,391,252
HTC investments	154,840,431	-	-	154,840,431
Loans and other receivables (gross)	2,004,774,840	789,202,888	821,958,614	3,615,936,342
Other resources	-	29,733,224	-	29,733,224
	P3,308,987,213	**P 818,936,112**	**P 821,958,614**	**P4,949,881,939**

The credit quality by class of financial assets as of December 31, 2018 follows:

	Neither Past Due nor Specifically Impaired			
	High Grade	Standard Grade	Past Due and Individually Impaired	Total
Cash and other cash items	P 119,741,187	P -	P -	P 119,741,187
Due from BSP	440,195,486	-	-	440,195,486
Due from other banks	93,819,054	-	-	93,819,054
SPURA	328,000,000	-	-	328,000,000
HTC financial assets	154,825,185	-	-	154,825,185
Loans and other receivables (gross)	2,705,080,436	410,494,398	526,175,467	3,641,750,301
Other resources	-	30,072,834	-	30,072,834
	P3,841,661,348	P 440,567,232	P 526,175,467	P4,808,404,047

The Bank is able to manage the credit risk arising from its deposits with other banks as the banks where these deposits are made have high reputation and good credit standing. Moreover, due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million for every depositor per banking institution, as provided for under RA 9576, *Amendment to Charter of PDIC*.

The Due from BSP account represents the aggregate balance of interest-bearing and noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as clearing account for interbank claims; hence, no significant credit risk is anticipated for this account.

Investments held at amortized cost exposed to credit risk as of December 31, 2019 and 2018 pertain to quoted government debt securities (see Note 8).

(d) Credit quality analysis

The table below sets out information about the credit quality of loans and other receivables, and HTC financial assets. As of December 31, 2019 and 2018, there are no purchased or originated credit-impaired (POCI) financial assets in the Bank's financial statements.

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and other receivables				
Perfoming:				
Current	P 2,466,775,628	P -	P -	P 2,466,775,628
Past due	-	323,144,177	-	323,144,177
Non-performing:				
Past due	-	-	486,385,508	486,385,508
Items in litigation	-	-	335,573,107	335,573,107
	2,466,775,628	323,144,177	821,958,615	3,611,878,420
Expected credit loss allowance	(229,716,880)	(32,583,417)	(84,428,027)	(346,728,324)
Carrying amount	**P 2,237,058,748**	**P 290,560,760**	**P 737,530,588**	**P 3,265,150,096**
HTC financial assets				
Carrying amount	**P 154,840,431**	**P -**	**P -**	**P 154,840,431**

	2018			
	Stage 1	Stage 2	Stage 3	Total
Loans and other receivables				
Perfoming:				
Current	P 2,660,039,000	P -	P -	P 2,660,039,000
Past due	-	416,723,154	-	416,723,154
Non-performing:				
Past due	-	-	331,080,164	331,080,164
Items in litigation	-	-	228,101,704	228,101,704
	2,660,039,000	416,723,154	559,181,868	3,635,944,022
Expected credit loss allowance	(219,276,580)	(37,462,264)	(51,958,345)	(308,697,189)
Carrying amount	P 2,440,762,420	P 379,260,890	P 507,223,523	P 3,327,246,833
HTC financial assets				
Carrying amount	P 154,825,185	P -	P -	P 154,825,185

(e) Credit risk assessment

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL.

The Bank determines any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Bank to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e. Stage 1, 2, 3).

In assessing accounts subject to individual assessment, the Bank has established a materiality threshold of P5.0 million for all exposures. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Bank considers as material items of loan for individual assessment. The provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date.

A periodic assessment of credit quality may improve the borrower's weighted score or it could lead to one or more scoring downgrades over time; hence could lead to the transfer of credit exposure in different stages of impairment.

For the Bank's HTC financial assets, credit ratings published by reputable external rating agencies (e.g., Standard & Poor's) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency, unless the said financial assets are assessed to have increase its credit risk where lifetime PD is used.

(f) Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate.

The Bank's ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(i) Stage 1 – these are credit exposures that are considered 'performing' and with no SICR since initial recognition or with low credit risk. The loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – these are credit exposures that are considered 'under performing' and with SICR since initial recognition. A lifetime ECL is recognized for these credit exposures.

(iii) Stage 3 – these are credit exposures with objective evidence of impairment and considered 'non-performing'. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

The Bank considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets that are credit-impaired on initial recognition are classified as POCI assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various products of the Bank, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

(g) Definition of default

(i) Loans and receivables

The Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the one day past due threshold for microfinance loan portfolio. As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Bank, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Bank would not consider otherwise; or, (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Bank.

(ii) HTC financial assets

Investments in debt securities is assessed as credit-impaired (Stage 3) if there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL.

Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

(h) Expected credit loss measurement inputs

Integral in the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including FLI as appropriate.

(i) Key inputs and assumptions in the ECL model

The key elements used in the calculation of ECL are presented below.

- PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. In determining PD, the Bank performed segmentation of its credit exposures based on homogenous characteristics. PD of individually assessed credit exposures is determined based on the historical losses incurred over total exposure while PD of collectively assessed credit exposure is determined based on the net flow rate which is developed from historical movements between one days past due bucket to the next.

- LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset.

- EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast.

(ii) Overlay of forward-looking information

The Bank incorporates FLI in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. The impact of these MEVs on the PD, LGD, and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority). Accordingly, the Bank has identified key drivers for credit risk for each portfolio. Using an analysis on historical data, the Bank has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

(i) Allowance for expected credit loss

The tables on the succeeding page show the reconciliation of the loss allowance for ECL by class of financial instruments at the beginning and end of 2019 and 2018.

(i) Loans and receivables

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	P 219,276,580	P 37,462,264	P 51,958,345	P 308,697,189
Transfers from:				
Stage 1 to Stage 2	(16,433,061)	16,433,061	-	-
Stage 1 to Stage 3	(15,170,643)	-	15,170,643	-
Stage 2 to Stage 1	5,841,448	(5,841,448)	-	-
Stage 2 to Stage 3	-	(7,621,695)	7,621,695	-
Stage 3 to Stage 1	181,235	-	(181,235)	-
Stage 3 to Stage 2	-	156,754	(156,754)	-
New assets originated	123,411,001	10,871,117	19,870,344	154,152,462
Net remeasurement	(15,630,409)	(3,539,129)	(3,782,551)	(22,952,089)
Assets derecognized or repaid	(71,759,271)	(15,337,507)	(6,072,460)	(93,169,238)
	10,440,300	(4,878,847)	32,469,682	38,031,135
Balance at December 31, 2019	**P 229,716,880**	**P 32,583,417**	**P 84,428,027**	**P 346,728,324**

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018,	P 273,508,709	P 1,695,253	P 69,223,425	P 344,427,387
Transfers from:				
Stage 1 to Stage 2	(32,707,278)	32,707,278	-	-
Stage 1 to Stage 3	(12,498,385)	-	12,498,385	-
Stage 2 to Stage 1	-	-	-	-
Stage 2 to Stage 3	-	(86,695)	86,695	-
Stage 3 to Stage 1	345,662	-	(345,662)	-
Stage 3 to Stage 2	-	877,149	(877,149)	-
New assets originated	127,506,467	14,084,534	9,450,064	151,041,065
Net remeasurement	(49,462,165)	(11,791,801)	(8,266,617)	(69,520,583)
Assets derecognized or repaid	(87,416,430)	(23,454)	(29,810,796)	(117,250,680)
	(54,232,129)	35,767,011	(17,265,080)	(35,730,198)
Balance at December 31, 2018	P 219,276,580	P 37,462,264	P 51,958,345	P 308,697,189

(ii) HTC financial assets

No ECL was recognized for HTC financial assets as the amount of ECL is not significant (see Note 2.3).

(iii) Loan commitments

No ECL was recognized for undrawn loan commitments.

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.2.

(j) Significant changes in gross carrying amount affecting allowance for ECL

The tables on the succeeding page provide information on how the significant changes in the gross carrying amount of financial instruments in 2019 and 2018 contributed to the changes in the allowance for ECL.

(i) Loans and receivables (gross of allowance for impairment)

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	P2,660,039,000	P 416,723,154	P 559,181,868	P 3,635,944,022
Transfers:				
Stage 1 to Stage 2	(187,867,236)	187,867,236	-	-
Stage 1 to Stage 3	(177,688,841)	-	177,688,841	-
Stage 2 to Stage 1	58,635,815	(58,635,815)	-	-
Stage 2 to Stage 3	-	(78,454,551)	78,454,551	-
Stage 3 to Stage 1	2,273,898	-	(2,273,898)	-
Stage 3 to Stage 2	-	864,531	(864,531)	-
New assets originated	1,319,221,212	113,742,052	214,217,123	1,647,180,387
Net remeasurement	(344,095,093)	(74,809,559)	(129,323,381)	(548,228,033)
Assets derecognized or repaid	(863,743,127)	(184,152,871)	(75,121,958)	(1,123,017,956)
	(193,263,372)	(93,578,977)	262,776,747	(24,065,602)
Balance at December 31, 2019	**P2,466,775,628**	**P 323,144,177**	**P 821,958,615**	**P3,611,878,420**

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2018	P 2,882,363,527	P 4,589,320	P 671,815,733	P 3,558,768,580
Transfers:				
Stage 1 to Stage 2	(342,240,222)	342,240,222	-	-
Stage 1 to Stage 3	(129,393,104)	-	129,393,104	-
Stage 2 to Stage 1	-	-	-	-
Stage 2 to Stage 3	-	(960,075)	960,075	-
Stage 3 to Stage 1	3,782,567	-	(3,782,567)	-
Stage 3 to Stage 2	-	9,493,102	(9,493,102)	-
New assets originated	1,573,010,733	174,638,138	117,174,033	1,864,822,904
Net remeasurement	(417,456,725)	(113,003,328)	(33,169,785)	(563,629,838)
Assets derecognized or repaid	(910,027,776)	(274,225)	(313,715,623)	(1,224,017,624)
	(222,324,527)	412,133,834	(112,633,865)	77,175,442
Balance at December 31, 2018	P2,660,039,000	P416,723,154	P 559,181,868	P3,635,944,022

(ii) HTC financial assets

No ECL was recognized for HTC financial assets as the amount of ECL is not significant (see Note 2.3).

(k) Collateral

Quality of collateral is one of the considerations in granting of loan as this is an alternative way of collecting from the borrower in case of default. Collateral is valued according to existing credit policies, with the appraisal report as basis of the computed loan value.

