Yuanta
Savings Bank Philippines, Inc.

Yuanta Savings Bank Philippines, Inc.

ANNUAL REPORT
AS OF DECEMBER 31, 2019

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I. CORPORATE POLICY

Corporate Profile

Yuanta Savings Bank Philippines, Inc. (the Bank) was formerly known as TongYang Savings Bank, Inc. It was formally registered in the Securities and Exchange Commission (SEC) on 1 August 1997 and was granted its thrift bank license by the Bangko Sentral ng Pilipinas on 24 October 1997. The Bank started its commercial operations on 5 November 1997.

On 5 August 2015, the Bank became a wholly owned subsidiary of Yuanta Commercial Bank in Taiwan, a company under the umbrella of Yuanta Financial Holdings (a publicly listed in Taiwan) due to its acquisition of the 100% equity shares of the Bank from Yuanta Securities Korea Co., Ltd (formerly: TONGYANG Securities, Inc.).

On 18 July 2016, the SEC approved the change of its name from TongYang Savings Bank, Inc. to Yuanta Savings Bank Philippines, Inc.

The Bank was accredited by the Philippine Retirement Authority as one of its Partner Banks in its Special Resident Retiree Visa Program.

To further expand its banking operations, the Bangko Sentral ng Pilipinas granted the Bank its Foreign Currency Deposit Unit (FCDU) License on 14 June 2007 giving the Bank the authority to accept foreign currency deposits. On 9 May 2008, the Bank opened its first branch strategically located in Madrigal Business Park, Alabang, Muntinlupa City. Subsequently on 16 May 2011, the Bank opened its second branch located in Ortigas Center, Pasig City.

The Bank caters traditional products and services such as deposits, loans, remittance, and foreign exchange. Its existing business model primarily focuses on corporate banking for its lending operations and corporate and retail banking for its deposit operation.

It offers personalized banking services not only to Filipinos but as well as to foreigners such as Taiwanese and Koreans residing in Metro Manila and nearby provinces. Its existing parent Company is one of best managed bank in Taiwan. Subsequently, the expertise of its parent company in the marketing and risk management system can be relayed to the Bank with the objectives of providing value to its stakeholders and customers.

Vision

Being part of the Yuanta Financial Holdings group in Taiwan, Yuanta Savings Bank Philippines adopts the core values of the conglomerate and is aspired to become a mid-tiered thrift bank in the Philippines in terms of asset scale through sound risk management and operational efficiency, serving primarily Filipinos, Koreans, and Taiwanese customers, driven by good corporate governance, integrity, professionalism and excellent customer service.

Mission

To become a mid-tiered thrift bank in the Philippines and to create value for our clients, employees, and shareholders by:

1. Providing a broad range of excellent and value-added financial products and services to our customers;
2. Creating an environment of hardworking, competent, highly motivated and honest individuals by providing excellent career opportunities and professional development;
3. Maximizing shareholders value, taking advantages of its market niche to assist its stakeholders in creating wealth and achieving their financial dreams.

Corporate Values

1. Seize opportunities and build client wealth
2. Enhance performance and promote employee welfare
3. Create value and increase shareholders return
4. Encourage teamwork and discipline in achieving our goals

II. CORPORATE INFORMATION

a. Ownership Structure

The Bank has an authorized capital stock of PHP1,200,000,000.00 of which PHP1,000,000,000.00 is subscribed and paid up. Par value per share is PHP1.00.

As of 31 December 2019, the following is the distribution of the subscribed and paid up capital stocks:

Name	Nationality	Amt. Subscribed/ % of Stockholdings	Voting Status
Yuanta Commercial Bank Co., Ltd.	Taiwanese	P1,199,999,995.00 / 99.99%	Voting shares
Jin-Tang Wu	Taiwanese	1.00	Voting share
Regina V. Saga	Filipino	1.00	Voting share
Arturo E. Manuel Jr	Filipino	1.00	Voting share
Celia Mojica Escareal-Sandejas	Filipino	1.00	Voting share
Senen L. Matoto	Filipino	1.00	Voting share
.TOTAL		P1,200,000,000.00	

On August 29, 2019 the Shareholders and Board of Directors of the Bank approved the increase in authorized capital stock from P1,200,000,000 divided into 1,200,000,0000 shares with par value of P1.00 to P3,000,000,000 divided into 3,000,000,000 shares with par value of P1.00. The increase in authorized capital stock was still under processing by the BSP and has not been filed with the SEC as of reporting date, accordingly deposit received in cash from its Parent Company amounting to P1,200,000,000 was recorded as deposit for stock subscription classified as liability account.

b. Organizational Structure

i. Board of Directors and Corporate Officers

Jin-Tang Wu	-	Chairman of the Board
Regina V. Saga	-	Executive Director / President and CEO
Arturo E. Manuel Jr.	-	Independent Director
Celia Mojica Escareal-Sandejas	-	Independent Director
Senen L. Matoto	-	Independent Director
Chun-Lung Wu	-	Chief Operations Officer
Francis Arvy G. Agorilla[1/]	-	Corporate Secretary
Belen E. Asuncion	-	Treasurer
Reynold B. Mabanta	-	Chief Compliance Officer
Joelle Celline Reyes	-	Internal Auditor

1/ - Appointed as Corporate Secretary on 16 April 2020 in lieu of Michael Samson

ii. Department Heads

Melissa M. Tria[1/]	-	Branch Banking Group Head
Belen E. Asuncion	-	Head, Treasury Dept.
Michael B. Samson	-	Head, Accounting Department
Reynold B. Mabanta	-	Chief Compliance Officer
Kun-Nung Chen	-	Information Security Officer
Shyh-Chang Cheng	-	Chief Risk Officer
Charisse B. Sy	-	Branch Manager – Main Branch
Jung Jae Heo	-	Branch Manager, Alabang Branch
Nak Seung Back	-	Bank Security Officer
Edmond J. Mallari	-	OIC, Collection Dept.
Roslyn L. Agustin	-	Head, Credit Dept.
Joelle Celline Reyes	-	Internal Audit Head
Chona G. Boyles	-	Head, HR and Admin Dept.
Carla Jean L. Pinili	-	Head of Information Technology Dept.
Francis Arvy G. Agorilla	-	Head, Legal Dept.
Vacant	-	Head, Marketing Dept.
Vacant	-	Head, Loans Dept.

1/ - Appointed as Branch Banking Group Head effective 2 January 2020.

Each Department Head is directly reporting to the Bank's Chief Operating Officer except for Internal Audit Head, Chief Compliance Officer, and Chief Risk Officer who are functionally reporting to the Audit Committee/Board of Directors and administratively to the Chief Operating Officer.

iii. Manpower Composition

Total Number of Employees[1/]	-	78
Officers	-	17
Rank and File	-	61

1/- As of December 31, 2019

c. Products and Services

Deposit Products
Demand Deposit
Savings Account (Peso and US Dollar)
Special Savings Account (SSA) – Regular SSA (Peso and US Dollar)
Special Savings Account under Philippine Retirement Authority (US Dollar)

Consumer Loans
Personal loan Secured
Condominium Loan

Commercial Loans
Corporate Loan
Credit Line
Back-to-Back Loan
SME Loan

Other Services
Payroll Services
Automated Teller Machine (ATM)
Overseas and Local Remittance
US Dollar-Peso Exchanges

d. Bank Directory and Website

Head Office
Ground Floor, Chatham House Building,
116 Valero corner Rufino Streets, Salcedo Village, Makati City
Tel. No. 8845 3838

Alabang Branch
Unit G3, Park Trade Center, Investment Drive,
Madrigal Business Park, Alabang, Muntinlupa City
Tel. No. 8804-3628, 8804-3629

Bank Website
http://www.yuanta.com.ph/

III. FINANCIAL HIGHLIGHTS

Amounts in Million PHP	Consolidated		Inc/(Dec)
	2019	2018	
Profitability			
Total Net Interest Income	79.7	79.2	0.5
Total Non-Interest Income	17.5	26.9	(9.4)
Total Non-Interest Expense	156.7	154.3	2.4
Pre-Provision Profit/(Loss)	(59.5)	(48.2)	(11.3)
Allowance for credit losses	8.2	0.7	7.5
Net Income/(Loss)	(67.7)	(48.9)	(18.8)
Selected Balance Sheet Data			
Liquid Assets	3,083	1,871	1,212
Gross Loans	675	679	(4)
Total Assets	3,964	2,659	1,305
Deposits	1,689	1,753	(64)
Total Equity	1,025	873	152
Selected Ratios			
Capital Adequacy Ratio	73.84%	47.29%	26.55%
Non-performing Loans Ratio	0.28%	15.59%	(15.31%)
Return on Equity	(7.14%)	(5.45%)	(1.69%)
Return on Assets	(2.04%)	(1.90%)	(0.14%)
Others			
Cash Dividend Declared	-	-	-
Total Headcount	78	84	(6)
Officers	17	15	2
Staff	61	69	(8)

The Bank's net loss for the year increased by P18.8M mainly due to additional loan loss provision amounting to P22.2M recognized in July 2019 for the write-off various loan accounts aggregating to PHP101.3M. Its total non-interest income also decreased by P9.5M due to decreased in the total service charges and fees and net foreign exchange from 2018 to 2019.

For the year 2019, the Bank reported a total interest income of P97M, interest expense of P17.3M, and a net interest income of P79.7M. During the said period, the reported total other income was P17.5M, while the operating expenses & provision for impairment losses was P149.7M.

The Bank's liquid assets and total assets increased by P1.2B and P1.3B, respectively, mainly due to the P1.4B capital infusion made by the parent Bank in November 2019. The P200M out of the total P1.4B is already part of the Bank's equity, while the remaining P1.2M was recorded as deposit for stock subscription classified as a liability account since its application for the increase in authorized capital stock was still pending before the BSP and has not been filed with the SEC as of reporting date. Due to the P1.4B capital infusion, the Bank's capital adequacy ratio increased from 47.29% in December 2018 to 73.84% in December 2019. The Bank's total equity increased by P152M mainly due to the P200M capital infusion which was reduced by the recorded net loss for the year.

In July 2019, P101.3M non-performing loans (mostly legacy accounts) have been written-off thereby improving its NPL ratio from 15.59% in Dec. 2018 to 0.28% in Dec. 2019.

The Bank has maintained its strong capital position. Its solo basis capital adequacy ratio (CAR) and Tier 1 ratio were 73.84% and 73.65% as of 31 December 2019 respectively, which are significantly higher than the required 10%. Total qualifying capital was P2,219.574M. This comprised of P2,213.854M net tier 1 capital and P5.720M net tier 2 capital (pertains to general loan loss provision).

Net tier 1 capital comprised of the following:

Tier 1 Capital	**Amount (In Million PHP)**
Paid up common stock	1,200.000
Deposit for common stock subscription	1,200.000
Additional paid-in capital	9.000
Retained earnings and undivided profits	(191.530)
Sub-total	2,217.470
Deductions from Core Tier 1 Capital	
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	0.338
Deferred tax asset, net of deferred tax liability	3.278
Total Deductions	3.616
Total Core Tier 1 Capital	2,213.854

The Bank's credit risk-weighted asset was P2,836.706M while its operational risk-weighted asset was P169.099M (computed using the Basic Indicator Approach), with minimum capital requirements of P283.671M and P16.910M, respectively (computed based on the required 10% of the total credit and operational risk-weighted assets). No market risk weighted assets and market risk capital requirements were computed as of December 31, 2019.

The year 2019 was quite tough but the Bank is still optimistic that it will be able to generate profits for the next two to three years. The year 2019 is a clean-up period for the Bank to ensure that it can start with a clean slate moving forward. In the year 2019, the Bank concentrates primarily on enhancing its operational efficiency and risk management system in order to have a stable and profitable operations in the coming years. Its target lending activities for the year 2019 was not achieved due to lack of manpower in the Marketing Department with expertise in corporate lending since the Bank is still in the transition period from retail banking to corporate banking.

IV. PRESIDENT'S REPORT

Dear shareholders and other stakeholders,

The Bank's total resources increased by P1.305B, from P2.659B in 2018 to P3.964B in 2019. This was mainly due to the P1.4B capital infusion made by our parent bank, Yuanta Commercial Bank, in November 2019 to further improve the Bank's financial condition. Net loans and receivables also increased by P88M, from P599M in 2018 to P687M in 2019. Subsequently, the Bank reported a strong liquidity position from P1.871B in 2018 to P3.083B in 2019.