As part of the Bank's risk control, a central unit is charged to handle collateral documentation wherein standard documents are used. Any deviation from these pro-forma documents are subject to Executive Credit Committee's approval prior to use and acceptance.

4.3 Liquidity Risk

Liquidity risk is the risk that funds available may not be adequate to meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The analysis of the maturity groupings of the Bank's financial assets and financial liabilities as of December 31, 2019 and 2018 are presented below.

	2019			
	On Demand	**Within One Year**	**Beyond One Year**	**Total**
Financial assets:				
Cash and other cash items	P 90,019,593	P -	P -	P 90,019,593
Due from BSP	727,399,087	-	-	727,399,087
Due from other banks	76,112,892	3,449,118	-	79,562,010
SPURA	-	252,391,252	-	252,391,252
HTC investments	-	-	154,840,431	154,840,431
Loans and other receivables - net	329,984,309	789,202,888	2,145,962,899	3,265,150,096
Other resources	-	-	29,733,224	29,733,224
	1,223,515,881	1,045,043,258	2,330,536,554	4,599,095,693
Financial liabilities:				
Deposit liabilities:				
Demand	124,728,893	-	-	124,728,893
Savings	3,922,532,473	-	-	3,922,532,473
Time	-	986,891,421	-	986,891,421
Manager's check	-	13,723,310	-	13,723,310
Lease liabilities	-	10,434,104	58,051,962	68,486,066
Bills payable	-	-	171,092,035	171,092,035
Accrued interest and other expenses	-	42,563,665	-	42,563,665
Deposit on stock subscription	-	-	168,350,200	168,350,200
Other liabilities	-	118,153,894	-	118,153,894
	4,047,261,366	1,171,766,394	397,494,197	5,616,521,957
On-book gap	(2,823,745,485)	(126,723,136)	1,933,042,357	(1,017,426,264)
Cumulative gap	**(P2,823,745,485)**	**(P2,950,468,621)**	**(P1,017,426,264)**	**P -**

	2018			
	On Demand	Within One Year	Beyond One Year	Total
Financial assets:				
Cash and other cash items	P 119,741,187	P -	P -	P 119,741,187
Due from BSP	440,195,486	-	-	440,195,486
Due from other banks	90,302,834	3,516,220	-	93,819,054
SPURA		328,000,000	-	328,000,000
HTC financial assets	-	-	154,825,185	154,825,185
Loans and other receivables - net	131,865,915	1,103,459,544	2,091,921,373	3,327,246,832
Other resources	-	21,487	30,051,347	30,072,834
	782,105,422	1,434,997,251	2,276,797,905	4,493,900,577
Financial liabilities:				
Deposit liabilities:				
Demand	117,649,823	-	-	117,649,823
Savings	3,720,122,753	-	-	3,720,122,753
Time	-	791,818,358	-	791,818,358
Manager's check	-	86,715,324	-	86,715,324
Accrued interest and other expenses	-	70,026,392	-	70,026,392
Other liabilities	-	120,314,197	-	120,314,197
	3,837,772,576	1,068,874,271	-	4,906,646,847
On-book gap	(3,055,667,155)	366,122,90	2,276,797,905	(412,746,270)
Cumulative gap	(P3,055,667,155)	(P 2,689,544,175)	(P 412,746,270)	P -

4.4 Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, equity prices and other market changes.

The Bank reviews its financial assets and liabilities portfolio regularly to monitor the effect of changes in market factors mentioned above.

4.5 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, and floating rate loans. The volatility in the interest rates of these financial instruments will result to an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. The due from BSP and SPURA were not included in the cash flow interest rate sensitivity since the potential effects on net profit or loss before tax and equity will be immaterial. All other financial assets and financial liabilities have fixed rates.

The table below illustrates the sensitivity of the Bank's loss before tax and equity to a reasonably possible change in interest rates of the assets mentioned above. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Bank's financial instruments held at the end of each reporting period. All other variables are held constant.

	Sensitivity Rate +/- %	Loss Before Tax	Equity
December 31, 2019			
Loans and other receivables	**1.04%**	(P 33,533,151)	P 23,473,206
Due from BSP and other banks	**1.04%**	(8,392,395)	5,874,677
		(P 41,902,122)	**P 29,331,486**
December 31, 2018			
Loans and other receivables	1.60%	(P 53,494,702)	P 37,446,291
Due from BSP and other banks	1.60%	(8,551,927)	5,986,349
		(P 62,046,629)	P 43,432,640

The Bank's loan portfolio includes floating rate loans, which are repriced periodically by reference to the transfer pool rate which reflects the Bank's internal cost of funds. The changes in interest rates used in the analysis have been determined based on the average volatility in interest rates of the said resources, using standard deviation, in the previous 12 months.

4.6 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The RMC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures. The RMC applies a number of techniques to efficiently manage operational risks. Among these are enumerated below.

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the RMC to keep them up-to-date with different operational risk issues, challenges and initiatives.

- With RMC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).

- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.

- Internal loss information is collected, reported and utilized to model operational risk.

- The RMC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) Reputational Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

(b) Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Officer is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.7 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168. In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Credit and Collection Department Group Head approval is necessary.

The Bank's procedures for compliance with the AMLA are set out in its MLPP. The Bank's Compliance Officer, through the Compliance Department, monitors AMLA compliance and conducts regular compliance testing of business units.

The Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

4.8 Maturity Profile of Resources and Liabilities

The following table presents the resources and liabilities analyzed according to whether these are expected to be recovered or settled in less than 12 months and over 12 months from statement of financial position date:

	2019			2018		
	Within 12 Months	**Over 12 Months**	**Total**	Within 12 Months	Over 12 Months	Total
Financial Assets – net:						
Cash and other cash items	**P 90,019,593**	**P -**	**P 90,019,593**	P 119,741,187	P -	P 119,741,187
Due from BSP	**727,399,087**	**-**	**727,399,087**	440,195,486	-	440,195,486
Due from other banks	**79,562,010**	**-**	**79,562,010**	93,819,054	-	93,819,054
SPURA	**252,391,252**	**-**	**252,391,252**	328,000,000	-	328,000,000
HTC financial assets	**100,000,000**	**54,840,431**	**154,840,431**	-	154,825,185	154,825,185
Loans and other receivables	**1,119,187,197**	**2,145,962,899**	**3,265,150,096**	1,235,325,460	2,091,921,373	3,327,246,833
Other resources	**-**	**29,733,224**	**29,733,224**	21,162	30,072,834	30,072,834
	2,368,559,139	**2,230,536,554**	**4,599,095,693**	2,217,102,349	2,276,819,392	4,493,900,579
Non-financial Assets – net:						
Bank premises, furniture, fixtures, and equipment	**-**	**185,984,725**	**185,984,725**	-	209,545,144	209,545,144
Right-of-use asset	**-**	**58,713,668**	**58,713,668**	-	-	-
Investment properties	**-**	**1,086,438,205**	**1,086,438,205**	-	552,531,033	552,531,033
Investment in associate	**-**	**18,887,589**	**18,887,589**	-	21,984,965	21,984,965
Intangible assets	**-**	**38,483,560**	**38,483,560**	-	39,972,972	39,972,972
Deferred tax assets	**-**	**24,045,622**	**24,045,622**	-	27,872,994	27,872,994
Other resources	**38,577,446**	**179,087,854**	**217,665,300**	40,052,215	155,085,373	195,137,590
	38,577,446	**1,591,641,223**	**1,630,218,669**	40,052,215	1,006,992,481	1,047,044,696
	P 2,307,136,585	**P 3,922,177,777**	**P 6,229,314,362**	P 2,257,154,564	P 3,283,811,873	P 5,540,944,950
Financial Liabilities:						
Deposit liabilities	**P 5,034,152,787**	**P -**	**P 5,034,152,787**	P 4,629,590,934	P -	P 4,629,590,934
Manager's check	**13,723,310**	**-**	**13,723,310**	86,715,324	-	86,715,324
Lease liability	**10,434,104**	**58,051,962**	**68,486,066**	-	-	-
Bills payable	**-**	**171,092,035**	**171,092,035**	-	-	-
Accrued interest and other expenses	**42,563,665**	**-**	**42,563,665**	70,026,392	-	70,026,392
Deposit on future stock subscription	**-**	**168,350,200**	**168,350,200**	-	-	-
Other liabilities	**41,195,591**	**76,958,303**	**118,153,894**	20,079,190	100,235,007	120,314,197
	5,142,069,457	**474,452,500**	**5,616,521,957**	4,806,411,840	100,235,007	4,906,646,847
Non-financial Liabilities:						
Income tax payable	**3,474,356**	**-**	**3,474,356**	4,464,317	-	4,464,317
Retirement liability	**909,989**	**22,192,674**	**23,102,663**	4,886,274	13,217,057	18,103,331
Other liabilities	**2,861,304**	**-**	**2,861,304**	3,061,866	-	3,061,866
	7,128,018	**22,192,674**	**29,320,692**	12,412,457	13,217,057	25,629,514
	P 5,149,197,475	**P 496,645,174**	**P 5,645,960,280**	P 4,821,886,163	P 113,452,064	P 4,932,276,361

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Value by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	Notes	2019 Carrying Values	2019 Fair Values	2018 Carrying Values	2018 Fair Values
Financial assets:					
Loans and receivables:					
Cash and other cash items	7	**P 90,019,593**	**P 90,019,593**	P 119,741,187	P 119,741,187
Due from BSP	7	**727,399,087**	**727,399,087**	440,195,486	440,195,486
Due from other banks	7	**79,562,010**	**79,562,010**	93,819,054	93,819,054
SPURA	7	**252,391,252**	**252,391,252**	328,000,000	328,000,000
Loans and other receivables	9	**3,265,150,096**	**3,328,700,158**	3,327,246,833	3,544,460,571
Other resources	15	**29,733,224**	**29,733,224**	30,072,834	30,072,834
		4,444,255,262	**4,507,805,324**	4,339,075,394	4,556,289,132
HTC financial assets	8	**154,840,431**	**156,380,779**	154,825,185	148,758,281
		P 4,599,095,693	**P 4,664,186,103**	P 4,493,900,579	P 4,705,047,413
Financial liabilities:					
Deposit liabilities	17				
Demand		**P 124,728,893**	**P 124,728,893**	P 117,649,823	P 117,649,823
Savings		**3,922,532,473**	**3,922,532,473**	3,720,122,753	3,720,122,753
Time		**986,891,421**	**986,891,421**	791,818,358	791,818,358
Manager's checks	18	**13,723,310**	**13,723,310**	86,715,324	86,715,324
Lease liabilities	11	**68,486,066**	**68,486,066**	-	-
Bills payable		**171,092,035**	**171,092,035**	-	-
Accrued interest and other expenses	19	**42,563,665**	**42,563,665**	70,026,392	70,026,392
Deposit on future stock subscription	21	**168,350,200**	**168,350,200**	-	-
Other liabilities	20	**118,153,894**	**118,153,894**	120,314,197	120,314,197
		P 5,616,521,957	**P 5,616,521,597**	P 4,906,646,847	P 4,906,646,847

See Notes 2.3 and 2.10 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Assets and Financial Liabilities

The following receivables from customers of the Bank are presented as part of the statements of financial position at gross are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
December 31, 2019	**P3,265,150,096**	**P 61,725,851**	**P -**	**P 3,203,424,425**
December 31, 2018	P3,327,246,833	P 69,854,243	P -	P 3,257,392,590

The following deposit liabilities of the Bank are presented as part of statements of financial position at gross are subject to offsetting, enforceable master netting arrangements and similar agreements.

	Financial Liabilities	Financial Assets Available for Set-off	Collateral Received	Net Amount
December 31, 2019	**P5,034,152,787**	**P 61,725,851**	**P -**	**P 4,972,426,936**
December 31, 2018	P4,629,590,934	P 69,854,243	P -	P 4,559,736,691

Financial liabilities available for set-off pertains to hold-out deposits on certain loans as of December 31, 2019 and 2018.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.2 Financial Instruments Measured at Fair Value

The Bank has no financial assets and financial liabilities measured at fair value as of December 31, 2019 and 2018.

6.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The tables below summarize the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at amortized cost:				
Cash and other cash items	P 90,019,593	P -	P -	P 90,019,593
Due from BSP	727,399,087	-	-	727,399,087
Due from other banks	79,562,010	-	-	79,562,010
SPURA	252,391,252	-	-	252,391,252
HTC financial assets	156,380,779	-	-	156,380,779
Loans and other receivables	-	-	3,328,700,158	3,328,700,158
Other resources	-		29,733,224	29,733,224
	P1,305,752,721	**P -**	**P3,358,433,382**	**P4,664,186,103**
Financial liabilities:				
Deposit liabilities:				
Demand	P -	P -	P 124,728,893	P 124,728,893
Savings	-	-	3,922,532,473	3,922,532,473
Time	-	-	986,891,421	986,891,421
Manager's check	-	-	13,723,310	13,723,310
Lease liabilities	-	-	68,486,066	68,486,066
Bills payable	-	-	171,092,035	171,092,035
Accrued interests and other expenses	-	-	42,563,665	42,563,665
Deposit on future stock subscription	-	-	168,350,200	168,350,200
Other liabilities	-	-	118,153,894	118,153,894
	P -	**P -**	**P5,616,521,597**	**P5,616,521,597**

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost:				
Cash and other cash items	P 119,741,187	P -	P -	P 119,741,187
Due from BSP	440,195,486	-	-	440,195,486
Due from other banks	93,819,054	-	-	93,819,054
SPURA	328,000,000	-	-	328,000,000
HTC financial assets	148,758,281	-	-	148,758,281
Loans and other receivables	-	-	3,544,460,571	3,544,460,571
Other resources	-	-	30,072,834	30,072,834
	P1,130,514,008	P -	P3,574,533,405	P4,705,047,413
Financial liabilities:				
Deposit liabilities:				
Demand	P -	P -	P 117,649,823	P 117,649,823
Savings	-	-	3,720,122,753	3,720,122,753
Time	-	-	791,818,358	791,818,358
Manager's check	-	-	86,715,324	86,715,324
Accrued interests and other expenses	-	-	70,026,392	70,026,392
Other liabilities	-	-	120,314,197	120,314,197
	P -	P -	P4,909,646,847	P4,909,646,847

The Bank does not have financial assets and financial liabilities categorized under Level 2 of the fair value hierarchy.

For financial assets and financial liabilities whose fair values are included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of the Bank's financial assets and financial liabilities included in Level 3, which are not traded in an active market, is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument. When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

There were no transfers between fair value categories for assets and liabilities measured at fair value in 2019 and 2018.

6.4 Fair Value Measurement for Non-financial Assets

The fair value of the Bank's investment properties and asset-held-for-sale presented as part of Other Resources are categorized as Level 3 wherein inputs are not based on observable market data. As of December 31, 2019 and 2018, the fair values of the non-financial assets are presented as follows:

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment properties:				
Land	P -	P -	P 1,250,391,505	P 1,250,391,505
Building and improvements	-	-	581,494,474	581,494,474
Asset held-for-sale		-	29,945,600	29,945,600
	P -	**P -**	**P 1,861,831,579**	**P 1,861,831,579**

	2018			
	Level 1	Level 2	Level 3	Total
Investment properties:				
Land	P -	P -	P 915,353,667	P 915,353,667
Building and improvements	-	-	305,520,780	305,520,780
Asset held-for-sale	-	-	57,446,129	57,446,129
	P -	P -	P 1,278,320,576	P 1,278,320,576

The fair value of the Bank's investment properties is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and building and improvements, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The Level 3 fair values of the land and building and improvements under Investment Properties account were determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial asset. Also, there were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in 2019 and 2018.

The reconciliation of the fair value of investment property included in Level 3 as of December 31, 2019 and 2018 is presented below.

	2019	2018
Balance at beginning of year	**P 1,278,320,576**	P 850,096,085
Additions	**566,033,169**	265,369,680
Disposal	**(11,122,593)**	(97,680,581)
Net fair value gain during the year	**28,600,427**	260,535,392
Balance at end of year	**P 1,861,831,579**	P 1,278,320,576

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2019	2018
Cash and other cash items	**P 90,019,593**	P 119,741,187
Due from BSP	**727,399,087**	440,195,486
Due from other banks	**79,562,010**	93,819,054
SPURA	**252,391,252**	328,000,000
	P 1,149,371,942	P 981,755,727

Cash account consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including ATMs. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP consists of:

		2019		2018
Demand deposit	**P**	**213,399,087**	P	340,195,486
Special deposit		**514,000,000**		100,000,000
	P	**727,399,087**	P	440,195,486

Demand deposit represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements, to serve as clearing account for interbank claims and to comply with existing trust regulations. Special deposit pertains to overnight and time deposit accounts. The BSP demand deposit account is interest-free while the special deposit account earned average annual interest of 4.13% and 5.21% in 2019 and 2018, respectively.

The balance of Due from Other Banks consists of the following:

		2019		2018
Demand	**P**	**67,685,835**	P	81,076,319
Savings		**8,427,057**		9,226,515
Time		**3,449,118**		3,516,220
	P	**79,562,010**	P	93,819,054

Due from other banks earn average annual interest ranging from 0.25% to 1.50% in 2019 and 2018.

SPURA pertains to the Bank's placements with a local universal bank with a term of one to five days and earns annual interest rate of 4.00% and 4.75% in 2019 and 2018, respectively. SPURA is qualified as part of cash and cash equivalents due to its relatively short-term maturity (original maturities of three months or less from dates of placement) and has insignificant risk of changes in value.

Total interest income earned on Due from BSP, Due from Other Banks and SPURA amounted to P25.53 million and P27.35 million in 2019 and 2018, respectively, and is presented under Interest Income section in the statements of profit or loss.

8. HELD-TO-COLLECT FINANCIAL ASSETS

The reconciliation of the carrying amounts of the financial assets held at amortized cost is as follows:

	2019	2018
Balance at beginning of year	**P 154,825,185**	P 165,104,763
Amortization of premium	**15,246**	720,422
Maturities	**-**	(11,000,000)
Balance at end of year	**P 154,840,431**	P 154,825,185

This account is composed of government debt securities with maturities ranging from one to 12 years and from one to 13 years in 2019 and 2018, respectively.

These quoted debt securities have effective annual interest rates ranging from 3.43% to 4.50% both 2019 and 2018. Total interest income earned from financial assets held at amortized cost including amortization of premiums and discounts, amounted to P5.36 million and P5.21 million in 2019 and 2018, respectively and is presented under Interest Income in the statements of profit and loss.

The maturity profile of the investments is as follows:

	2019	2018
Within one year	**P 100,000,000**	P -
Due beyond one year	**54,840,431**	154,825,185
	P 154,840,431	P 154,825,185

9. LOANS AND OTHER RECEIVABLES

Loans and other receivables account consists of the following:

	2019	2018
Receivables from customers:		
Consumption	**P 1,428,399,749**	P 1,503,588,212
Commercial	**1,392,119,362**	1,285,621,175
Real estate	**205,393,481**	216,860,783
Agricultural	**193,687,867**	199,777,492
Industrial	**169,716,731**	202,406,236
Others	**3,898,012**	3,535,516
	3,393,215,202	3,411,789,414
Unearned interest and discounts	**(4,057,922)**	(5,806,279)
	3,389,157,280	3,405,983,135
Domestic bills purchased	**32,106,814**	-
Balance brought forward	**P 3,421,264,094**	P 3,405,983,135

	Note	2019	2018
Balance forwarded		**P 3,421,264,094**	P 3,405,983,135
Other receivables:			
Sales contract receivables		**91,552,838**	124,370,300
Accounts receivables		**77,693,987**	80,604,245
Accrued interest receivables		**20,558,716**	23,063,124
Unquoted debt securities		**808,785**	1,923,218
		190,614,326	229,960,887
		3,611,878,420	3,635,944,022
Allowance for impairment	16	**(346,728,324)**	(308,697,189)
		P 3,265,150,096	P 3,327,246,833

Sales contract receivables represent the present value of the installment receivables arising from the sale of investment properties on an installment basis.

Unquoted debt securities pertain to agrarian reform bonds of the Land Bank of the Philippines which bear interest based on the average 91-day treasury bill rates and are redeemable in 10 annual equal installments.

Accrued interest receivables arise from receivables from customers, unquoted debt securities, HTC financial assets, sales contract receivables, and due from BSP and other banks.

Accounts receivables consist of other fees not yet paid by the borrowers, insurance paid by the Bank on behalf of the borrowers, employee advances and other miscellaneous receivables.