The year 2019 was quite tough but we are optimistic that the Bank will be able to generate profits for the next two to three years. The year 2019 was a clean-up period for the Bank to ensure that it can start with a clean slate moving forward. In the year 2019, the Bank concentrated primarily on enhancing its operational efficiency and risk management system in order to have a stable and profitable operations in the coming years.

In July 2019, P101M worth of non-performing loans (mostly legacy accounts) were written-off thereby significantly improved the Bank's NPL ratio from 15.59% in 2018 to 0.28% in 2019. Several system automation projects were also implemented in 2019. The Phase 2 of the Bank's core banking system project pertaining to Treasury System was completed in June 2019. The Bank also purchased a new AML system (Integral 360) to enhance the implementation and monitoring of AML-related matters especially to analyze customer data and detect suspicious transactions. The new AML system went live in December 2019. The Bank also invested in the automation of various BSP reports to ensure the accuracy and timeliness of the submission of regulatory reports. The project is expected to go live in 2020.

Consequently, the Bank reported a total net loss of P67.7M for the year 2019. Given the improvements in the Bank's capitalization, operational efficiency and risk management system in the year 2019, the Bank is more ready to embrace business opportunities and face uncertainties amid the pandemic so as to achieve profits for the succeeding years.

For the year 2020, the Bank's application to increase its authorized capital stock is expected to be approved by the BSP and SEC. This is in preparation for its plan to upgrade to a commercial bank in order to expand its operations in the Philippines.

Regina V. Saga
President and CEO

V. CORPORATE GOVERNANCE

a. Overall Governance Framework

The business and operations of the Bank shall be conducted in accordance with the principles and best practices of good corporate governance, and exercising accountability, fairness and transparency across all operations and dealings. The Board of Directors, Management and staff members of the Bank commit themselves to these principles and policies, and acknowledge that the same will guide the Bank in attaining its corporate objectives.

The objectives of the Bank's corporate governance are as follows:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

The Board of Directors and shareholders, management and employees believe that corporate governance is a necessary component of sound strategic business management and for long-term shareholder value. The Board of Directors believes that compliance with the principles of good governance emanates at the Board level. The Board considers it as their primary responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with the fiduciary responsibility, which it shall exercise in the best interest of the Bank and its shareholders. The Bank has formulated the following policies and procedures to ensure observance of good corporate governance: (a) corporate governance manual (b) policy on related party transactions (c) guidelines on the prevention of conflict of interest and unsafe and unsound business practices, (d) financial consumer protection manual, and (e) whistle blowing policy.

b. Selection Process for the Board of Directors and Senior Management

Cognizant that a Director and Senior Management is a position of trust and confidence, the Bank adheres to a selection process that ensures a mix of competent individuals at the controls of the Bank. The Director and Senior Management must be fit and proper for the said position with consideration on the following matters: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time to fully carry out responsibilities. The screening process is being conducted by the Bank's Board of Directors, Senior Management, and its parent company.

c. Board of Directors Responsibility

The Board of Directors leads in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the Senior Management and Bank employees. It is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board ensures expeditious resolution of compliance issues and consistent adoption of corporate governance policies and procedures. The Board is also responsible for monitoring and overseeing the performance of Senior Management.

The Board of Directors is responsible for approving the Bank's objectives and strategies, including long-term financial interests, its level of risk tolerance, and ability to manage risks effectively, and in overseeing management's implementation through a system for measuring performance against plans which includes the conduct of monthly business performance review and board meeting.

The Board also defines the Bank's corporate culture and values and establish a code of conduct and ethical standards in the Bank, and institutionalizes a system that will allow reporting of concerns or violations to an appropriate body though its present whistle blowing policy. The Board conducts the affairs of the Bank with a high degree of integrity and plays a leading role in establishing the Bank's corporate culture and values. It establishes, actively promotes, and communicates a culture of strong governance in the Bank, through adopted policies and displayed practices, ensuring that the Senior Management champion the desired values and conducts, and actively supports the Bank's Senior Management in its initiatives to enhance its corporate governance, risk management, and control processes through providing adequate resources and necessary trainings to its employees, and ensuring that the internal and external issues noted have been immediately acted upon.

The Chairperson of the Board of Directors provides leadership in the Board and ensure its effective functioning as a body, including maintaining a relationship of trust with members of the Board. He ensures that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns and ensures a sound decision making process.

d. Composition of the Board of Directors

The Bank has five (5) Board of Directors as follows:

Name	Type of Directorship	No. of Years Served as Director	No. of Direct Shares Held	% of Direct Shares Held
Jin-Tang Wu	Non-Executive /Chairman	3	1	0.0000001%
Regina V. Saga	Executive Director	3	1	0.0000001%
Arturo E. Manuel Jr.	Ind. Director	1	1	0.0000001%
Senen L. Matoto	Ind. Director	1	1	0.0000001%
Celia Mojica Escareal-Sandejas	Ind. Director	8 months	1	0.0000001%

e. Profile of Directors and Executives:

Name	Age	Nationality	Summary of Qualification
Jin-Tang Wu, Chairman	59	Taiwanese	**Educational Background:** Bachelor of Science in Chemistry (Soochow University, Taiwan), Master in Business Administration (University of Mississippi, USA)
			Work Experience: With more than 20 years of experience in banking and securities businesses. Present Executive Vice President of Yuanta Commercial Bank, Senior Vice President of Yuanta Financial Holdings Co., Ltd.
Regina V. Saga, Director/President and CEO	45	Filipino	**Educational Background:** LLB and LLM (University of Buckingham – UK), Master of Studies in Legal Research and obtained units in Doctor of Philosophy in law (University of Oxford - UK)
			Work Experience: With more than 15 years of experience in legal fields, banking, and financial services. Current President of Yuanta Savings Bank Philippines, Inc.
Arturo E. Manuel Jr. Independent Director	62	Filipino	**Educational Background:** AB-BSC Major in Management of Financial Institutions (De La Salle University), Strategic Business Economics (University of Asia and Pacific)
			Work Experience: With more than 30 years of experience in banking and management consultancy and a Fellow of Institute of Corporate Directors
Celia Mojica Escareal-Sandejas Independent Director	68	Filipino	**Educational Background:** BS Hotel & Restaurant Administration (University of the Philippines), Bachelor of Laws (Doctor of Jurisprudence) - University of the Philippines. Member of Integrated Bar of the Philippines
			Work Experience: With more than 26 years of experience in legal fields with specialization on Anti-Money Laundering Laws and Regulations
Senen L. Matoto Independent Director	72	Filipino	**Educational Background:** Bachelor of Science in Business Administration (University of the Philippines), Master in Business Administration (Asian Institute of Management)
			Work Experience: With more than 30 years of experience in banking, finance and investment management and a Fellow of Institute of Corporate Directors
Chun-Lung Wu, COO	53	Taiwanese	**Educational Background:** Bachelor in Banking and Insurance (National Taipei College of Business), Executive Master of Business Administration (National Dong Hwa University).

f. Board Level Committees

Since the Bank is currently categorized as simple or non-complex banks, only audit committee and related party transaction committee are the constituted board level committees.

Mr. Senen L. Matoto, Mr. Arturo E. Manuel Jr. and Regina V. Saga are the members of the audit committee and related party transaction committee until 27 November 2019. On 28 November 2019, Atty. Celia Mojica Escareal-Sandejas was elected as the Bank's new independent director during a special meeting of the stockholders. As a result, she has been added in the membership of the said Committees.

The audit committee is chaired by Mr. Senen L. Matoto. The audit committee oversees the Bank's financial reporting framework, monitors and evaluates the adequacy and effectiveness of the internal control system, oversee the internal and external audit function, oversees the implementation of corrective actions, investigates significant issues/concerns raised, and establishes a whistleblowing mechanism.

The related party transaction (RPT) committee is chaired by Mr. Arturo E. Manuel Jr. The RPT committee is in charge of the evaluation on an ongoing basis existing relation between and among businesses and counterparties to ensure that all related parties are continuously identified, related party transactions (RPTs) are monitored, and subsequent changes in relationships with counterparties are captured. This committee is also in charge of evaluating all material RPTs under the approving authority of the board of directors to ensure that these are not undertaken on more favourable economic terms.

On 27 February 2020, Ms. Regina V. Saga was elected as President and CEO effective 1 March 2020. As a result, the aforementioned committees were reconstituted. The Audit Committee is chaired by Mr. Senen L. Matoto with Mr. Arturo E. Manuel Jr. and Atty. Celia Mojica Escareal-Sandejas as members. The RPT committee is chaired by Mr. Arturo E. Manuel Jr. with Mr. Senen L. Matoto and Celia Mojica Escareal-Sandejas as members.

g. Board and Board Level Committee Meetings

In 2019, a total of 18 Board meetings, 13 Audit Committee meetings, and 1 Related Party Transaction (RPT) Committee meeting were held. The attendance of the Board and Board level committee meetings were shown below:

Name of Directors	**Board** Number of Meetings Attended	%	**Audit Committee** Number of Meetings Attended	%	**RPT Committee** Number of Meetings Attended	%
Jin-Tang Wu	18	89%	N/A	N/A	N/A	N/A
Regina V. Saga[1/]	18	100%	13	100%	1	100%
Anna Teresa Gozon-Valdes[2/]	2	67%	3	100%	N/A	N/A

Paulino Y. Tan[3/]	3	100%	3	100%	N/A	N/A
Tsai-Yu Chang[4/]	2	100%	N/A	N/A	N/A	N/A
Wen-Jeng Chang[5/]	11	79%	N/A	N/A	N/A	N/A
Arturo E. Manuel Jr.[6/]	14	100%	10	100%	1	100%
Senen L. Matoto[7/]	14	100%	10	100%	1	100%
Celia Mojica Escareal-Sandejas[8/]	2	100%	0	0%	0	0%

1/ - Member of the Audit Committee and RPT Committee until 29 February 2020
2/ - Independent Director until 14 March 2019
3/ - Independent Director until 14 March 2019
4/- Director until 1 February 2019
5/- Director until 27 November 2019
6/ - Independent Director effective 15 March 2019
7/ - Independent Director effective 15 March 2019
8/ - Independent Director effective 28 November 2019

h. Performance Assessment Program

The Bank conducts a semi-annual and annual performance appraisal for its Senior Management. The results of the established key performance indicators (KPI) for each department formed part of the Bank's performance appraisal system.

Likewise, the Board of Directors, Board level Committees, and various Management Committees conducts an annual self-assessment to ensure the effectiveness in carrying out of their respective functions. The results are reported to the Board of Directors as the basis for improvement moving forward.

i. Orientation and Education Program

The duties and responsibilities of the Board of Directors have been discussed and duly acknowledged by the concerned directors prior to his/her appointment. All directors are required to undergo a one-day training on corporate governance conducted by an institution duly accredited by the BSP.

The Bank ensures to conduct employee orientation program within 15 days upon boarding of the employees which includes discussion of the following matters: institutional overview, responsibilities of all employees, employment requirements, senior management, process of employee regularization, work-related tips, fringe benefit program, employees code of conduct and the corresponding sanction for its violation, code of conduct for consumer protection, bank products and services, anti-money laundering, information security awareness, business continuity awareness, and secrecy on bank deposit.

The Board of Directors approved the Bank's annual training program. This includes in-house seminar on topics such as anti-money laundering, sound credit risk management, fraud risk and control awareness, information security, business continuity management, bank security, financial consumer protection, data privacy, signature verification, customer service, cash operation training, fair debt collection practices, problem solving and conflict resolution, and pandemic awareness and wellness seminar.

Specific external training program to enhance the knowledge of the concerned employee in their respective field is also in place.

j. Retirement and Succession Policy

An employee may be retired upon reaching the retirement age of 60 years old or unless sooner offered by the Bank. The Bank offers retirement pay for its employees who have worked for at least five (5) consecutive years.

There is no retirement age set for the Bank's Board of Directors for as long as he/she is still fit and proper for the said position.
The Board of Directors shall be elected during annual meeting of stockholders and shall hold office for one (1) year and until their qualified successors are elected. There is no limit set for the term of the members of the Board, except in the case of Independent Directors who may only serve as such for a maximum cumulative term of nine (9) years. After which, the Independent Director shall be perpetually barred from serving as Independent Director in the Bank, but may continue to serve as regular Director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from year 2012.

The Bank maintains a succession management plan for each department which is being updated at least every year or as needed, with primary consideration on the qualification, knowledge, skills, and experience of the employee.

k. Remuneration Policy

The Bank pays salaries commensurate to the individual's qualifications and experience, nature of the job, employee performance, role, and level of responsibilities and activities with reference to an approved salary scale.