Interest income on loans and other receivables amounted to P351.09 million and P329.38 million in 2019 and 2018, respectively, and is presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

Non-performing loans of the Bank amounted to P746.84 million and P511.82 million as of December 31, 2019 and 2018, respectively, while restructured loans amounted to P51.42 million and P34.33 million as of December 31, 2019 and 2018, respectively. Interest income on restructured loans amounting to P5.16 million and P6.32 million in 2019 and 2018, respectively, is presented as part of Interest Income on Loans and Other Receivables in the statements of profit or loss.

In 2019 and 2018, the Bank written-off certain loan amounting to P37.69 million and P61.39 million, respectively (see Note 16).

The maturity profile of the loans and other receivables portfolio (gross of unearned interest and discounts, and allowance for impairment) is as follows (amounts in thousands):

	2019	2018
Due within one year	**P 1,144,243**	P 1,272,524
Due beyond one year	**2,471,693**	2,369,226
	P 3,615,936	P 3,641,750

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of bank premises, furniture, fixtures and equipment at the beginning and end of 2019and 2018 are shown below.

	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
December 31, 2019					
Cost	P 46,561,500	P 111,636,942	P 55,444,740	P 41,027,557	P 254,670,739
Accumulated depreciation and amortization	-	(7,166,453)	(37,430,105)	(24,089,456)	(68,686,014)
Net carrying amount	**P 46,561,500**	**P 104,470,489**	**P 18,014,635**	**P 16,938,101**	**P 185,984,725**
December 31, 2018					
Cost	P 50,545,500	P 114,767,427	P 73,682,786	P 39,829,699	P 278,825,412
Accumulated depreciation and amortization	-	(6,881,072)	(42,135,469)	(20,263,727)	(69,280,268)
Net carrying amount	P 50,545,500	P 107,886,355	P 31,547,317	P 19,565,972	P 209,545,144
January 1, 2018					
Cost	P 50,545,500	P 106,006,427	P 71,291,259	P 36,638,428	P 264,481,614
Accumulated depreciation and amortization	-	(3,862,244)	(39,291,922)	(16,130,820)	(59,284,986)
Net carrying amount	P 50,545,500	P 102,144,183	P 31,999,337	P 20,507,608	P 205,196,628

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 of bank premises, furniture, fixtures and equipment is shown below.

	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Balance at January 1, 2019, net of accumulated depreciation and amortization					
As previously stated	P 50,545,500	P 107,886,355	P 31,547,317	P 19,565,972	P 209,545,144
Effect of PFRS 16 adoption	-	-	(9,061,752)	-	(9,061,752)
As restated	50,545,500	107,886,355	22,485,565	19,565,972	200,483,392
Additions	-	-	5,081,217	2,869,039	7,950,256
Disposals	(3,984,000)	(673,866)	(1,567,529)	(1,400,931)	(7,626,326)
Depreciation and amortization charges for the year	-	(2,742,000)	(7,984,618)	(4,095,979)	(14,822,597)
Balance at December 31, 2019, net of accumulated depreciation and amortization	**P 46,561,500**	**P 104,470,489**	**P 18,014,635**	**P 16,938,101**	**P 185,984,725**
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 50,545,500	P 102,144,183	P 31,999,337	P 20,507,608	P 205,196,628
Additions	-	8,739,000	9,937,212	3,730,185	22,406,397
Reclassifications	-	-	1,594,870	(70,000)	1,524,870
Disposals	-	-	(587,329)	(468,915)	(1,056,244)
Depreciation and amortization charges for the year	-	(2,996,828)	(11,396,773)	(4,132,906)	(18,526,507)
Balance at December 31, 2018, net of accumulated depreciation and amortization	P 50,545,500	P 107,886,355	P 31,547,317	P 19,565,972	P 209,545,144

As at December 31, 2019 and 2018, the cost of fully depreciated bank premises, furniture, fixtures and equipment still in use amounted to P42.24 million and P24.75 million, respectively.

Gain on sale of bank premises, furniture, and fixtures and equipment amounted to P12.90 million in 2019 and P5.17 million in 2018, and is presented as part of Gain on sale of non-financial assets – net under Other Income in the statements of profit and loss (see Note 22.1).

Under BSP rules, investment in bank premises, furniture and fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As of December 31, 2019 and 2018, the Bank has satisfactorily complied with this BSP requirement.

11. LEASES

The Bank has leases for its branches and equipment. Each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and right-of-use asset.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security.

For leases over the branches, the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must ensure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Bank has 30 right-of-use assets leased with remaining lease term ranging from one to 17 years; thus, having an average remaining lease term of six years. These leased assets do not have any enforceable extension options, options to purchase and termination options.

11.1 Right-of-use Assets

The carrying amounts of the Bank's right-of-use assets for its branches as at December 31, 2019 are presented in the statement of financial position and the movements during the period are shown below.

	Offices	Furniture, Fixtures, and Equipment	Total
Balance at the beginning of the year	P 61,077,165	P 9,061,752	P 70,138,917
Additions	4,476,588	-	4,476,588
Depreciation and amortization	(13,103,660)	(2,798,177)	(15,901,837)
Balance at end of year	**P 52,450,093**	**P 6,263,575**	**P 58,713,668**

11.2 Lease Liabilities

Lease liabilities are presented in the statement of financial position as at December 31, 2019 as follows:

Current	P 10,434,104
Non-current	58,051,962
	P 68,486,066

The movements in the lease liability recognized in the 2019 statement of financial position are as follows:

Balance as at January 1, 2019	P 79,763,348
Additions	4,583,815
Repayments of lease liability	(15,861,097)
Balance as of December 31, 2019	**P 68,486,066**

The total interest expense incurred on the lease liability amounted to P8.55 million and P0.15 million in 2019 and 2018, respectively, and is presented as Long-term leases under Interest Expense in the statements of profit or loss.

As at December 31, 2019, the Bank has no lease commitments which had not commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows :

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 17 years	Total
Lease payments	P 17,822,493	P 16,224,697	P 15,982,628	P 10,504,712	P 9,912,344	P 33,013,519	P 103,460,393
Finance charges	(7,388,389)	(6,128,831)	(5,065,716)	(4,245,410)	(3,451,808)	(8,694,173)	(34,974,327)
Net present values	**P 10,434,104**	**P 10,095,866**	**P 10,916,912**	**P 6,259,302**	**P 6,460,536**	**P 24,319,346**	**P 68,486,066**

11.3 Lease Payments Not Recognized as Liabilities

The Bank has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. The expenses relating to short-term leases amounted to P0.69 million, and is presented as part of Occupancy and other equipment-related costs under Operating Expenses in the 2019 statement of profit or loss.

At December 31, 2019, the Bank is committed to short-term leases, and the total commitment at that date is P71,400.

12. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2019 and 2018 are shown below .

	2019			2018		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	P 443,561,835	P 172,992,446	P 616,554,281	P 316,790,399	P 137,244,658	P 454,035,057
Additions	396,830,543	169,202,626	566,033,169	162,544,578	102,825,102	265,369,680
Disposals	(8,182,928)	(2,939,665)	(11,122,593)	(30,603,267)	(67,077,314)	(97,680,581)
Amortization of appraisal increment	(7,104,305)	(1,355,490)	(8,459,795)	(5,169,875)	-	(5,169,875)
Balance at end of year	825,105,145	337,899,918	1,163,005,062	443,561,835	172,992,446	616,554,281
Accumulated depreciation						
Balance at beginning of year	-	27,457,446	27,457,446	-	30,417,229	30,417,229
Depreciation	-	14,712,125	14,712,125	-	11,404,366	11,404,366
Disposals	-	(1,755,009)	(1,755,009)	-	(14,364,149)	(14,364,149)
Balance at end of year	-	40,414,562	40,414,562	-	27,457,446	27,457,446
Allowance for impairment and losses (see Note 16)						
Balance at beginning of year	-	36,565,802	36,565,802	-	9,726,000	9,726,000
Transfer of allowance due to foreclosure	-					
Provision for (recovery of) impairment	-	(413,507)	(413,507)	-	26,839,802	26,839,802
Balance at end of year	-	36,152,295	36,152,295	-	36,565,802	36,565,802
Book value at end of year	P 825,105,145	P 261,333,061	P1,086,438,205	P 443,561,85	P 108,969,198	P 552,531,033

Direct operating expenses, other than depreciation expense, on investment properties amounted to P15.29 million and P18.09 million in 2019 and 2018, respectively, and is presented as Legal and foreclosure expenses under Operating Expenses sections in the statements of profit and loss.

In 2019, the Bank acquired certain land and building from its associate amounting to P381.71 million and is recorded as part of additions to investment properties (see Note 23.4).

Gain on sale of investment properties amounted to P21.85 million and P81.23 million in 2019 and 2018, respectively, and is presented as part of Gain on sale of non-financial assets – net under Other Income in the statements of profit and loss (see Note 22.1).

The aggregate market value of Investment Properties as at December 31, 2019 and 2018 amounted to P1,450.17 million and P1,220.87million, respectively (see Note 6.4). The investment properties are regularly appraised based on valuations made by independent and/or in-house appraisers.

Investment properties are depreciated on a straight-line basis over the estimated useful life ranging from three to ten years (see Note 2.5).

13. INTANGIBLE ASSETS

This account consists of:

	2019	2018
Branch licenses	**P 18,550,000**	P 18,550,000
PCHC membership	**10,033,734**	10,033,734
Software costs	**9,899,826**	11,389,238
	P 38,483,560	P 39,972,972

Branch licenses and PCHC membership are tested for impairment at least annually. The recoverable amounts of the CGUs for impairment testing of the branch and PCHC membership have been determined based on its value in use. As of December 31, 2019 and 2018, Branch licenses and PCHC membership are not impaired [see Note 3.2(g)].

Software costs are subject to amortization. The movements in software costs follow:

	2019	2018
Cost		
Balance at beginning of year	**P 14,819,685**	P 14,651,009
Additions	**-**	168,676
Balance at end of year	**14,819,685**	14,819,685
Accumulated amortization		
Balance at beginning of year	**3,430,447**	2,069,741
Amortization	**1,489,412**	1,360,706
Balance at end of year	**4,919,859**	3,430,447
Net carrying amount	**P 9,899,826**	P 11,389,238

Amortization of software costs amounting to P1.49 million and P1.36 million in 2019 and 2018, respectively, are shown as part of Depreciation and amortization under Operating Expenses section in the statements of profit and loss.

14. INVESTMENT IN AN ASSOCIATE

The reconciliation of the carrying amounts of the investment in an associate is as follows:

	2019	2018
Acquisition cost	**P 10,335,800**	P 10,335,800
Accumulated equity in net earnings:		
Balance at beginning of year	**11,649,165**	7,410,016
Share in net income (loss) for the year	**(3,097,376)**	4,239,149
Balance at end of year	**8,551,789**	11,649,165
	P 18,887,589	P 21,984,965

The Bank has a 40.02% interest in Makiling Realty Sales and Development Corporation (MARESCO), which is primarily engaged in real estate development and in connection therewith, to own, acquire, purchase, hold, subdivide, dispose, sell, lease and otherwise deal in real estate, including, but not limited to, construction and disposition of commercial, residential, dormitories, farm lots, hotels, tourist facilities and all kinds of building facilities and other improvements. MARESCO is not listed on any public exchange. The primary place of business of MARESCO is at Checkpoint Mall, Paciano Rizal, Calamba City, Laguna.

Details of MARESCO's summarized financial information follow:

	2019*	2018
Total assets	**P 476,173,514**	P 351,252,261
Total liabilities	**329,905,814**	304,758,487
Gross income	**114,002,476**	39,815,115
Operating income	**81,994,003**	7,368,047
Net income	**57,395,802**	5,182,720

**Based on unaudited financial information*

Based on management's assessment as at December 31, 2019 and 2018, no impairment loss is required to be recognized on the Bank's investment in an associate.

15. OTHER RESOURCES

This account consists of:

	Note	**2019**	2018
Dealer's incentive		**P 127,313,093**	P 117,497,031
Other properties acquired – net		**77,725,889**	37,473,275
Due from other banks – restricted		**29,560,099**	29,560,099
Assets held-for-sale		**28,744,265**	54,884,263
Prepayments		**10,681,636**	11,650,352
Office supplies		**2,605,679**	3,920,693
Security deposits		**173,125**	491,248
Miscellaneous		**25,290,131**	24,481,170
		302,093,917	279,958,131
Allowance for credit and impairment losses	16	**(54,695,393)**	(54,748,034)
		P 247,398,524	P 225,210,097

Dealer's incentive is being amortized by the Bank using the effective interest method over the term of the loan receivable and the related amortization is netted against interest income from loan receivable.

Assets held-for-sale and other properties acquired represent chattel mortgages foreclosed from loan borrowers. Sale of assets held-for-sale and other properties acquired amounted to a loss of P1.35 million and a gain of P7.92 million in 2019 and 2018, respectively, and is netted against Gain on sale of non-financial assets – net under Other Income account in the statements of profit and loss (see Note 22.1).

The total fair values of asset-held-for-sale as of December 31, 2019 and 2018 amounted to P29.95 million and P57.45 million, respectively, as determined by the Bank's independent and/or in-house appraisers. (see Note 6.4).

A reconciliation of the carrying amounts of assets held-for-sale at the beginning and end of 2019 is as follows:

	Note	**2019**	2018
Balance at beginning of year		**P 54,884,263**	P 39,072,719
Additions		**43,801,347**	67,703,320
Disposals		**(22,811,626)**	(17,616,783)
Transfers to other properties acquired – net		**(45,377,230)**	(27,295,297)
Transfers to bank premises, furniture, fixtures and equipment	10	**(1,752,489)**	(6,979,696)
Balance at end of year		**P 28,744,265**	P 54,884,263

The reconciliation of the carrying amounts of the other properties acquired is as follows:

	2019	2018
Cost		
Balance at beginning of year	**P 58,744,379**	P 48,111,686
Additions	**33,415,142**	9,658,510
Disposals	**(17,868,391)**	(26,321,114)
Transfers from assets held for sale	**45,377,230**	27,295,297
Balance at end of year	**119,668,360**	58,744,379
Accumulated amortization		
Balance at beginning of year	**21,271,104**	15,642,529
Depreciation	**28,222,576**	19,916,695
Disposals	**(7,551,209)**	(14,288,120)
Balance at end of year	**41,942,471**	21,271,104
Net carrying amount	**P 77,725,889**	P 37,473,275

Loss on foreclosure of asset held-for-sale and other properties acquired amounted to P6.50 million and P17.49 million in 2019 and 2018, respectively, and is presented as Loss on foreclosure under Operating Expenses section in the statements of profit and loss.

The Bank believes that the sale of assets classified as held-for-sale is highly probable within 12 months from the end of the reporting period.

Due from other banks – restricted include garnished deposits on a collection case with prayer for preliminary attachment and damages due to the Bank's nonpayment of nine certificates of deposits worth P28.60 million. The plaintiff contends that the non-payment was fraudulent, with bad faith and breach of trust. The Bank contends that the nine certificates are spurious and that no actual deposit for the certificate of time deposit was made on deposit dates.

Security deposits pertain to deposits paid by the Bank for the lease of office buildings used by the branches.

Miscellaneous account pertains to sundry debits, ATM shortages and remittances.

16. ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the amounts of allowance for impairment are summarized as follows:

	Notes	2019	2018
Balance at beginning of year:			
Loans and other receivables		**P 308,697,189**	P 344,427,388
Investment properties		**36,565,802**	9,726,000
Other resources		**54,748,034**	54,830,499
		400,011,025	408,983,887
Provisions for impairment losses			
Loans and other receivables	9	**76,074,979**	48,493,682
Investment properties		**-**	4,005,921
Other resources		**-**	981,900
		76,074,979	53,418,503
Transfer of allowance due to foreclosures:			
Loans and other receivables		**(352,588)**	(22,833,881)
Investment properties		**352,588**	22,833,881
		-	-
Reversals of impairment losses:			
Investment properties		**(766,095)**	-
Other resources		**(52,641)**	(1,064,365)
		(818,736)	(1,064,365)
Write-off –			
Loans and other receivables	9	**(37,691,256)**	(61,390,000)
Balances at end of year:			
Loans and other receivables	9	**346,728,324**	308,697,189
Investment properties	12	**36,152,295**	36,565,802
Other resources	15	**54,695,393**	54,748,034
		P 437,576,012	P 400,011,025

17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	2019	2018
Demand	**P 124,728,893**	P 117,649,823
Savings	**3,922,532,473**	3,720,122,753
Time	**986,891,421**	791,818,358
	P 5,034,152,787	P 4,629,590,934

Deposit liabilities generally earns annual fixed interest rates ranging from 0.04% to 6.60% and from 0.13% to 6.60% in 2019 and 2018, respectively.

Interest expense on deposit liabilities consist of:

	2019	2018
Demand	**P 61,556**	P 59,278
Savings	**78,956,413**	67,967,463
Time	**38,996,097**	31,385,984
	P 118,014,066	P 99,412,725

The Bank's deposit liabilities as of December 31, 2019 and 2018 have maturities of within one year.

BSP Circular No. 832 dated May 8, 2014 prescribes that non-FCDU deposit liabilities among thrift banks are subject to required reserves equivalent to 8.00%. The required reserves shall be kept in the form of deposits maintained in the demand deposit accounts (DDA) with the BSP and any government securities which are previously used as compliance until they mature. As of December 31, 2019 and 2018, the Bank is in compliance with such regulations.

As of December 31, 2019 and 2018, the Bank's liquidity and statutory reserves as reported to the BSP pertains to DDA presented as part of Due from BSP amounting to P213.40 million and P340.20 million, respectively (see Note 7).

18. MANAGER'S CHECK

This account represents checks issued by the Bank, payable to a payee as indicated by the person who purchases the manager's check. This was introduced upon the Bank's membership with BancNet and PCHC. Manager's checks are expected to be settled with one year from the end of the reporting period.

19. ACCRUED INTEREST AND OTHER EXPENSES

This account consists of:

		2019		2018
Accrued interest payable	P	8,590,020	P	5,442,535
Accrued dealer's incentives		7,343,460		31,961,136
Accrued expenses - employees		3,154,246		2,931,493
Accrued rent expenses		2,325,265		10,742,539
Accrued management and professional fees		2,071,622		2,594,469
Accrued other expenses		19,079,052		16,354,220
	P	42,563,665	P	70,026,392

Accrued other expenses include accruals for PDIC insurance of deposits and security services. Accrued interest and other expenses are all expected to be settled within one year from the end of the reporting period.

20. OTHER LIABILITIES

This account consists of:

	Note		2019		2018
Accounts payable		P	75,749,175	P	99,025,879
Bills purchased payable			32,106,814		-
Taxes payable			2,861,304		3,061,866
Dividends payable			1,209,128		1,209,128
Others	26		9,088,777		20,079,190
		P	121,015,198	P	123,376,063

Accounts payable includes liabilities to insurance companies for premiums collected from borrowers, salary and benefits payable to resigned employees and capital gains tax payable.

Dividends payable pertains to cash dividends previously declared by the Bank in 2014 to its preferred stockholders amounting to P1.21 million which remains to be unpaid as of December 31, 2019 and 2018.

Other liabilities include stale checks, finance lease payables and provision for certain claims against the Bank.

Taxes payable includes withholding taxes payable, gross receipts tax (GRT) payable and documentary stamp tax (DST) payable.

Other liabilities are all expected to be settled within one year from the end of the reporting period.

21. EQUITY

21.1 Capital Stock

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

	2019			2018		
	Shares		**Amount**	Shares		Amount
Preferred stock:						
Class A – P100 par value						
Authorized – 145,000 shares						
Issued and outstanding	**145,000**	**P**	**14,500,000**	145,000	P	14,500,000
Class B – P5,000 par value						
Authorized – 1,100 shares						
Issued and outstanding	**1,100**		**5,500,000**	1,100		5,500,000
Class C – P100 par value						
Authorized – 30,444 shares						
Issued – 30,444 shares, of which 895 shares are in treasury in 2019 and 2018	**30,444**		**3,044,400**	30,444		3,044,400
Class D – P100 par value						
Authorized – 4,000,000 shares						
Issued and outstanding	**4,000,000**		**400,000,000**	3,683,502		368,350,200
			423,044,400			391,394,600
Common stock – P100 par value						
Class A – P100 par value						
Authorized – 3,769,556 shares						
Issued and outstanding	**3,769,556**		**376,955,600**	3,769,556		376,955,600
		P	**800,000,000**		P	768,350,200

The Preferred Class A shares which are made available to the Development Bank of the Philippines are entitled to voting privileges and cumulative dividends of 10.00% per annum. As at December 31, 2019 and 2018, dividend in arrears on preferred class A shares amounted to P5.96 million and P4.51 million, respectively.

The Preferred Class B shares are available to the public, non-voting and entitled to noncumulative dividends of 14.00% per annum.