The Bank ensures that its compensation package for non-officers or rank and file employees are linked to both performance and the Bank's obligation under the law.

The remuneration of the Executive Director, President and CEO, and its highly compensated management officers has been determined and approved by the Bank's parent company.

The independent directors shall receive a reasonable per diem allowance for his/her attendance at each regular meeting actually attended in such reasonable amount as may from time to time be fixed and approved by at least a majority of the Board of Directors during its regular or special meeting. The Directors may also receive compensation other than per diems by the vote of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting. In no case shall the total yearly compensation of Directors, as such Directors, exceed ten (10%) percent of the net income before income tax of the Corporation during the preceding year.

l. Related Party Transaction

The Bank has a Board approved Related Party Transactions (RPT) Policy. Under the said Policy, the Bank may enter into related party transactions provided, that these are done on an arm's length basis. The Bank shall exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the Bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The Bank has a board-level Related Party Transactions Committee whose main function includes evaluation on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured; and evaluation of all material RPTs under the approving authority of the Board of Directors to ensure that these are not undertaken on more favorable economic terms and that no corporate or business resources of the bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. The Committee is composed of three (3) members of the Board of Directors, all are Independent Directors.

The Bank's RPT Policy captures a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the Bank and its stakeholders. Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in Bank's RPT Policy, but still subject for evaluation to ensure that said transactions are still in an arm's length terms. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the Bank's RPT policy.

The Management and Board of Directors shall ensure that RPTs are conducted in the regular course of business and not undertaken on more favourable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. In this regard, an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the Bank and its stakeholders shall be observed. The price discovery mechanism may include, but not limited to the following:

- Acquiring the services of an external expert;
- Opening the transaction to a bidding process. The minimum bid price shall be based on its market value;
- Publication of available property for sale;
- Determining the market value of the securities based on its market price;

- Conducting independent or internal appraisal as basis for the value of the personal and real properties. If the RPT transaction involves at least PHP3 Million pesos or if the property involved is not usual or a technical one such as machineries and equipment, independent appraisal is a must.

The Management and the Board shall also ensure the proper identification, prevention or management of potential or actual conflicts of interest which may arise. The members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the Bank. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Bank.

All Bank officers and directors shall execute an Oath of Office to ensure proper identification, prevention or management of conflict of interest. All members of the Credit Committee shall also execute an Oath of Office to avoid conflict of interest in any loan transactions which they approved. The Bank's employee code of conduct also includes provisions for conflict of interest which incorporates the corresponding employee disciplinary action in case of violation.

The Bank did not enter into related party transactions from January 2019 to December 2019. There were no outstanding balances, including off-balance sheet commitments to related parties as of 31 December 2019.

m. Self-Assessment Functions

The Bank has an independent audit and compliance functions, through which the Bank's Board of Directors, Senior Management, and Stockholders may be provided with reasonable assurance that its risk management, control, governance, and compliance processes are effective, appropriate, and in compliance with the prescribed internal and external regulations.

The Board of Directors and Senior Management are responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

The internal audit function is being headed by the Internal Audit Head who is currently reporting to the Audit Committee and the Board, and has unrestricted access to all functions, records, property, and personnel, and have full and free access to the Audit Committee. Its main function is to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations. It helps the organization accomplish its objectives by bringing systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Bank's Board of Directors is ultimately responsible for ensuring that Senior Management establishes and maintains an adequate, effective, and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the Bank. The Board of Director ensures that the Bank's independent audit function has an appropriate stature and authority within the Bank and is provided with adequate resources to enable it to effectively carryout its assignments with objectivity.

Based on the results of the risk assessment, the internal audit function conducts periodic review of the effectiveness of the Bank's system and internal controls to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, are communicated directly to the Audit Committee on a monthly basis to ensure the timeliness, accuracy, and relevance of reporting systems and internal controls in general. The regular report includes: (a) Exception reporting; (b) The target date, action plan and the root cause of the exception noted; (c) The status and/or effectiveness of actions taken; (d) The critical operational risks facing, or potentially facing, the bank (e.g., as shown in KRIs and their trend data, changes in risk and control self-assessments, comments in audit/compliance review reports, etc.); and (e) Major risk events/loss experience, issues identified and intended remedial actions.

In addition to the traditional reliance on internal and third-party audit functions, the Board performs self-assessments on an annual basis to gauge performance which often lead to early identification of emerging or changing risks requiring policy changes and updates."

The Bank also has its compliance function headed by the Chief Compliance Officer who is directly reporting to the Audit Committee and the Board. Its main task is to oversee and coordinate the implementation of the Bank's compliance system, which includes the identification, monitoring and controlling of the Bank's business and compliance risk. It also has unrestricted access to all functions, records, property, and personnel and have full and free access to the Board.

The Bank has a robust compliance system focused on the enforcement of the Anti-Money Laundering Act (AMLA), Money Laundering and Terrorist Financing Prevention Program (MTPP), Compliance Manual, Corporate Governance Manual, Code of Conduct, and other regulatory requirements. The Bank has articulated in its MTPP the regulatory issuances such as guidelines and circulars on anti-money laundering (AML) and combating the financing of terrorism (CFT) [i.e. BSP Circular No. 950 Series of 2017] in order to effectively implement the provisions of Republic Act No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001" (AMLA), as amended by R.A. Nos. 9194, 10167, 10365, and its Implementing Rules and Regulations (IRR) / Revised Implementing Rules and Regulations (RIRR), as well as R.A. No. 10168 or The Terrorism Financing Prevention and Suppression Act of 2012, and its Implementing Rules and Regulations (IRR).

The Bank's Compliance Department is responsible for overseeing, coordinating, monitoring and ensuring compliance with existing laws, rules and regulations through the implementation of its compliance system in accordance with the requirements of the Bangko Sentral ng Pilipinas (BSP) and other regulatory agencies which include, among others, the identification and control of compliance risks, prudential reporting as well as compliance training.

The Bank adheres to, among others, the KYC rules and customer due diligence requirements of the law and regulations from the start of customer relationship until its termination. Furthermore, the Bank takes note of bulletins and watch lists of individuals and entities engaged in illegal activities or terrorist-related activities. The watchlist files of Anti-Money Laundering Council (AMLC), and other international entities or organizations such as the Financial Action Task Force (FATF), Office of Foreign Assets Control (OFAC) of the U.S. Department of Treasury, and other agencies or organizations duly competent and recognized to create public watch lists are all incorporated in our AML system (Integral 360) .

The Bank's Audit Committee (AC) exercises oversight functions on the Bank's adherence to rules and regulations especially those issued by the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Insurance Commission (IC), Philippine Deposit Insurance Corporation (PDIC), Anti-Money Laundering Council (AMLC), and other regulatory bodies and agencies. The AC also conducts oversight functions over the Bank's Anti-Money Laundering Committee (AMLCOM) through regular reporting of matters taken during its meetings. The AMLCOM review and decide on the disposition of AML/CFT issues referred by branches/business units (BUs).

The Compliance Department coordinates with regulators on their examinations and reports significant compliance issues and regulatory findings to Senior Management, Audit Committee, and the Board. The department is headed by a Chief Compliance Officer (CCO) who was appointed by the Board and confirmed by BSP/ Monetary Board. The CCO reports directly to the Board of Directors.

n. Dividend Policy

Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law and applicable rules and regulations, and results of the Bank's operation. Since the Bank incurred a loss for the year 2019, there was no dividend declared for the said year.

o. Corporate Social Responsibility

The Bank continuously provide banking services to its customers during the recent COVID-19 pandemic, at the same time put a high priority on COVID-19 prevention and safety of its customers and employees. It also provides a shuttle service and hazard pay to its employees during the enhance community quarantine period.

p. Consumer Protection Practices

The Bank value the right of its customer as a consumer of financial products and services. For this reason, the Bank aims to provide them with the highest level of satisfaction.

The Board and Senior Management are responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection program.

The Board of Directors are responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as mechanism to ensure compliance with said policies, and for monitoring and overseeing the performance of Senior Management in managing the day-to-day consumer protection activities of the Bank. Likewise, Senior Management are responsible for the implementation of the consumer protection policies approved by the Board, overseeing the implementation of the Bank's consumer protection policies, as well as mechanism to ensure compliance with said policies.

The Bank's consumer protection risk management system form part of the corporate-wide risk management system which includes the following process.

a. Risk Identification

Each consumer assistance officer identifies the consumer protection risk inherent in its operations. These include both risks to the financial consumer and to the Bank. This procedure form part of the Bank's annual Risk and Control Self-Assessment (RCSA).

There is a separate RCSA for consumer protection signed by all consumer assistance officer.

b. Risk Measurement

The consumer protection risk identified is being measured in terms of its likelihood and impact based on the Bank's existing RCSA Guidelines.

c. Risk Monitoring and Control

The Bank records and monitors the disposition of complaints received from its customer for reporting to Senior Management and Board of Directors, which includes the necessary actions to resolve the case and to prevent its recurrence.

The Bank ensures to provide accessible, affordable, independent, fair, accountable, timely and efficient means of resolving customer complaints. The Bank has appointed consumer assistance officer for various units headed by the Head Consumer Assistance Officer. It has a Consumer Assistance Mechanism which is posted on the Bank's website and at its premises to guide customers on how they can file their respective complaints and how cases are resolved. The Bank classifies the customer complaints received as either simple or complex.

In case of a simple complaint, immediate explanation or action will be rendered. A resolution must be achieved within a 7-day period. However, for complex complaint that needs assessment, verification, or investigation with third party intervention, the resolution thereof is targeted to be achieved within a 45-day period.

VI. RISK MANAGEMENT FRAMEWORK

a. Overall Risk Management Culture and Philosophy

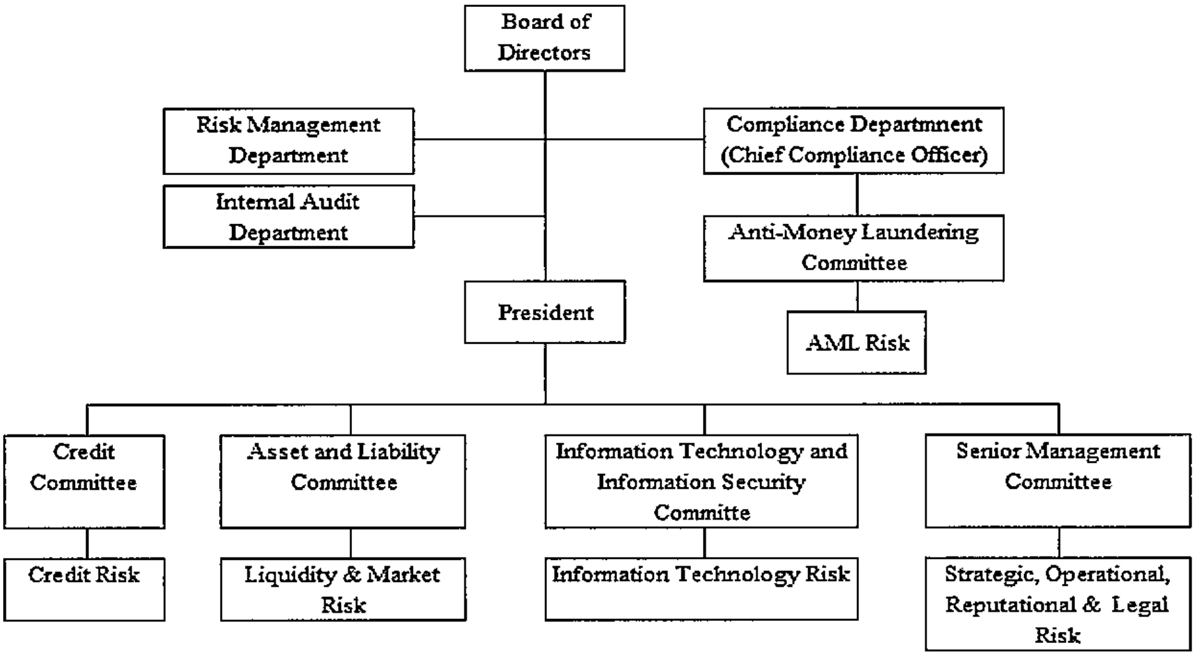
The underlying philosophy of the Bank's risk management system is that the Bank exists to provide value for its stakeholders. The Bank faces uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. The Bank's overall risk management objective is to effectively deal with uncertainty and associated risk and opportunities, with the ultimate objective of enhancing the capacity to build value.