The Preferred Class C shares have no voting privilege and are entitled to noncumulative dividends of 15.00% per annum. These shares shall be convertible to common shares at the option of the Preferred C stockholders with each one share convertible to one common stock. The Bank shall have the option to redeem the Preferred Class C shares at par after three years from date of issuance. As of December 31, 2014, the option to redeem has expired.

The Preferred Class D shares shall be entitled to a noncumulative dividend of 10% per annum with voting privileges. The Bank has the option to redeem the shares after five years from date of issuance.

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 of preferred stock are shown below.

	Class A	Class B	Class C	Class D	Total
Balance at January 1, 2019	P 14,500,000	P 5,500,000	P 3,044,400	P 368,350,200	P 391,394,600
Additions	-	-	-	31,649,800	31,649,800
Balance at December 31,2019	**P 14,500,000**	**P 5,500,000**	**P 3,044,400**	**P 400,000,000**	**P 423,044,400**
Balance at January 1, 2018	P 14,500,000	P 5,500,000	P 3,044,400	P -	P 23,044,400
Additions	-	-	-	368,350,200	368,350,200
Balance at December 31,2018	P 14,500,000	P 5,500,000	P 3,044,400	P 368,350,200	P 391,394,600

In 2019, the BOD approved the issuance of 316,498 preferred D shares to be offered to stockholders based in their pre-emptive rights.

In 2018, deposit for future stock subscription amounting to P368.35 million was applied for the issuance of the newly authorized Preferred D shares.

As of December 31, 2019 and 2018, the Bank has 171 and 161 stockholders, respectively, owning 100 or more shares each of the Bank's capital stock.

21.2 Treasury Stock

In 2014, the Bank exercised its option to redeem Preferred C shares from certain stockholders. The Bank redeemed a total of 895 shares at par which amounted to P89,500 (see Note 21.1).

21.3 Surplus Reserves

As at December 31, 2019 and 2018, surplus reserves amounting to P5.30 million, pertain to the reserve established by the Bank for self-insurance on robbery and theft and for treasury stock.

21.4 Capital Management and Regulatory Capital

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is regularly accounted for and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing, and the advantages and security afforded through a sound capital position.

(a) Unimpaired Capital

Under current banking regulations, the qualifying capital accounts of the Bank should not be less than the amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank (for purposes of determining the capital-to-risk assets ratio) is total capital funds excluding:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;

- total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests;

- deferred tax asset or liability;

- goodwill;

- accumulated equity in earnings of investee where the Bank holds 50% or less but where the equity method of accounting has been applied; and,

- appraisal increment on bank premises, furniture, fixtures and equipment other than those allowed to be recognized in connection with a merger or acquisition.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board (MB) of the BSP.

The Bank's regulatory capital position at the end of each reporting period, as reported to the BSP, follows (amounts in millions):

	2019	2018
Tier 1	**P 610.29**	P 445.97
Tier 2	**49.61**	49.86
Total qualifying capital	**P 659.90**	P 495.83
Risk - weighted assets	**P 5,446.19**	P 4,855.31
Tier 1	**11.21%**	9.19%
Tier 2	**0.91%**	1.03%
Capital Adequacy Ratio (CAR)*	**12.12%**	10.22%

** Computed CAR includes the Deposit for Future Stock Subscription (DFFS) amounting to P168.35 million in 2019 which did not meet the conditions to be recognized as Equity. Accordingly, the CAR excluding DFFS is 9.03% which is below the minimum requirement of 10%.*

(b) Minimum Liquidity Ratio

On February 8, 2018, the BSP issued Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*, which provide guidance on and prescribes the prudential requirement for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e., both on and off-balance sheet liabilities). Eligible liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019.

The Bank's MLR as of December 31, 2019 are analyzed below.

Eligible stock of liquid assets	P 1,317,407,888
Total qualifying liabilities	4,802,226,867
MLR	**27.43%**

21.5 Compliance with the Minimum Capital Regulatory Requirement

On October 9, 2014, the MB of the BSP issued Circular No. 854 increasing the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks. As mandated by this new circular, the revised capitalization requirement applicable to the Bank is P400.00 million. As allowed by the transitory provisions of the circular, the Bank was given a one-year period from the date of effectivity of the circular to submit to the BSP a capital build-up program which would enable the Bank to meet the required minimum capital requirement; hence, should be complied with by the Bank starting year 2015.

In 2018, BSP and SEC approved the increase in authorized capital. The authorized capital stock has increased from P400 million to P800 million divided into the same number of shares and par value of Common, Preferred A, B, and C shares but with the addition of 4,000,000 Preferred D shares with par value of P100 each. Accordingly, the Bank has issued 3,683,502 newly authorized Preferred D shares.

In 2019, the BOD approved the issuance of 316,498 preferred D shares to be offered to stockholders based in their pre-emptive rights.

As of December 31, 2019 and 2018, the Bank complied with the required minimum capital requirement.

21.6 Deposit for Future Stock Subscription

In 2019, the Bank received P168.35 million from the Bank's existing stockholders which is presented under Deposit for Future Stock Subscription in the 2019 statement of financial position as the Bank is still in the process of applying for the increase in authorized capital stock.

In 2018, the Bank issued a total of 3,683,502 Preferred D shares amounting to P368.35 million through conversion of DFFS of P344.21 million to equity and through receipt of additional cash subscription amounting to P24.14 million.

22. OTHER INCOME AND EXPENSES

22.1 Other Income

This account is composed of the following:

	Notes	**2019**	2018
Gain on sale of non-financial assets - net	10, 12, 15	**P 33,401,886**	P 94,322,005
Rental income		**19,521,246**	9,235,354
Service charges		**8,170,676**	7,602,382
Fees and commission income		**7,140,126**	7,321,551
Referral fees		**4,021,791**	3,231,674
Others		**26,681,340**	18,788,883
		P 98,937,065	P 140,501,849

Others include income from sale of checkbook, appraisal and inspection fees, loan cancellation fee and remittance fees.

22.2 Miscellaneous expense

This account consists of the following:

	2019	2018
Appraisal increment write-off	**P 8,459,795**	P 5,169,975
Fuel and lubricants	**3,466,520**	4,942,114
Fines and penalties	**2,403,634**	2,401,340
Directors' fees	**1,435,000**	2,203,035
Clearing charges	**913,963**	689,662
Membership fees and dues	**506,750**	413,167
Training	**124,261**	227,544
Advertising and publicity	**78,696**	102,500
Periodicals and magazines	**45,553**	61,103
Donation	**29,730**	34,287
Others	**7,922,946**	21,494,083
	P 25,386,848	P 37,738,710

Others include utilities, transportation fees, photocopy, fees paid to external appraisers and credit investigators, meals during meetings, and provisions for certain claims against the Bank.

23. RELATED PARTY TRANSACTIONS

The summary of the Bank's significant transactions with its related parties as of and for the years ended December 31 are as follows:

		December 31, 2019		December 31, 2018	
Related Party Category	Note	**Amount of Transactions**	**Outstanding Balance**	Amount of Transactions	Outstanding Balance
Directors, officers, stockholders, and their related interests (DOSRI):					
Rental payments	23.1	**P 2,049,729**	**P -**	P -	P -
Lease liability	23.1	**-**	**173,803**	-	-
Rent expense	23.1	**-**	**-**	609,122	-
Rent income	23.1	**11,809,985**	**-**	7,055,000	-
Loans and other receivables	23.2	**29,243,901**	**7,960,339**	55,186,137	4,293,500
Interest income	23.2	**448,589**	**-**	1,718,757	-
Deposit liabilities	23.3	**103,095,911**	**115,777,187**	24,116,660	218,873,098
Acquisition of land and building	23.4	**381,712,570**	**10,992,516**	8,604,000	-
Key Management Personnel Compensation	22.5	**6,912,241**	**-**	5,084,874	-

Based on management's assessment as at December 31, 2019 and 2018, no impairment loss is required to be recognized on the Bank's receivable and loans from related parties. Details of the foregoing transactions are presented on the succeeding pages.

23.1 Lease Transactions

The Bank leases one of its branches from an affiliate with a lease term of five years. The related rent expense is presented as part of Occupancy and other equipment - related cost in the 2018 statement of profit and loss. Upon adoption of PFRS 16, the outstanding lease liability as of December 31, 2019 amounting to P0.17 million is presented under Lease liabilities in the 2019 statement of financial position. There is no outstanding rental liability as of December 31, 2018.

The rent income pertains to leased foreclosed motor vehicles to a related party covered by lease agreements. The lease agreements indicated that these are one-time contract of lease and are not subject to any renewals. The lease shall effect for a maximum term of six years

23.2 DOSRI Loans

The Bank has loan transactions with its DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks and are normally settled in cash.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. However, non-risk loans, which include those that are secured by assets, are excluded in both individual and aggregate ceiling computation. As of December 31, 2019 and 2018, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

Other information relating to the loans, other credit accommodations and guarantees granted to DOSRI and other related parties are presented in Note 29(f).

Secured DOSRI loans are collateralized by hold-out on deposits and are payable within three months to five years.

The Bank has an approved line of credit to a certain related party totaling P65.0 million as of both December 31, 2019 and 2018.

23.3 Deposit Liabilities

The Bank has deposit liabilities to related parties in 2019 and 2018 which are presented as part of Deposit Liabilities in the statements of financial position. The interest rates on these deposits range from 0.125% to 6.00% per annum in both 2019 and 2018. These transactions are made substantially on the same terms as transactions entered into with other third party individuals and businesses of comparable risks.

23.4 Acquisition of Certain Land and Building

In 2019, the Bank acquired certain land and building from its associate amounting to P381.71 million and is recorded as part of Investment Properties in the 2019 statement of financial position. The Bank fully acquired the related property by purchasing the share of the associate over the land and property through assumption of the loan obligation of the associate with Bank of the Philippine Islands amounting to P171.09 million and paid the remaining balance of P213.30 million during the latter part of the year. The outstanding obligation is presented as Bills Payable in the 2019 statement of financial position. The interest expense amounting to P2.29 million is presented as Bills payable under Interest Expense in the 2019 statement of profit or loss.

Similarly, in 2018, the Bank acquired certain land and building from its associate amounting to P8.60 million and recorded as part Bank Premises, Furniture, Fixtures and Equipment in the 2018 statement of financial position.

23.5 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	2019	2018
Short-term benefits	**P 1,293,683**	P 1,455,107
Post-employment benefits	**5,618,558**	3,629,767
	P 6,912,241	P 5,084,874

24. EMPLOYEE BENEFITS

24.1 Salaries and Employee Benefit Expense

Expenses recognized for salaries and other employee benefits are presented below.