The Bank's risk management system helps management to achieve its performance and profitability targets and prevent loss of resources. It helps to ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the Bank's reputation and associated consequences. In essence, risk management system helps the Bank to get to achieve its goals while avoiding pitfalls and surprises along the way.

The Bank has established various risk management policies, limits, manual, and guidelines that lays down sound risk management practices and to guide the Bank's management and Board of Directors to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintains capital commensurate with the risk exposure assumed.

b. Risk Governance Structure and Risk Management Process

The Bank's risk management structure is shown below:



The Board is responsible for setting and monitoring the risk appetite for the Bank when pursuing its strategic objectives.

The Board and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. Effective Board and Senior Management oversight of the Bank's risk activities is critical to a sound risk management process. The Board is responsible for understanding the nature and the level of risks taken by the Bank and directly in-charge of the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits. Likewise, the Senior Management is responsible for ensuring that risks are adequately managed both on a long-term and day-to-day basis.

The Compliance Department manages and monitors the implementation of the Bank's compliance risk management system designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation. Compliance risk management is also the responsibility and shared accountability of all personnel, officers, and the Board of Directors.

The Risk Management Department is responsible for overseeing the risk-taking activities across the Bank, as well as in evaluating whether these remain consistent with the Bank's risk-appetite and strategic direction. It ensures that the risk governance framework remain appropriate relative to the complexity of risk-taking activities of the Bank. It is also responsible for identifying, measuring, monitoring, and reporting risk on an enterprise-wide basis as part of the second line of defense.

Internal Audit Department provides independent objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of the Bank, which helps management and the Board of Directors in protecting the Bank and its reputation. It both assess and complement the Bank's operational management, risk management, compliance and other control function.

The Credit Committee is a management-level committee established to implement the Bank's credit risk management policies and systems. It is responsible for establishing an appropriate credit risk environment, ensuring that the Bank is operating under a sound credit granting process, and maintaining appropriate credit administration, measurement, monitoring process and control over credit risk.

The Asset and Liability Committee is a management-level committee created to ensure the proper implementation of the Bank's liquidity and market risk management practices. These includes ensuring that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and fulfil its legitimate funding needs, and uunderstands, measures, monitors and controls the Bank's liquidity and market risk exposure.

The Anti-Money Laundering Committee, a management-level committee that reports directly to the Board of Directors, is created to ensure that the Bank is protected against money launderers. It ensures effective implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program approved by the Board, timely reporting of covered and suspicious transactions to the AMLC, and providing adequate oversight function on the Bank's AML compliance.

The Information Technology and Information Security Committee (ITCOM), together with the Board of Directors set the overall tone and strategic direction for the Bank's information technology and information security by providing leadership, effective information security governance and oversight. It leads in establishing an information security culture that regards security as an intrinsic part of the Bank's core business and operations. It oversees the Bank's information technology projects and development of an information security strategic plan to clearly articulate security strategies and objectives aligned with business plans.

The Senior Management Committee is an avenue in which the Department Heads interact with each other whereby their plans, issues, matters, status or activities are discussed on a regular basis, in order that the day-to-day functions of the different departments are monitored and reported to the Board as part of the latter's governance over the operations of the Bank.

c. Risk Appetite, Strategies and Exposure

The Bank's risk appetite, strategies and exposures are summarized below:

Strategic Risk

The Bank recognizes the importance of embedding risk into strategy setting. Better understanding of risks and uncertainties provides a strong foundation in setting key assumptions for strategic planning and during the development of new products and services. The Board and Senior Management of the Bank are ultimately responsible for setting the Bank's strategies after evaluation of its threats and vulnerabilities, costs vs. potential benefits, its economic, political, social, and technological dimensions, complemented by an assessment of the Bank's core competencies, strengths, and business opportunities in order to provide sound basis for the Bank's strategic and business plans.

Operational Risk

Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace.

Operational risk is being managed for each product and service offered by the Bank. It is being observed during product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Bank's exposure to operational risk is controlled by having an adequate and effective internal control to manage risk and to increase the likelihood that established objectives and goals will be achieved. Management regularly monitors its compliance with control policies and procedures and exposure to operational risk through ongoing management activities, separate evaluations (i.e. independent examination by Internal Auditor and/or Compliance Officer) or both. The Bank has created a Risk Management Department who will monitor and report the Bank's operational risk exposure to Senior Management and the Board. The Bank also maintains an operational loss and customer complaints database in order to immediately address control lapses and weaknesses which resulted to losses or customer complaints.

An Annual Risk and Control Self Assessment (RCSA) is conducted by each department, in order to identify, assess and manage the Bank's risk exposure. The Internal Audit Department validates the RCSA conducted by each department. The result of the RCSA is being discussed to the Senior Management and Board of Directors as part of their oversight function. Each department head is in charge in disseminating the results of the assessment with their employees. The Bank is also conducting risk and control seminar for all employees.

As of 31 December 2019, the Bank's operational risk-weighted asset was P169.099M (computed using the Basic Indicator Approach).

Credit Risk

The Bank has maintained credit risk management system. Its credit risk strategy is aligned with the Bank's profitability, deposits and loan portfolio growth targets, target customer, credit risk tolerance, and overall business goals. The Bank also considers its existing liquidity profile while granting loans to customer.

The following were performed by the Bank in order to manage credit risk:

- The Bank offers loan products to qualified individuals or business entities based on sound and prudent bank practices and in accordance with its existing policies.
- Extending loan facilities to qualified individuals or business entities, by taking into consideration the cash flow, character, capacity, collateral and financial condition of each borrower.
- For loans that are secured by collaterals, the Bank ensures that it can annotate its mortgage and therefore, protect its legal interest thereto.
- The Bank ensures compliance with internal single borrower's limit of (PHP500 million or 24% of the Bank's net worth whichever is lower, including group exposure).
- The Bank ensures that loans are approved by the Credit Committee (CRECOM) or Board of Directors based on set limits.

The Bank has a credit risk management structure that clearly delineates lines of authority, and establishes the accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

The Bank has a Credit Department, independent of the Marketing Department who is in charge of the credit underwriting procedures. This includes the analysis and verification of the applicant's background, integrity, cash flow/financial capacity, character and collateral offered for the loan. The evaluation and approval of the loan is being made by the Credit Committee (CRECOM), provided it is within the CRECOM's approving authority. The CRECOM also serves as the oversight function for the Bank's credit underwriting procedures, reviews the Bank's Credit Policies and Procedures, and informs the Board of Directors on accounts approved by CRECOM despite deviation from credit policies and procedures. The Board of Directors is the final approver of credit policy, credit limits, credit risk management policy and loan beyond the approving authority of the CRECOM.

The Risk Management Departments is in charge of preparing monthly credit risk management report in order to inform the Bank's Senior Management and Board of Directors on its present credit risk exposure and results of stress testing. This also serves as a tool in monitoring the effectiveness of the Bank's existing credit policies and procedures.

The Bank adopted its internal credit scoring model for individual and corporate borrowers. The Bank primarily focuses in granting corporate loans rather than individual loans. The following factors are considered in the internal credit rating for individual borrowers: credit history, capacity to pay, loan exposures, adverse findings, and demography such ass employment status, employment industry, home ownership, marital status, age, and gender. The scoring model is subject for periodic validation by the internal auditor. Likewise, the following factors are considered in the internal credit rating for corporate borrowers: cash flow and profitability, financial leverage, guarantor, management/character, and collection history.

In order to reduce the Bank's non-performing loan (NPL) levels, past due loans are regularly monitored by the Bank's Collection and Legal Department. Collection activities are reported to Senior Management and Board of Directors on a monthly basis, including progress report for borrowers with substantial loan balance. The Bank has implemented a more stringent credit policies and procedures, with the objectives of improving the level of its current/good quality loan portfolio. In December 2019 Board meeting, the Board approved that its salary loan product will no longer be offered starting 2020 due to high probability of default. This product has been temporarily on hold starting July 2018.

Internal NPL ratio limit has also been set for each type of loan and any breach has been monitored and reported to Senior Management and the Board.

The Bank also conducted a quarterly credit stress testing to determine the impact on the Bank's capital upon the occurrence of certain scenarios which was developed based on the Bank' present loan portfolio level and past experiences.

Independent credit review function is being done by the Compliance and Internal Audit Departments in order to assess the quality of individual credits and compliance with regulatory and internal policies and procedures.

As of 31 December 2019, the Bank's balance sheet credit risk exposure and credit risk weighted assets are shown as follows:

Nature of Item (Amounts in Million PHP)	Credit Risk Exposure (Net Carrying Amount)	Credit Risk Weighted Assets
a. Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are not classified as non-performing – 50% risk weight	30.732	15.366
b. Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government & the BSP - 50% risk weight	50.637	25.319
c. Net Other Assets - 100% risk weight	2,796.021	2,796.021
Total	2,877.390	2,836.706

Market Risk

The Bank's exposure to market risk is relatively low since it does not engage in any trading activities and derivatives operations. Interest rate movements and the level of foreign exchange risk have minimal impact on the Bank's earnings and capital. It follows a prudent policy in managing its assets and liabilities in order to ensure that its exposure to fluctuations in interest rates and foreign exchange fluctuations is kept within reasonable limits.

The Bank has a Board-approved Market Risk Management Policy and market risk limits for the effective discharge of market risk management function. The Bank measures its market risk exposure through monthly monitoring of various limits and re-pricing gap analysis, and quarterly stress testing on changes in interest and foreign exchange rate which is being done and monitored by the Treasury and Risk Management Department. A monthly report on the Bank's market risk exposure and limit breaches, if any, are being discussed during the Asset and Liability Committee (ALCO) and Board of Directors meeting.

The Bank's Market Risk Limits include Exposure Limit (Greeks Limit), VaR Limit, and Loss Ratio Limits including individual and overall unrealized loss ratio of related product including bonds. For Trading Book portfolios, Management Action Trigger (MAT) Limit is applied.

(a) VaR limit :
VaR is measured by one-day holding horizon using historical simulation method at 99% confidence level.

(b) Exposure Limit:
Exposure Limit for Market Risk could be Delta limit and set as Long and short position limits that each of them should be measured by aggregating long and short position on overall and net base separately. Delta is defined as the amount of change in market value of an asset due to specific amount change in market price, in case of interest rate delta, the change is 100 bps in interest rate and in case of equity or FX delta, the change is 1% of price.

Independent market risk review function is being done by the Internal Audit Department in order to assess the level of compliance with prescribed regulatory and internal policies and procedures.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions, the future Net Interest Income (NII), or the Economic Value of Equity (EVE). With reference to the guidance of BCBS papers and the management practice across banks, the management framework and the governance structure are formulated and listed below.

The Board of Directors is responsible for reviewing IRRBB policy, framework and execution regularly. Asset and Liability Management Committee (ALCO) is authorized by the Board to formulate and execute the IRRBB management strategies, policies and practices.

Management Process of IRRBB:

a. Risk Identification: IRRBB risk factors, including repricing risk, yield curve risk, basis risk and option risk are identified and captured through daily operations of all business units.

b. Risk measurement: The methodology of the measurement includes but not limited to the impact analysis of economic value and earnings perspective under the stress scenario of interest rate shock. The methodology should be reviewed regularly for the reasonableness.
c. Risk monitoring and control: The Bank should evaluate and adopt the risk tolerance, transfer, mitigation and avoidance. The interest rate shock scenarios, as well as the modelling and parametric assumptions used in IRRBB measurement are formulated based on BCBS standards and the rules of the regulator.
d. Risk Reporting: Risk reporting should include the analysis on interest rate sensitivities, stress test results and the root cause of over-limit. Risk management department should monitor the impact of change in interest rate on earning and capital and report to the BOD and ALCO quarterly.

The above framework may be enhanced or revised once there is any new release of IRRBB related rule or guidance from the regulator.
Liquidity Risk

The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure that short-term statutory and liquidity funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. The Bank's level of liquidity is aligned on its present deposits and loans volume. The Bank has enough liquidity level and ensures that the required deposit reserve has been met.

There is a Board approved Liquidity Risk Management Manual for the effective discharge of liquidity risk management function. The Bank's Treasury and Risk Management Department measures its liquidity risk exposure through the preparation of monthly maturity matching report, quarterly projected volume and sources of liquidity needs, quarterly stress testing, and computation of various liquidity ratios. The Bank sets a liquid asset to deposit ratio limits of at least 30%.

Periodic reports on the Bank's liquidity risk exposure are being discussed during the monthly Asset and Liability Committee (ALCO) and Board of Directors meeting.

Independent review of the liquidity risk management function is being done by the Internal Audit Department in order to assess the level of compliance with prescribed regulatory and internal policies and procedures.

As of 31 December 2019, the Bank's liquid assets stand at P3,083M. This comprises mainly of cash and due from other banks – P2,032M, due from BSP – P535M, investment securities at fair value through other comprehensive income (FVOCI) – P324M, and investment securities at amortized cost – P192M. During the same period, the Bank's minimum liquidity ratio of 97.076% is significantly higher than the required 20%.

The Bank's has a liquidity contingency plan which addresses two (2) crisis scenarios classified according to prospective length or duration: a) short-term liquidity crisis, and b) medium-term liquidity crisis. The Bank's liquidity contingency plan will trigger if withdrawals on deposit liabilities from either regular banking unit or foreign currency deposit unit (FCDU) unit exceeding 50% of the Bank's total deposit liabilities for a period of up to 3 months (short-term liquidity crisis) or for a period of > 3 months to 2 years (medium-term liquidity crisis).

On the Bank's liquidity stress testing as 31 December 2019 with an assumption of 50% decrease in its deposit liabilities, the Bank will be able to satisfy its liquidity needs at a minimal amount of projected cost of financing/amount of loss revenue amounting to P5.31M.

Legal Risk

The Management believes that, liabilities or losses, if any, arising from the Bank's currently identified legal risk, would not have a material effect on the financial position and results of operations of the Bank. The Bank's risk management system covers policies and procedures in handling legal risk which are strictly implemented. The Bank has a Legal Department who is in charge of the management and prevention of legal risk and has retainer services agreement with a law firm to provide legal services.

Compliance Risk

The Bank's exposures to compliance risk are properly addressed. The Bank adopted a compliance risk management system and its Board of Directors generally addresses key aspects of compliance risk. Appropriate actions have been undertaken to comply with banking laws, BSP rules and regulations, and other regulatory requirements. The Board of Directors appointed Chief Compliance Officer to oversee the implementation of compliance function. Likewise, the Bank's Compliance Program was formulated and it adequately and generally covers compliance issues and concerns.

The Chief Compliance Officer is responsible in cascading compliance matters to the concerned personnel. Each department also has their respective compliance coordinator to disseminate/circulate all relevant regulations in a timely and efficient manner. Reporting of compliance matters is being reported by the Chief Compliance Officer to Senior Management and Board of Directors on a monthly basis.

The Senior Management and Board of Directors are responsible in setting the tone at the top focusing on ethical climate and compliance culture among all personnel.

Reputational Risk

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services or continue servicing existing relationships.

In the banking sector where business relationships are based on trust and confidence, the management of reputational risk is crucial. Given that reputational risk issues generally are an outcome of operational lapses and concerns, reputational risk management is largely centered on strengthening banking service delivery. It is the Bank objective to always provide reliable, professional, efficient and customer-oriented services. The Bank also has a Consumer Assistance Mechanism to address client concerns and customer complaints, and has a proactive solicitation of customer feedback. Significant issues are required to be immediately reported to Senior Management, Board of Directors, and parent company for timely and proper management of the issues.

d. AML Governance and Culture

The Bank has its Money Laundering and Terrorist Financing Prevention Program (MTPP) approved by the Board which needs to be observed by all concerned personnel. The Board and Senior Management exercise its oversight function in the effective implementation of the Bank's MTPP which is being managed by the Bank's Compliance Department. It also provides for appropriate monitoring, management information system, and effective implementation to ensure that the Bank is not being use as a medium to legitimize proceeds of unlawful activity or to facilitate or finance terrorism. AML internal controls and audit is also in place to ensure adequate and effective implementation of the Bank's MTPP. The Bank also conducted an annual AML training program for its employees as well as AML orientation program to all newly hired employees. The Bank recently acquired a new AML system to enhance the implementation and monitoring of all AML-related concerns especially to analyze customer data and detect suspicious transactions.

Independent Auditors' Report and
Audited Financial Statements
As at December 31, 2019 and December 31, 2018 and for period ended December 31, 2019 and December 31, 2018

pwc

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholder of
Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)
G-1A/B, Chatham House Condominium
116 Valero cor. V.A. Rufino Streets
Salcedo Village, Makati City 1227
Philippines

Report on the Audits of the Financial Statements

Our Opinion

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

What we have audited

The financial statements of the Bank comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of total comprehensive income for the years ended December 31, 2019 and 2018;
- the statements of changes in equity for the years ended December 31, 2019 and 2018;
- the statements of cash flows for the years ended December 31, 2019 and 2018; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Isla Lipana & Co.

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 under Circular No. 1074 and by the Bureau of Internal Revenue under Revenue Regulations No. 15-2010 as disclosed in Notes 24 and 25, respectively, to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRSs. 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.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 8, 2019, Makati City
SEC A.N. (individual) as general auditors 1775-A, Category A; effective until September 4, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 112-071-386
BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
May 8, 2020

Isla Lipana & Co.

Statements Required by Rule 68
Securities Regulation Code (SRC)

To the Board of Directors and Shareholder of
Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)
G-1A/B, Chatham House Condominium
116 Valero cor. V.A. Rufino Streets
Salcedo Village, Makati City 1227
Philippines

We have audited the financial statements of Yuanta Savings Bank Philippines, Inc. (the "Bank") as at and for the year ended December 31, 2019, on which we have rendered the attached report dated May 8, 2020.

In compliance with SRC Rule 68 and based on the certification received from the Bank's corporate secretary and the results of our work performed, as at December 31, 2019, the Bank has one (1) shareholder owning one hundred (100) or more shares.

Isla Lipana & Co.

John-John Patrick V. Lim
Partner
CPA Cert. No. 83389
P.T.R. No. 0007706, issued on January 8, 2019, Makati City
SEC A.N. (individual) as general auditors 1775-A, Category A; effective until September 4, 2022
SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021
TIN 112-071-386
BIR A.N. 08-000745-017-2018, issued on December 10, 2018; effective until December 9, 2021
BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City
May 8, 2020

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Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Financial Position
December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
ASSETS			
Cash and other cash items	2	27,543,785	32,332,315
Due from Bangko Sentral ng Pilipinas (BSP)	2	534,906,206	331,958,742
Due from other banks	2,3	2,004,471,031	861,589,197
Investment securities at fair value through other comprehensive income (FVOCI)	4	323,517,460	297,800,280
Investment securities at amortized cost	4	192,374,265	347,512,857
Loans and receivables, net	5	687,376,567	598,554,634
Bank premises, furniture, fixtures and equipment, net	6	127,712,345	122,298,703
Deferred tax assets, net	16	3,277,547	16,233,631
Other assets, net	7	62,742,925	50,686,702
TOTAL ASSETS		3,963,922,132	2,658,967,061
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	8	1,689,419,792	1,752,694,620
Manager's checks		5,197,218	2,734,424
Accrued interest and other expenses	9	14,555,587	12,645,625
Income tax payable		107,926	437,488
Deposit for future stock subscription	10	1,200,000,000	-
Retirement benefit obligation	17	6,000,782	10,329,331
Lease liability	19	3,230,659	-
Other liabilities	10	20,454,660	7,225,523
Total liabilities		2,938,966,624	1,786,067,011
EQUITY			
Capital stock	11	1,200,000,000	1,000,000,000
Additional paid-in capital	11	9,000,000	9,000,000
Deficit		(184,017,725)	(115,954,361)
Other comprehensive losses, net	12	(26,767)	(20,145,589)
Total equity		1,024,955,508	872,900,050
TOTAL LIABILITIES AND EQUITY		3,963,922,132	2,658,967,061

(The notes on pages 1 to 55 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Total Comprehensive Income
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
INTEREST INCOME			
Loans and receivables	5	39,296,631	37,559,934
Due from BSP and other banks	2,3	30,806,332	28,096,163
Investment securities at FVOCI, net	4	14,075,778	14,085,966
Investment securities at amortized cost	4	12,893,807	15,749,943
		97,072,548	95,492,006
INTEREST EXPENSE ON DEPOSITS	8	17,348,575	16,341,865
NET INTEREST INCOME		79,723,973	79,150,141
PROVISION FOR IMPAIRMENT LOSSES			
Loans and receivables	5	8,230,691	733,016
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		71,493,282	78,417,125
OTHER INCOME			
Service charges and fees	13	11,099,942	16,352,604
Foreign exchange gain, net		5,116,601	9,611,855
Miscellaneous income, net		1,270,322	992,343
		17,486,865	26,956,802
OPERATING EXPENSES			
Compensation and employee benefits	17	58,705,736	64,738,164
Depreciation and amortization	6,7	25,325,662	18,816,645
Taxes and licenses		9,080,486	11,978,015
Reconciliation gain on Due from BSP	15	-	(6,166,481)
Other expenses	14,19	48,384,518	37,879,856
		141,496,402	127,246,199
LOSS BEFORE INCOME TAX		(52,516,255)	(21,872,272)
INCOME TAX EXPENSE	16	(15,195,685)	(27,056,005)
NET LOSS FOR THE YEAR		(67,711,940)	(48,928,277)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be subsequently reclassified to profit or loss			
Unrealized fair value gain (loss) on investment in debt securities measured at FVOCI, net of tax	4	17,704,586	(13,883,160)
Item that will not be reclassified to profit or loss			
Unrealized fair value gain (loss) on investments in equity securities measured at FVOCI, net of tax	4	765,000	(148,630)
Remeasurement gain on retirement benefits, net of tax	17	1,649,236	277,587
Total other comprehensive income (loss)		20,118,822	(13,754,203)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(47,593,118)	(62,682,480)

(The notes on pages 1 to 55 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Changes in Equity
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Capital Stock (Note 11)	Additional Paid-in Capital (Note 11)	Deficit	Other Comprehensive Losses, net (Note 12)	Total
Balance at January 1, 2018	1,000,000,000	9,000,000	(67,026,084)	(6,391,386)	935,582,530
Total comprehensive loss					
Net loss for the year	-	-	(48,928,277)	-	(48,928,277)
Other comprehensive loss	-	-	-	(13,754,203)	(13,754,203)
Total comprehensive loss for the year	-	-	(48,928,277)	(13,754,203)	(62,682,480)
Balance at December 31, 2018	1,000,000,000	9,000,000	(115,954,361)	(20,145,589)	872,900,050
Effect of adoption of PFRS 16 (Note 23)	-	-	(351,424)	-	(351,424)
Balance at January 1, 2019, as restated	1,000,000,000	9,000,000	(116,305,785)	(20,145,589)	872,548,626
Total comprehensive loss					
Net loss for the year	-	-	(67,711,940)	-	(67,711,940)
Other comprehensive income	-	-	-	20,118,822	20,118,822
Total comprehensive loss for the year	-	-	(67,711,940)	20,118,822	(47,593,118)
Transaction with owner					
Issuance of capital stock (Note 11)	200,000,000	-	-	-	200,000,000
Balance at December 31, 2019	1,200,000,000	9,000,000	(184,017,725)	(26,767)	1,024,955,508

(The notes on pages 1 to 55 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Cash Flows
For the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(52,516,255)	(21,872,272)
Adjustments for:			
Depreciation and amortization	6,7	25,325,662	18,816,645
Provision for impairment losses	5	8,230,691	733,016
Retirement benefits expense	17	2,800,962	2,902,911
Unrealized foreign exchange loss (gain)	22.8	1,464,506	(1,958,319)
Interest income	2,3,4,5	(97,072,548)	(95,492,006)
Interest received		96,194,782	93,875,171
Interest expense	8,19	17,386,533	16,341,865
Interest paid		(15,476,571)	(16,673,092)
(Gain) loss on disposal of Bank premises, furniture, fixtures and equipment and intangible assets		(78,481)	125
Operating loss before changes in operating assets and liabilities		(13,740,719)	(3,325,956)
Changes in operating assets and liabilities			
(Increase) decrease in:			
Due from other banks		(98,094,208)	159,175,104
Loans and receivables		(93,821,500)	(207,697,320)
Other assets		(6,486,104)	1,488,342
Increase (decrease) in:			
Deposit liabilities		(63,274,828)	226,591,771
Manager's check		2,462,793	(10,710,527)
Accrued interest and other expenses		1,909,962	4,211,319
Other liabilities		10,671,032	(3,412,799)
Net cash (used in) from operations		(260,373,572)	166,319,934
Income taxes paid		(10,790,106)	(11,155,220)
Retirement contribution paid	17	(4,773,460)	-
Net cash (used in) from operating activities		(275,937,138)	155,164,714
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investment securities at amortized cost	4	-	(96,000,000)
Computer software	7	(15,519,437)	(33,792,373)
Investment securities at FVOCI	4	-	(18,000,000)
Bank premises, furniture, fixtures and equipment	6	(15,555,370)	(5,527,163)
Proceeds from:			
Maturity of investment security at amortized cost	4	152,574,084	214,711,221
Proceeds from sale of Bank premises, furniture, fixtures and equipment		130,600	-
Net cash from investing activities		121,629,877	61,391,685
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital stock	11	200,000,000	-
Proceeds from additional capital infused by Yuanta Commercial Bank Co., Ltd.	10	1,200,000,000	-
Payment of the principal portion of lease liability	19	(2,558,106)	-
Net cash from financing activities		1,397,441,894	-
NET INCREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		1,243,134,633	216,556,399
CASH AND CASH EQUIVALENTS, BEGINNING		939,591,891	726,955,219
Effect of foreign exchange rate changes on cash and cash equivalents		(188,073)	(3,919,725)
CASH AND CASH EQUIVALENTS, END	2	2,182,538,451	939,591,891

(The notes on pages 1 to 55 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Notes to Financial Statements
As at and for the years ended December 31, 2019 and 2018
(All amounts in Philippine Peso, unless otherwise stated)

Note 1 - General information

Yuanta Savings Bank Philippines, Inc. (formerly TongYang Savings Bank, Inc.) (the "Bank") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on August 1, 1997. The Bank was authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a thrift bank on October 24, 1997 and started its commercial operations on November 5, 1997.