	Note	**2019**	2018
Short-term employee benefits		**P 91,996,190**	P 106,027,551
Post-employment defined benefit	24.2	**3,665,116**	4,402,787
		P 95,661,306	P 110,430,338

24.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank has a funded noncontributory defined benefit retirement plan covering all its permanent officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The retirement plan provides a retirement benefit equal to one hundred percent (100.00%) of the employee's final salary per month for every year of credited service. Under the existing regulatory framework, Republic Act (RA) No. 7641, *Retirement Pay Law* requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. As of December 31, 2019, the Bank has met the minimum requirement of RA 7641.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made every two years to update the retirement benefit costs. The 2019 and 2018 amounts are based on latest actuarial valuation report for December 31, 2019 and 2018, respectively.

The amounts of post-employment defined benefit obligation recognized in the statement of financial position are determined as follows:

	2019	2018
Present value of the obligation	**P 56,514,538**	P 54,638,553
Fair value of plan assets	**(33,411,875)**	(36,535,222)
	P 23,102,663	P 18,103,331

The movements in the present value of the post-employment defined benefit obligation are as follows:

	2019	2018
Balance at beginning of year	**P 54,638,553**	P 72,825,051
Current service cost	**3,665,116**	4,402,787
Interest expense	**4,026,862**	3,779,620
Remeasurements – actuarial gains arising from:changes in financial assumptions	**-**	(4,648,542)
Benefits paid	**(5,815,993)**	(21,720,363)
Balance at end of year	**P 56,514,538**	P 54,638,553

The movements in the fair value of plan assets are presented below.

	2019	2018
Balance at beginning of year	**P 36,535,222**	P 58,504,582
Interest income	**2,692,646**	3,036,388
Return on plan assets (excluding amounts included in net interest)	**834,000**	(3,285,385)
Benefits paid	**(5,815,993)**	(21,720,363)
Balance at end of year	**P 33,411,875**	P 36,535,222

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

		2019		2018
Cash and cash equivalents	**P**	**7,291,821**	P	4,876,175
Long-term investments:				
Equity securities		**23,918,469**		23,841,156
Debt securities		**370,245**		6,165,768
Other assets		**1,831,340**		1,652,123
	P	**33,411,875**	P	36,535,222

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the post-employment defined benefit plan are as follows:

		2019		2018
Reported in profit or loss:				
Current service cost	**P**	**3,665,116**	P	4,402,787
Interest expense		**1,334,216**		743,232
	P	**4,999,332**	P	5,146,019
Reported in other comprehensive income (loss):				
Return on plan assets (excluding amounts included in net interest expense)	**P**	**834,000**	(P	3,285,385)
Actuarial gain due to changes in financial assumptions		**-**		4,648,542
	P	**834,000**	P	1,363,157

Current service cost is presented in the statements of profit or loss as part of Salaries and Employee Benefits under the Operating Expenses account.

The net interest expense is presented as Retirement benefit obligation under Interest Expense in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the post-employment defined benefit obligation, the following significant actuarial assumptions were used:

	2019	2018
Discount rates	**7.37%**	7.37%
Expected rate of salary increases	**2.00%**	2.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 60 is 24 years.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(b) *Risks Associated with the Retirement Plan*

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Bank are significantly invested in equity and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is still an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(c) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P23.1 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about ten years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	2019	2018
Within one year	**P 909,989**	P 4,886,274
More than one year to five years	**18,533,611**	8,239,381
More than five years	**485,516,144**	496,720,363
	P 504,959,744	P 509,846,018

The Bank expects to contribute P7.21 million to the defined benefit retirement plan in 2020.

25. TAXES

The components of tax expense (income) as reported in profit or loss and other comprehensive income or loss are as follow:

	2019	2018
Reported in statement of profit or loss		
Current tax expense:		
Minimum corporate income tax (MCIT) at 2%	**P 5,627,964**	P 6,304,848
Final tax at 20%	**5,859,149**	6,073,829
	11,487,112	12,378,677
Deferred tax expense (income) relating to origination and reversal of temporary differences	**3,827,372**	(138,293)
	P 15,314,485	P 12,240,384

A reconciliation of tax on pretax loss computed at the applicable statutory rates to tax expense reported in profit or loss is as follows:

	2019	2018
Tax on pretax loss at 30%	**(P 12,244,747)**	(P 3,670,332)
Adjustment for income subjected to lower tax rates	**(3,410,041)**	(3,734,662)
Tax effects of:		
Non-deductible expenses	**30,002,740**	3,957,203
Unrecognized DTA	**17,110,877**	17,012,665
Utilization of net carrying loss carry-over (NOLCO)	**(16,144,344)**	-
Non-taxable loss (income)	**-**	(1,324,490)
	P 15,314,485	P 12,240,384

The net deferred tax assets as of December 31 relates to the following:

	Statements of Financial Position		Statements of Profit or Loss		Statements of Other Comprehensive Income	
	2019	2018	**2019**	2018	**2019**	2018
Deferred tax assets:						
Allowance for credit and impairment impairment losses	**P 42,982,025**	P 54,395,178	**P 11,413,153**	P -	**P -**	P -
Retirement benefit obligation	**2,161,312**	2,161,312	**-**	-	**-**	-
Accumulated depreciation of investment properties and other properties acquired	**11,629,184**	11,629,184	**-**	887,935	**-**	-
Fair value adjustment in sales contract Receivable	**-**	-	**-**	485,833	**-**	-
Accrued rent expense	**-**	1,974,711	**1,974,711**	230,117	**-**	-
Lease liability	**20,545,820**	-	**(20,545,820)**	-	**-**	-
	77,318,341	70,160,385	**(7,157,956)**	1,603,885	**-**	-
Deferred tax liability –						
Gain on foreclosure of investment properties and other properties acquired	**(35,108,147)**	(42,287,391)	**(7,179,244)**	(1,742,178)	**-**	-
Right-of-use assets	**(18,164,572)**	-	**18,164,572**	-	**-**	-
	(53,272,719)	(42,287,391)	**10,985,328**	(1,742,178)	**-**	-
Net deferred tax assets	**P 24,045,622**	P 27,872,994				
Deferred tax expense (income)			**P 3,827,372**	(P 138,293)	**P -**	P -

The Bank did not recognize any deferred tax assets as of December 31, 2019 and 2018 on the following temporary differences since management believes that it may not be able to generate taxable income enough to utilize in full the benefit of certain temporary differences in the near future.

	2019	2018
Allowance for credit and impairment losses	**P 223,220,433**	P 223,344,485
NOLCO	**58,542,811**	127,349,076
Accumulated depreciation of investment properties and other properties acquired	**13,357,552**	7,137,522
MCIT	**10,038,271**	7,672,795
Net retirement liability	**9,750,756**	8,250,956
Loss on foreclosure	**5,990,372**	19,488,970
Accrued rent expense	**-**	4,160,171
	P 320,900,195	P 397,403,975

The Bank is subject to the MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher. MCIT was reported in 2019 and 2018 as the MCIT was higher than the RCIT in both years.

The details of the Bank's MCIT are as follows:

Year Incurred	Original Amount	Expired Balance	Remaining Balance	Valid Until
2019	P 5,627,964	P -	P 5,627,964	2022
2018	1,367,282	-	1,367,282	2021
2017	3,043,025	-	3,043,025	2020
2016	3,262,488	(3,262,488)	-	
	P 13,300,759	(P 3,262,488)	P 10,038,271	

Presented below are the details of the Bank's remaining NOLCO, which can be claimed as deductions from future taxable profit within three years from the year the tax loss was incurred.

Year Incurred	Original Amount	Utilized	Expired	Remaining Balance	Expiry Year
2017	P 58,542,811	P -	P -	P 58,542,811	2020
2016	68,806,265	(53,814,480)	(14,991,785)	-	
	P 127,349,076	(P 53,814,480)	(P 14,991,785)	P 58,542,811	

The Bank claimed itemized deductions in 2019 and 2018 in computing for its income tax due.

26. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

26.1 Operating Lease Commitments – Bank as Lessee

The Bank leases the premises occupied by most of its branches and extension offices. The lease contracts are for periods ranging from one to 20 years, renewable under certain terms and conditions. The total annual rental charged to operations amounted to P0.7 million and P23.05 million in 2019 and 2018 respectively, which are recognized as part of Occupancy and other equipment-related costs account under the Operating Expense section in the statements of profit or loss. Various lease contracts include escalation clauses, most of which bear an annual rent increase ranging from 5.00% to 10.00%.

As of December 31, 2018, future minimum rental payments required by the lease contracts are as follows:

Within one year	P 20,025,959
After one year but not more than five years	57,273,792
More than five years	42,835,680
	P 120,135,431

26.2 Others

Provision amounting to P4.3 million as of December 31, 2019 and 2018 presented as part of Others under Other Liabilities in the statements of financial position, relates to the pending claims for litigation cases against the Bank. There are no additional provision recognized in 2019 and 2018. The amount recognized as provision represents the best estimate of the management of the probable outcome of the said claims.

Except for the provision above and for those financial assets which are related to the pending claims for litigation cases which are already provided with allowance for impairment, there are other commitments and contingent liabilities that arise in the normal course of the Bank's operations which are not reflected in the financial statements.

These pertain to several other suits and claims filed by and against the Bank as at December 31, 2019 and 2018. These include litigations involving labor complaints of various resigned employees, tax assessments, claims of alleged deposits by various depositors and contested foreclosures. Management believes that any loss arising from these suits and claims will not have a material effect on the Bank's financial position or results of operations.

27. EVENTS AFTER THE END OF THE REPORTING PERIOD

In December 2019, COVID-19 was reported to have surfaced in China. The World Health Organization has declared the outbreak as a 'public health emergency of international concern. COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of enhanced quarantine and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business interruption such as disrupting supply chains and affecting production and sales across a range of industries.

The Bank in compliance with the BSP Memorandum No. 2020 – 017, *Implementing Rules and Regulations (IRR) of Section 4(aa) of Republic Act No. 11469, Otherwise Known as the "Bayanihan to Heal As One Act",* implemented a 30-day grace period to all loans with principal and/or interest falling due within the ECQ period, without incurring interest on interest, penalties, fees and other charges. The 30-day grace period shall apply to each loan of individuals and entities with multiple loans. The accrued interest for the 30-day grace period may be paid by the borrower on staggered basis over the remaining life of the loan. Nonetheless, this shall not preclude the borrower from paying the accrued interest in full on the new due date.