The Bank is engaged in the general business of savings and mortgage banking and exercises all the rights, attributes, powers and privileges, together with the assumption of all the duties and obligations of a savings and mortgage bank. As a banking institution, the Bank's operations are regulated and supervised by the BSP. On June 14, 2007, the Monetary Board of the BSP granted the Bank the authority to operate a Foreign Currency Deposit Unit (FCDU). On August 1, 2007, the Bank started its FCDU operations.

Under Section 8 of Republic Act (RA) 7906, at least forty percent (40%) of the voting stock of a thrift bank which may be established after the approval of RA 7906 shall be owned by citizens of the Philippines. However, on December 8, 2004, the BSP through its Monetary Board (MB) approved the acquisition of the Bank's one hundred percent (100%) common shares by Tong Yang Securities Korea Co., Ltd.

On August 30, 2013, upon the approval of the SEC, the Bank changed its name from Tong Yang Savings Bank, Inc. to TongYang Savings Bank, Inc.

The Bank was a wholly-owned subsidiary of Tong Yang Securities, Inc. (TYSI) until Yuanta Securities Korea Co. Ltd. (Parent Company) acquired TYSI's shares in the Bank in July 2014. Yuanta Securities Korea Co. Ltd. is 54%-owned by Yuanta Security Asia Financial, a Taiwanese entity owned by Yuanta Holdings Inc., which is the Bank's ultimate Parent Company.

On August 5, 2015, Yuanta Securities Korea Co., Ltd. ("Trustee") and Yuanta Commercial Bank Co., Ltd. ("Trustor") ("YCB") have agreed to execute a Deed of Assignment of Shares pursuant to which the Trustee shall assign, transfer and convey to the Trustor all of its rights, title and interest appurtenant to all issued and outstanding capital stock of the Bank owned by the Trustee. On December 7, 2015, YCB invested additional capital to subscribe to 644 million shares at P1 par. Furthermore, in November 2019, YCB invested additional capital to subscribe to 1.4 billion shares at P1 par while the increase in authorized capital stock of 1.2 billion has not yet been presented for filing with the SEC (Notes 10 and 11). As at December 31, 2019 and 2018, the Bank is a wholly-owned subsidiary of YCB with total capitalization of P1.2 billion and P1 billion, respectively.

On July 18, 2016, upon the approval of the SEC, the Bank changed its name from TongYang Savings Bank, Inc. to Yuanta Savings Bank Philippines, Inc. The Bank also applied for the change of its accounting period from fiscal year ending June 30 to calendar year ending December 31 which was subsequently approved by the Bureau of Internal Revenue (BIR) on August 5, 2016.

The Bank's registered address is at G-1A/B, Chatham House Condominium, Rufino corner Valero Streets, Salcedo Village, Makati City. As at December 31, 2018 the Bank has two (2) existing branches located in Ortigas and Alabang. As at December 31, 2019, the Bank has 78 employees (2018 - 87).

In line with the COVID-19 outbreak in 2020, management believes that the impact is currently not quantifiable, but is nonetheless believed to have an immaterial impact to the Bank's results of operations. Measures to manage financial risks are in place to ensure that future events that expose risk to the Bank are kept to a minimal extent.

The financial statements of the Bank were approved and authorized for issue by the Board of Directors (BOD) on May 7, 2020. There are no material events that occurred subsequent to May 7, 2020 until May 8, 2020.

Note 2 - Cash and cash equivalents; Due from BSP

Details of cash and cash equivalents presented in the statement of cash flows as at December 31 follow:

	Note	2019	2018
Cash and other cash items		27,543,785	32,332,315
Due from BSP		534,906,206	331,958,742
Due from other banks	3	1,620,088,460	575,300,834
		2,182,538,451	939,591,891

Cash and other cash items pertain to coins, and local and foreign currency notes on hand. Short-term placements to other banks with maturities of three (3) months or less from dates of placement are included as part of cash and cash equivalents for purposes of reporting cash flows.

Due from BSP as at December 31 consists of:

	2019	2018
Demand deposit account (DDA)	35,380,726	70,958,742
Overnight deposit facility (ODF)	39,000,000	-
BSP - Reverse repurchase facility (RRP)	60,525,480	61,000,000
BSP - Time deposit facility (TDF)	400,000,000	200,000,000
	534,906,206	331,958,742

DDA represents reserve requirements as provided under Section 94 of Republic Act (RA) No. 7653. It also includes the Bank's respective working funds to settle transactions due to/from BSP and with other banks, which are subject to payment in legal tender upon demand, by the presentation of checks as provided under Section 58 of RA No. 7653. As at December 31, 2019 and 2018, the Bank is in full compliance with the reserve requirements.

ODF represents placement opened by the Bank and bears interest rates averaging between 3.50%-4.25%.

RRP represents placement with the reverse repurchase facility of the BSP.

TDF represents placement with the key liquidity absorption facility of the BSP with maturity ranging from 7 to 28 days.

For the year ended December 31, 2019, interest income from due from BSP amounts to P10,633,492 (2018 - P14,958,788).

Note 3 - Due from other banks

The account as at December 31 consists of:

	2019	2018
Deposit accounts	87,777,953	134,585,885
Placements	1,916,693,078	727,003,312
	2,004,471,031	861,589,197

Deposit accounts generally earn interest based on daily bank deposit rates.

The Bank's placements with other banks consist of time deposits with local banks denominated in US dollar for a period of one month to three years with annual interest rates of 1.50% to 3.70% as at December 31, 2019 (2018 - 1.00% to 2.50%). Investments which have maturity dates of three months or less from placement date as at December 31, 2019 amounting to P1,620,088,460 (2018 - P575,300,834) are considered as cash equivalents (Note 2) in the statement of cash flows.

For the year ended December 31, 2019, interest income with other banks amounts to P20,172,840 (2018 - P13,137,375).

Note 4 - Investment securities, net

Investment securities at fair value through other comprehensive income (FVOCI)

The account at December 31 consists of:

	2019	2018
Government debt securities		
Current	100,157,000	-
Non-current	153,421,500	234,985,000
	253,578,500	234,985,000
Corporate debt securities	67,638,960	61,415,280
Proprietary shares - Country club shares, net	2,300,000	1,400,000
	323,517,460	297,800,280

Government and corporate debt securities as of December 31, 2019 and 2018 will mature starting April 2020 to December 2022. All corporate debt securities are non-current.

The movements in investment securities at FVOCI follow:

	2019	2018
At beginning of year	297,800,280	299,907,400
Additions	-	18,000,000
Amortization of premium, net	(392,278)	(324,034)
Fair value adjustments	26,109,458	(19,783,086)
At end of year	323,517,460	297,800,280

As at December 31, 2019, a portion of the fair value adjustment amounting to P900,000 (2018 - P174,859) relates to the Bank's equity securities. The fair value adjustments are presented in the statement of total comprehensive income net of applicable income taxes.

For the year ended December 31, 2019, interest income from government debt securities and corporate debt securities amounts to P14,075,778 (2018 - P14,085,966).

Investment securities at amortized cost

The account at December 31 consists of:

	2019	2018
Government debt securities		
Current	14,964,763	175,961,939
Non-current	126,643,110	83,679,624
	141,607,873	259,641,563
Corporate debt securities		
Current	-	37,000,000
Non-current	50,766,392	50,871,294
	50,766,392	87,871,294
	192,374,265	347,512,857

Debt securities carry an interest of 3.25% to 8.60% as at December 31, 2019 (2018 - 1.50% to 8.60%) with various maturity dates from 2020 to 2027.

The movements in investment securities at amortized cost follow:

	2019	2018
At beginning of year	347,512,857	463,293,969
Additions	-	96,000,000
Maturities	(152,574,084)	(214,711,221)
Amortization of discount, net	105,373	175,523
Effect of foreign exchange rate changes	(2,669,881)	2,754,586
At end of year	192,374,265	347,512,857

For the year ended December 31, 2019, interest income from these investments amounts to P12,893,807 (2018 - P15,749,943).

Unquoted debt securities

As mandated by the BSP under Manual of Regulations for Banks (MORB) Section 341, all banks are required to set aside an amount equivalent to at least twenty five percent (25%) of their loanable funds for agricultural credit in general, of which an amount equivalent to at least ten percent (10%) of the loanable funds shall be available for agrarian reform credit. As an eligible alternative compliance, the Bank acquired Agrarian Reform Bonds of the Philippine Government with issue dates after April 20, 2010. As at December 31, 2019, the Bank holds bonds issued by Land Bank of the Philippines (LBP), as alternative compliance to agricultural credit, amounting to P64,256,621 (2018 - P80,509,806).

As also mandated by the BSP under MORB Section 342, all banks shall, for a period of ten (10) years from June 17, 2008 to June 16, 2018, allocate at least eight percent (8%) for micro and small enterprise (MSEs) and at least two percent (2%) for medium enterprises (MEs) of their total loan portfolio based on their balance sheet as of the end of previous quarter, and make it available for MSME credit. In 2018, the compliance to the mandatory credit allocation of MSME has ended. As at December 31, 2019, the Bank does not hold MSME notes for alternative compliance (2018 - P37,000,000).

As at December 31, 2019, the amortized cost securities are net of unamortized discount of P2,634,302 (2018 - P4,060,432).

Note 5 - Loans and receivables, net

The account as at December 31 consists of:

	2019	2018
Receivable from customers		
Commercial	492,499,595	472,361,054
Consumption	148,161,867	179,280,455
Real estate	34,782,418	27,363,932
	675,443,880	679,005,441
Unearned interest and discount	-	(846,733)
	675,443,880	678,158,708
Other receivables		
Accrued interest receivables	14,034,549	13,156,783
Accounts receivables	939,067	883,133
	14,973,616	14,039,916
	690,417,496	692,198,624
Allowance for credit losses		
Stage 1	(1,126,729)	(11,184,227)
Stage 2	(82,258)	(119,931)
Stage 3	(1,831,942)	(82,339,832)
	(3,040,929)	(93,643,990)
	687,376,567	598,554,634

Interest income on loans and receivables for the years ended December 31 consists of:

	2019	2018
Receivables from customers		
Commercial	25,288,878	15,571,338
Consumption	12,013,198	21,133,115
Real estate	1,994,555	855,481
	39,296,631	37,559,934

Below is the breakdown of allowance for credit losses as December 31:

	2019	2018
Receivable from customers	2,995,671	93,432,560
Accrued interest receivables	45,258	211,430
	3,040,929	93,643,990

The allowance for credit losses recognized is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime expected credit loss (ECL);
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments derecognized in the period;
- Impact on the measurement of ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD) in the period;
- Impact on measurement of ECL due to changes made to models and assumptions;
- Foreign exchange translations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables summarize the changes in the loss allowance for loans and receivables between the beginning and the end of the annual period. No movement analysis of allowance for credit losses is presented for other financial assets subject to impairment as the related loss allowance is deemed insignificant for financial reporting purposes.

Allowance for credit losses	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
At January 1, 2019	11,184,227	119,931	82,339,832	93,643,990
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(935,335)	-	(684)	(936,019)
Transfer in (out of) Stage 2	-	72,848	-	72,848
Transfer in (out of) Stage 3	-	-	863,171	863,171
New financial assets originated	63,054	-	-	63,054
Financial assets derecognized during the period	(1,529,338)	-	(2,993,334)	(4,522,672)
Changes in PD, EAD and LGD	(3,756,311)	(3,449)	(11,313)	(3,771,073)
	(6,157,930)	69,399	(2,142,160)	(8,230,691)
Foreign exchange	-	-	(100,232)	(100,232)
Other movements	(3,899,568)	(107,072)	(78,265,498)	(82,272,138)
At December 31, 2019	1,126,729	82,258	1,831,942	3,040,929

Allowance for credit losses	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
At January 1, 2018	9,182,209	55,759	85,729,557	94,967,525
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(356,136)	86,337	5,183,652	4,913,853
Transfer in (out of) Stage 2	-	(15,383)	1,411,371	1,395,988
Transfer in (out of) Stage 3	646	-	(119,956)	(119,310)
New financial assets originated	5,902,687	-	-	5,902,687
Financial assets derecognized during the period	(736,873)	-	(7,735,901)	(8,472,774)
Changes in PD, EAD and LGD	(2,808,306)	(6,782)	(72,340)	(2,887,428)
	2,002,018	64,172	(1,333,174)	733,016
Foreign exchange	-	-	456,904	456,904
Other movements	-	-	(2,513,455)	(2,513,455)
At December 31, 2018	11,184,227	119,931	82,339,832	93,643,990

In July 2019, certain impaired consumer loans under Stage 3 with an outstanding balance of P101.3 million were written off which resulted in the reduction of the Stage 3 allowance for credit losses by P79.7 million, as reflected in Other movements.

In 2018, the BSP issued Circular 1011 which mandates among others, banks to set up general loan loss provision (GLLP) equal to 1% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Under the said Circular, if the PFRS 9 loan loss provision is lower than the required GLLP, the deficiency shall be recognized as an appropriation of retained earnings or surplus. Due to the deficit position of the Bank, no appropriation was made at December 31, 2019 on the excess of the GLLP over the PFRS 9 loan loss provision amounting to P5.74 million (2018 - nil).

Details of receivables from customers as at December 31 are as follows:

a) *Concentration as to industry/economic sector (gross of unearned interest and discount)*

	2019	%	2018	%
Community, social and personal activities	61,335,430	9.08	219,896,493	32.39
Service activities	14,625,260	2.17	169,695,607	24.99
Agriculture, forestry and fishing	-	-	125,000,000	18.41
Construction	35,800,000	5.30	57,000,000	8.39
Wholesale and retail, trade, repair of motor vehicles and motorcycles	214,937,828	31.82	47,816,213	7.04
Real estate, renting and business activities	28,745,362	4.26	27,363,932	4.03
Financial institution	320,000,000	47.38	-	-
Others	-	-	32,233,196	4.75
	675,443,880	100.00	679,005,441	100.00

Others include manufacturing, accommodation and food service activities, transportation and storage, human health and social work activity, and arts, entertainment and recreation.

b) *As to collateral (gross of unearned interest and discount)*

	2019	2018
Secured by:		
Real estate	141,746,653	135,458,676
Chattel	32,288,729	109,291,390
Others	16,000,000	1,843,841
	190,035,382	246,593,907
Unsecured	485,408,498	432,411,534
	675,443,880	679,005,441

The unsecured portion of loans and receivables by collateral type is covered by post-dated checks.

Non-performing loans of the Bank, net of specific allowance for credit losses, are as follows:

	2019	2018
Non-performing loans (NPL)	1,878,432	105,709,543
Less: Allowance for credit losses	(1,831,942)	(82,339,832)
	46,490	23,369,711

BSP Circular 941 *Amendments to Regulations on Past Due and Non-Performing Loans* states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Note 6 - Bank premises, furniture, fixtures and equipment, net

The movements and the components of the account follow:

	Bank premises	Leasehold improvement	Furniture, fixtures and equipment	Transportation equipment	Total
Cost					
Balance at beginning of year	151,993,584	3,765,166	44,714,156	598,000	201,070,906
Effect of adoption of PFRS 16 (Note 23)	5,286,730	-	-	-	5,286,730
Balance at beginning of year, as restated	157,280,314	3,765,166	44,714,156	598,000	206,357,636
Additions	-	-	14,104,370	1,451,000	15,555,370
Disposal	-	-	-	(148,900)	(148,900)
Balance at end of year	157,280,314	3,765,166	58,818,526	1,900,100	221,764,106
Accumulated depreciation					
Balance at beginning of year	56,636,320	3,587,455	18,446,098	102,330	78,772,203
Depreciation	5,722,254	53,313	9,240,700	360,077	15,376,344
Disposal	-	-	-	(96,786)	(96,786)
Balance at end of year	62,358,574	3,640,768	27,686,798	365,621	94,051,761
Net carrying amounts, December 31, 2019	94,921,740	124,398	31,131,728	1,534,479	127,712,345

	Bank premises	Leasehold improvement	Furniture, fixtures and equipment	Transportatio n equipment	Total
Cost					
Balance at beginning of year	151,993,584	3,765,166	72,515,118	6,495,556	234,769,424
Additions	-	-	5,078,063	449,100	5,527,163
Disposal	-	-	(32,879,025)	(6,346,656)	(39,225,681)
Balance at end of year	151,993,584	3,765,166	44,714,156	598,000	201,070,906
Accumulated depreciation					
Balance at beginning of year	53,359,751	3,534,142	42,385,419	6,246,899	105,526,211
Depreciation	3,276,569	53,313	8,939,599	202,072	12,471,553
Disposal	-	-	(32,878,920)	(6,346,641)	(39,225,561)
Balance at end of year	56,636,320	3,587,455	18,446,098	102,330	78,772,203
Net carrying amounts, December 31, 2018	95,357,264	177,711	26,268,058	495,670	122,298,703

Following the Bank's adoption of PFRS 16, Leases, on January 1, 2019, it has recognized a right-of-use asset from the leased space for its Ortigas branch and is included in Bank premises (Note 19).

Apart from right-of-use asset, Bank premises pertain to the Bank's head office in Makati and branch in Alabang.

Management believes that there are no indications that the bank premises, furniture, fixture and equipment are impaired.

Note 7 - Other assets, net

The account as at December 31 consists of:

	2019	2018
Computer software, net	46,397,345	40,827,226
Prepaid expenses	3,718,584	1,424,802
Miscellaneous deposits	7,527,081	5,798,081
Miscellaneous assets	5,099,915	2,636,593
	62,742,925	50,686,702

The movements of computer software follow:

	2019	2018
Cost		
At beginning of year	51,668,337	18,835,564
Additions	15,519,437	33,792,373
Disposal	(2,985)	(959,600)
At end of year	67,184,789	51,668,337
Accumulated amortization		
At beginning of year	10,841,111	5,455,614
Amortization during the year	9,949,318	6,345,092
Disposal	(2,985)	(959,595)
At end of year	20,787,444	10,841,111
Net carrying amount	46,397,345	40,827,226

Miscellaneous deposits pertain to rental deposits and other deposits to various suppliers, while miscellaneous assets consist mainly of documentary stamp taxes and office supplies.

Note 8 - Deposit liabilities

The account as at December 31 consists of:

	2019	2018
Demand	586,478,939	467,633,168
Savings	268,661,279	347,806,307
Special savings	834,279,574	937,255,145
	1,689,419,792	1,752,694,620

The Bank's deposits bear annual interest at rates ranging from 0.25% to 3% in 2019 (2018 - 0.25% to 1.50%).

As at December 31, 2019, the Bank has complied with the required statutory and legal reserves amounting to P34.41 million (December 31, 2018 - P67.67 million) (Note 2).

The details of interest expense on deposit liabilities for the years ended December 31 are as follows:

	2019	2018
Demand	-	744,194
Savings	607,839	751,429
Special savings	16,740,736	14,846,242
	17,348,575	16,341,865

Note 9 - Accrued interest and other expenses

The account as December 31 consists of:

	2019	2018
Accrued interest	1,894,092	843,075
Accrued expenses		
Staff benefits	3,343,473	4,171,147
Management and other professional fees	3,037,279	2,726,476
Taxes	2,186,334	1,882,667
Others	4,094,409	3,022,260
	14,555,587	12,645,625

Others mainly pertain to accrued penalties, director's fees, and purchases of equipment and intangible assets awaiting final billing.

Note 10 - Deposit for future stock subscription; Other liabilities

Deposit for future stock subscription

In 2019, the Bank received cash consideration amounting to P1.4 billion from its Parent Company as an additional capital of the Bank. The portion of the consideration amounting to P200 million increased the Bank's issued and outstanding capital stock. Accordingly, unissued shares of the Bank totaling to P200 million were fully subscribed by the Parent Company (Note 11). On August 29, 2019, the Bank's Parent Company and the BOD concurred and approved the increase in authorized capital stock from P1.2 billion divided into 1.2 billion shares to P3.0 billion divided into 3.0 billion shares with a par value of P1 per share. The remaining consideration amounting to P1.2 billion was recognized as Deposit for future stock subscription which is classified as a liability (Note 23.12). As at December 31, 2019, the Bank's application to increase its authorized capital stock is pending approval by the BSP and has not yet been presented for filing with the SEC.

Other liabilities

The account as at December 31 consists of:

	2019	2018
Accounts payable	18,675,070	5,902,807
Withholding tax	662,720	355,837
SSS, Philhealth, and Pag-ibig contributions payable	254,376	259,210
Others	862,494	707,669
	20,454,660	7,225,523

Accounts payable mainly include unpaid purchases from various suppliers.

The Bank does not have any secured liabilities nor assets pledged as security as at December 31, 2019 and 2018.

Note 11 - Capital stock

The account as at December 31 consists of:

	2019	2018
Authorized capital stock	1,200,000,000	1,200,000,000
Issued and outstanding (at P1 par value per share)	1,200,000,000	1,000,000,000

Under MORB Section 111.1, the Bank has complied with the minimum capitalization set by the BSP which is P750 million for thrift banks with head office in Metro Manila with up to ten (10) branches.

Additional paid-in capital represents premium received from additional issuance of capital stock in 2003 and 2005.

In 2019, the Bank issued additional capital stock amounting to P200 million in line with the capital infusion made by the Parent Company (Note 10). As at December 31, 2019, the Bank's authorized capital stock is fully subscribed.

Note 12 - Other comprehensive losses, net

The account as at December 31 consists of:

	2019	2018
Cumulative actuarial losses on retirement	1,983,599	3,632,835
Unrealized fair value loss on investment securities at FVOCI	(1,956,832)	16,512,754
	26,767	20,145,589

The year-on-year movements of the foregoing items of other comprehensive losses are presented in the statement of total comprehensive income net of applicable income taxes.

Note 13 - Service charges and fees

Details of service charges and fees for the years ended December 31 are as follows:

	2019	2018
Penalties	2,647,189	8,407,835
Service charges and fees from:		
Remittances	3,857,210	4,045,085
Deposits	2,304,142	2,625,499
Loan issuances	2,291,000	1,274,135
Others	401	50
	11,099,942	16,352,604

Note 14 - Other expenses

Details of other expenses for the years ended December 31 are as follows:

	Note	2019	2018
Professional fees		8,253,409	3,774,618
Postage, telephone, cable and telegram		6,808,273	7,689,551
Repairs and maintenance		6,575,144	1,843,346
Insurance		4,694,144	4,199,654
Security, messenger and janitorial		4,004,499	3,831,821
Power, light and water		3,036,404	2,808,853
Litigation expenses		2,899,751	423,856
Travel and representation		2,797,232	2,068,506
Banking fees		2,244,255	1,146,966
Membership fees and dues		1,416,927	1,840,862
Directors fees		1,186,500	360,000
Stationery and supplies used		1,047,387	1,238,716
Rental	19	696,000	2,493,428
Fines and penalties		618,970	2,216,034
Interest expense on lease liability	19	37,958	-
Others		2,067,665	1,943,645
		48,384,518	37,879,856

Others consist mainly of trainings and seminar, supervision fee, inquiry and verification fees, and fuel.