On April 30, 2020, President Rodrigo R. Duterte, through Executive Order No. 112, has approved Resolution No. 30 of the Inter-Agency Task Force (IATF) for the Management of Emerging Infectious Disease containing the omnibus guidelines for the implementation of ECQ and general community quarantine (GCQ) for the period May 1 to May 15, 2020 that will apply to all regions, provinces, cities, or areas placed under ECQ or GCQ to prevent the spread of COVID-19. Such extension was transformed into a Modified Enhanced Community Quarantine initially until May 31, 2020.

In order for the Bank to fully adapt to the new normal, management plans to provide digital banking to its clients that involve increase level of automation and requires less physical interaction. The Bank has already re-implemented the internet banking thru BancNet online on May 18, 2020. This is also in response to the BSP Memorandum No. M-2020-030 dated April 24, 2020 encouraging banks to augment existing capabilities and implement appropriate strategies to address the customers' growing requirement for digital channels on their financial transactions.

Moreover, the Bank has a pending request for approval and confirmation of eligibility to the Philippine Payments Management, Inc. (PPMI) and Instapay/PESONET Automated Clearing House (ACH) Participation to the BSP. This is the one of the Bank's initiatives to look for other alternative systems in the electronic transfer funds transaction to the participating banks and e-money issuers, and other financial service providers for convenience of its clients and improving its way of online services and automated clearing system that are safe, efficient, affordable, reliable and secured retail payment.

The Bank plans to launch a new deposit product called 'iSavers' in 2020 which aimed to uphold financial inclusion with no maintaining balance deposit scheme and to promote the Bank's online banking services.

Also, on May 8, 2020, the Bank initiated online loan filing to attract more borrowers in their most convenient time. It is used by the Bank as additional channel to get more prospects for its loan products.

Further, the Bank is also planning to implement mobile banking services by the end of 2020 using a certain mobile application. This will enable the Bank to assist its customers in viewing deposit and loan balances, fund transfer and check deposit, etc.

The Bank is committed to provide healthy and safe working environment for its employees, contractors, customers and visitors on the Bank's premises. The Bank aimed to be compliant with all applicable health and safety legal requirements, and that best practices on health and safety management standards are implemented and maintained across the corporate offices and branches.

In terms of risk management, the Bank plans to update its policies, creates additional control and mitigations, seeks and avails regulatory relief, flexes compliance resources and increases awareness on frauds. Enhanced risk models shall be adopted and prudent assessments shall be exercised.

The Bank is also reviewing the target market on which it may concentrate to generate more income. The Bank is also revisiting the process flow to immediately address the requirements of its clients and update the credit policy procedures and become more selective and structured on loans by guarding the risk it may arise. The Bank is helping the business to rise out of this pandemic by extending loans to continue their operations.

The immediate coordination with other department is also exercised with regard to the account regularization and other concerns to maintain accurate record and status. Proper documentation is also in place.

The Bank is maximizing the used of social media platforms for promoting its products. Communication and meetings are also done thru different platform like Viber, Zoom, etc.

During the ECQ, the Bank's total loan portfolio decreased by P64.45 million or 1.90% as of July 31, 2020 as compared to the Bank's loan portfolio as of December 31, 2019. Past due loans increased by P619.95 million or 54.14% as of July 31, 2020 from P1,145.10 million as of December 31, 2019 to P1,765.05 million as of July 31, 2020. The increase in past due loans mostly arises from the type of loans which are identified by the Bank as greatly affected by the COVID-19 pandemic.

The Bank did not experience massive withdrawals from its depositors. Total deposit liabilities only declined by P11.19 million or 0.22% as of July 31, 2020 as compared to the balance as of December 31, 2019. The branches continue to maintain reasonable amount in the cash in vault to sustain regular withdrawals. The Bank, likewise, has maintained an ample amount of liquidity buffer in its account with the BSP. The Bank is expecting that the full impact of the pandemic on its borrowers will be felt after the government-imposed quarantine period. Liquidity position remains to be stable. Depositor withdrawal is expected to be at normal levels. The Bank anticipates lower collection due to limited loan releases and affected capacity of certain borrowers to pay. Liquidity ratios are still forecasted to be compliant with the minimum required by the BSP.

The Bank's assessment will further depend on certain developments, including the duration and spread of the outbreak, impact on Bank's customers, employees, and the accessibility and effectiveness of government support programs.

The Bank has determined that these events are non-adjusting subsequent events. Accordingly, such events had no effect on the Bank's financial statements as of and for the year ended December 31, 2019.

28. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION

RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code) took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Bank's financial statements.

29. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements.

(a) Selected Financial Performance Indicators

The following are some of the financial performance indicators of the Bank:

	2019	2018
Return on average equity	**(10.16%)**	(5.25%)
Return on average assets	**(1.03%)**	(0.42%)
Net interest margin	**5.62%**	5.72%

The Bank's financial performance are computed based on regulatory capital submitted to the BSP as required by Subsection X190.4, *Disclosure Requirement in the Notes to the Audited Financial Statements*, of the Manual of Regulations for Banks.

(b) Capital Instruments Issued

As of December 31, 2019, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) Significant Credit Exposures for Loans

As at December 31, 2019 and 2018, information on the concentration of credit as to industry of receivables from customers is as follows (amounts in thousands except for percentages):

	2019		2018	
	Amount	**%**	Amount	%
Other community, social and personal activities	**P 1,162,727**	**33.9**	P 1,176,925	34.5
Wholesale and retail trade business services	**651,384**	**19.0**	567,295	16.6
Real estate, renting and business services	**255,927**	**7.5**	381,642	11.2
Agriculture, fishing and forestry	**206,860**	**6.0**	219,003	6.4
Manufacturing	**206,479**	**6.0**	247,384	7.3
Financial intermediaries	**71,996**	**2.1**	70,969	2.1
Others	**837,842**	**25.5**	748,571	21.9
	P 3,393,215	**100.00**	P 3,411,789	100.00

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.00% of the total loan portfolio. The Bank's RMC constantly monitors the credit risk concentration of the Bank.

(d) Credit Status of Loans

The breakdown of receivable from customers as to status is shown below (in thousands).

	2019		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross carrying amount:			
Consumption	P 1,112,098	P 316,302	P 1,428,400
Commercial	1,134,541	257,578	1,392,119
Agricultural	78,916	114,772	193,688
Real estate	179,308	26,085	205,393
Industrial	169,717	-	169,717
Others	3,898	-	3,898
	2,678,478	714,737	3,393,215
Allowance for ECL	(245,419)	(69,494)	(314,913)
Net carrying amount	**P 2,433,059**	**P 645,243**	**P 3,078,302**

	2018		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Consumption	P 1,202,794	P 300,794	P 1,503,588
Commercial	1,131,746	153,875	1,285,621
Agricultural	163,733	36,045	199,778
Real estate	195,758	21,103	216,861
Industrial	202,406	-	202,406
Others	3,536	-	3,536
	2,899,973	511,817	3,411,790
Allowance for ECL	(235,077)	(41,731)	(276,808)
Net carrying amount	P 2,664,896	P 470,086	P 3,134,982

As at December 31, 2019 and 2018, the nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2019	2018
Gross NPLs	**P 746,844**	P 511,817
NPLs fully covered by allowance for impairment	**(69,494)**	(41,731)
	P 677,350	P 470,086

(e) Analysis of Loan Portfolio as to Type of Security

As at December 31, 2019 and 2018, the breakdown of receivables from customers by type of security is as follows (amounts in thousands):

	2019	2018
Secured:		
Commodities	**P 1,477,659**	P 1,535,663
Real estate	**1,426,731**	1,313,103
Deposit hold-out	**61,726**	69,854
Others	**90,598**	101,506
	3,056,714	3,020,126
Unsecured	**336,501**	391,664
	P 3,393,215	P 3,411,790

(f) Information on Related Party Loans

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI in accordance with BSP reporting guidelines:

	2019	2018
Total outstanding DOSRI loans	**P 7,960,339**	P 4,293,500
Unsecured DOSRI loans	**-**	-
Past due DOSRI loans	**-**	-
% of unsecured DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%

(g) Secured Liabilities and Assets Pledged as Security

Assets pledged by the Bank as security for liabilities as of December 31, 2019 are shown below.

Aggregate amount of secured liabilities	**P 171,092,035**
Aggregate amount of resources pledged as security	**P 381,712,570**

The Bank has no assets pledged as security for liabilities as of December 31, 2018.

(h) Contingencies and Commitments Arising from Off-balance Sheet Items

The Bank has no transactions involving contingencies and commitments arising from off-balance sheet items that would result in recognition or disclosures of those information in the financial statements or inclusion thereof in this supplemental information.

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year, which is required by the Bureau of Internal Revenue under Revenue Regulation No. 15-2010, is presented as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) GRT

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries performing quasi-banking functions pursuant to Section 121 of the Tax Code, as amended.

In 2019, the Bank reported total gross receipts tax amounting to P8,733,562 as shown under Taxes and licenses account in the 2019 statement of profit and loss. There is an outstanding GRT payable as of December 31, 2019 amounting to P1,872,090 presented as part of Accrued other expenses under Accrued Interest and Other Expenses in the 2019 statement of financial position (see Note 20).

GRT which includes interests and discounts arising from instruments with maturity of five years or less and other income is levied on the Bank's lending income. The tax is computed at the prescribed rates of either 7.00%, 5.00% or 1.00% of the related income.

(b) DST

For the year ended December 31, 2019, DST affixed amounted to P2,913,557. The DST arises from the Bank's transactions related to term deposits, time deposits, loans, bank checks, etc.

(c) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2019 are shown below.

Final	P 16,822,955
Compensation and benefits	1,598,371
Expanded	995,571
	P 19,416,897

(d) Taxes and Licenses

The details of taxes and licenses in 2019 are as follows:

	Note	
GRT	30(a)	P 8,733,562
DST	30(b)	2,913,557
Local taxes and business permits		1,754,120
Real property taxes		565,436
		P 13,966,675

(e) Excise Taxes

The Bank does not have excise taxes accrued in 2019 since it did not have any transactions subject to excise tax during the year.

(f) Taxes on Importation

The Bank has not paid or accrued any customs duties and tariff fees as it has no importation for the year ended December 31, 2019.

(g) Deficiency Tax Assessment and Tax Cases

As of December 31, 2019, the Bank does not have any final deficiency tax assessments with the BIR nor tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.