Note 15 - Reconciliation gain on Due from BSP

In 2018, the Bank recognized the gain on reversal of write-off of Due from BSP of P6,166,481.

Note 16 - Income tax expense; Deferred tax assets (DTA), net

The following are the components of income tax expense for the years ended December 31:

	2019	2018
Current	10,460,544	11,185,476
Deferred	4,735,141	15,870,529
	15,195,685	27,056,005

A reconciliation between the income tax expense at the statutory rates and income tax expense at effective tax rate follows:

	2019	2018
Loss before income tax	(52,516,255)	(21,872,272)
Tax benefit on pretax loss at 30%	(15,754,876)	(6,561,682)
Tax effects of:		
Unrecognized NOLCO and MCIT	51,842,725	19,774,532
Derecognition of DTA on nonperforming loans	-	15,597,179
Non-deductible expenses	(18,066,555)	8,835,657
Income subjected to lower income tax rates	(7,189,650)	(6,861,503)
Tax exempt income	(287,248)	(2,003,587)
Others	4,651,289	(1,724,591)
Effective income tax expense	15,195,685	27,056,005

The components of the Bank's deferred tax assets and liabilities as December 31 are as follows:

	2019	2018
Deferred tax assets		
Retirement liability	1,800,235	3,098,799
Allowance for credit losses	912,279	6,395,747
MCIT	835,799	512,014
Unrealized foreign exchange loss	439,352	-
Unrealized fair value loss on equity investments at FVOCI	48,630	6,814,567
Others	115,187	-
	4,151,482	16,821,127
Deferred tax liabilities		
Unrealized fair value gain on debt investments at FVOCI	873,935	-
Unrealized foreign exchange gain	-	587,496
	873,935	587,496
Deferred tax assets, net	3,277,547	16,233,631

Movements in net deferred income tax assets are summarized as follows:

	2019	2018
At January 1	16,233,631	32,246,097
Amounts recognized in profit or loss	(4,735,141)	(15,870,529)
Amounts recognized in other comprehensive income	(8,220,943)	(141,937)
Effective income tax expense	3,277,547	16,233,631

Deferred income tax assets are recognized only to the extent that taxable income will be available against which the deferred income tax assets can be used. The Bank did not recognize deferred income tax assets on its NOLCO since the Bank does not expect that it will generate sufficient taxable income to allow all or part of its NOLCO to be utilized.

The details of the Bank's unexpired NOLCO are as follows:

Year of Incurrence	Year of Expiration	2019	2018
2019	2022	171,102,370	-
2018	2021	61,213,602	61,213,602
2017	2020	65,899,701	65,899,701
2016	2019	52,869,125	52,869,125
2015	2018	-	21,082,807
		351,084,798	201,065,235
Expired during the period		(52,869,125)	(21,082,807)
NOLCO not recognized		(298,215,673)	(179,982,428)
		-	-
Tax rate		30%	30%
Deferred income tax asset on NOLCO		-	-

As at December 31, the Bank has MCIT that can be claimed as deduction from future income tax payable as follows:

Year of Incurrence	Year of Expiration	2019	2018
2019	2022	835,799	-
2018	2021	512,014	512,014
2017	2020	898,437	898,437
2016	2019	2,129,734	2,129,734
2015	2018	-	1,508,490
		4,375,984	5,048,675
Expired during the year		(2,129,734)	(1,508,490)
MCIT not recognized		(1,410,451)	(3,028,171)
		835,799	512,014

Note 17 - Employee benefits

Compensation and employee benefits

Compensation and employee benefits for the years ended December 31 consist of:

	2019	2018
Salaries and wages	35,256,518	42,374,492
Retirement benefits expense	2,800,962	2,902,911
Other employee benefits	20,648,256	19,460,761
	58,705,736	64,738,164

Other employee benefits mainly include fringe benefits and SSS, Pag-ibig and Philhealth contributions.

Retirement benefits

The Bank accrues retirement benefits based on an annual actuarial valuation report covering regular and qualified employees.

The Bank maintains a non-contributory defined benefit type plan which provides a retirement benefit equal to 100% of Plan Salary for every year of credited service. Benefits are paid in lump-sum upon retirement or separation in accordance with the terms of the Plan.

The Bank's latest actuarial valuation was performed as of December 31, 2019.

Details of the retirement benefits obligation recognized in the statement of financial position as at December 31 are as follows:

	2019	2018
Present value of benefit obligations	11,536,880	11,196,701
Fair value of plan assets	(5,536,098)	(867,370)
Retirement benefit obligation	6,000,782	10,329,331

Details of the retirement benefits expense recognized in profit or loss for the years ended December 31 are as follows:

	2019	2018
Current service cost	2,185,191	2,406,431
Net interest cost	615,771	496,480
	2,800,962	2,902,911

Details of remeasurements recognized in other comprehensive income as at December 31 follow:

	2019	2018
Remeasurement gain - defined benefit liability	(2,598,307)	(493,129)
Remeasurement loss - plan assets	242,256	96,576
	(2,356,051)	(396,553)

The movements in the present value of retirement benefits obligation are as follows:

	2019	2018
At beginning of year	11,196,701	10,461,489
Current service cost	2,185,191	2,406,431
Interest cost	862,146	596,305
Remeasurements loss (gain) on obligation		
Changes in financial assumptions	514,247	(788,386)
Experience adjustments	(3,112,554)	295,257
Benefits paid	(108,851)	(1,774,395)
At end of year	11,536,880	11,196,701

The movements in the fair value of plan assets are as follows:

	2019	2018
At beginning of year	867,370	2,638,516
Contributions	4,773,460	-
Interest income	246,375	99,825
Remeasurement loss on return on plan assets	(242,256)	(96,576)
Benefits paid	(108,851)	(1,774,395)
At end of year	5,536,098	867,370

Plan assets at December 31 comprise of the following:

	2019	2018
Cash and cash equivalents	14%	100%
Unit Investment Trust Funds	86%	-
	100%	100%

The defined benefit plan typically exposes the Bank to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement obligation. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan's fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Bank.

The actuarial assumptions used to determine retirement benefit obligation as at December 31 are as follows:

	2019	2018
Discount rate	5.54%	7.70%
Salary increase rate	2.90%	2.90%

The discount rates as at December 31, 2019 and 2018 were based on approximated zero-coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment. The salary increase rate assumptions take into consideration the prevailing inflation rate and the Bank's policy.

Sensitivity analyses

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Bank's accrued retirement benefits. The sensitivity analysis is prepared assuming the fair value of asset does not vary during the period. The methods and assumptions are the same in prior years. A 100 bps increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Bank's retirement benefits obligation which affects the Bank's cash flow is as follows:

	Increase in assumption	Decrease in assumption
December 31, 2019		
Discount rate	(244,788)	257,269
Salary growth rate	261,433	(253,311)
December 31, 2018		
Discount rate	(273,260)	288,369
Salary growth rate	299,224	(288,384)

Expected maturity analysis of undiscounted retirement obligation follow:

	Less than 1 year	Between 1-5 years	Over 5 years
December 31, 2019	7,855,694	6,254,782	10,639,535
December 31, 2018	6,992,766	7,829,451	17,036,025

Except for the disclosure above and the preceding pages, no other transaction occurred with the retirement plan as at December 31, 2019 and 2018.

Note 18 - Related parties

The Bank, in the normal course of business, has transactions with related parties. The following are the specific relationship, amount of transactions, account balances, the terms and conditions and the nature of the consideration to be provided in the settlement.

a) Loans and credit accommodations to directors, officers, stockholders and other related interests (DOSRI)

The Bank, from time to time, provides financial assistance to officers and employees, as part of their benefit program, to meet housing, transportation, household and personal needs of officers and employees subject to the terms and conditions approved by the BSP. As at December 31, 2019, the Bank has unsecured outstanding loans with DOSRI amounting to P338,125 (2018 - P327,792).

b) Remuneration of key management personnel

The salaries and employee benefits given to the Bank's key management personnel for the year ended December 31, 2019 amount to P21,490,416 (2018 - P31,524,737). Key management personnel include managerial and higher level positions.

Note 19 - Lease

The Bank renewed its contract for the lease of its Ortigas branch for a term of five (5) years from March 1, 2016 to February 28, 2021. The lease is renewable upon mutual agreement of both parties and is cancellable upon 90 days of prior notice. The lease is also subject to 7% escalation on the rental fees starting on the third year. The Bank has paid a security deposit of P617,983 as of December 31, 2019 (2018 - 617,983), which are included as part of "Miscellaneous deposits" under Other assets in the statement of financial position (Note 7).

Lease terms are negotiated either on a collective or individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(a) From January 1, 2019 (PFRS 16)

The Company applied PFRS 16, Leases, using the modified retrospective approach, effective January 1, 2019 and therefore, the comparative information has not been restated. Accounting policy for leases, including short-term leases, are disclosed in Note 23.9.

From January 1, 2019, the Bank has recognized right-of-use asset (Note 6) and lease liability in relation to such lease agreement, which were previously accounted for as operating leases.

The associated right-of-use assets were adjusted by the amount of any prepaid or accrued lease payments at initial recognition and by the depreciation recognized during the year. As at December 31, 2019, right-of-use assets amount to P2,846,701 (Note 6).

The rollforward analysis of the amounts recognized from the adoption of PFRS 16 is shown below:

	Lease liability
January 1, 2019	5,788,765
Principal payments	(2,558,106)
Interest payments	(37,958)
Non-cash changes	-
Additions during the year	-
Interest expense	37,958
December 31, 2019	3,230,659

Maturity analysis of lease liability at December 31, 2019 follows:

	Amount
Within 12 months	2,762,591
Beyond 12 months	468,068
	3,230,659

The statements of total comprehensive income show the following amounts relating to leases:

	Amount
Depreciation expense of right-of-use asset	2,440,029
Interest expense (included in Other expenses)	37,958
Rent expense related to lease within 12 months or less	696,000
	3,173,987

The reconciliation between the operating lease commitments disclosed in applying Philippine Accounting Standard (PAS) 17 at December 31, 2018 discounted using the Bank's incremental borrowing rate and the lease liability recognized as at January 1, 2019 is as follows:

	Amount
Operating lease commitments, December 31, 2018	5,841,920
Add: Finance lease liabilities recognized at December 31, 2018	-
Less: Discounting effect using weighted average incremental borrowing rate (8.6%)	(53,155)
Lease liability, January 1, 2019	5,788,765

(b) Prior to January 1, 2019 (PAS 17)

Total lease payments charged to operations amount to P2,493,428 for the year ended December 31, 2018 (Note 14).

The future minimum rental payments on the above lease are as follows:

	2018
Due within the year	2,596,064
Due beyond 1 year but not more than 5 years	3,245,856
	5,841,920

Note 20 - Other disclosures

Significant contracts

On August 8, 2006, the Bank executed a memorandum of agreement with the Philippine Retirement Authority (PRA) which qualified the Bank as a depository or trustee for the requisite deposit of the retirees under the Retirement Program of the PRA. Under the program, the qualified retirees are required to open a time deposit, trust account or any other instrument that the Bank offers and will earn interest at a rate of 2% per annum. Upon maturity, unless otherwise directed by the retiree, the net interest earned will then become part of the principal.

As at December 31, 2019, total special savings deposits pertaining to this program amount to P663.79 million (2018 - P670.26 million) and included under "Special savings" in deposit liabilities (Note 8). Under the agreement, certain conditions should be met for the Bank to qualify as a depository unit of PRA, these include, but not limited to the following: maintenance of a capital adequacy, asset quality, management, earnings, liquidity risk, and sensitivity to market risk (CAMELS) rating of at least "3" from the BSP. As at December 31, 2019 and 2018, the Bank had satisfactorily complied with these PRA requirements.

As at December 31, 2019, PRA management fees amount to P10,077,162 and (2018 - P9,339,833) respectively, and is shown as part of interest expense on special savings account (Note 8).

Contingencies

At present, there are potential claims pending against the Bank. In the opinion of management, after reviewing all actions and proceedings with legal counsels, the aggregate liability or loss, if any, arising from the claims will not have a material effect on the Bank's financial condition or financial performance.

Note 21 - Critical accounting judgments and estimates

The preparation of the financial statements in compliance with PFRSs requires management to make judgments and estimates that affect amounts reported in the financial statements. The judgments and estimates used in the financial statements are based upon management's evaluation of facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances.

Critical accounting judgments

i. Realization of deferred income tax assets (Note 16)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied.

Critical accounting estimates

i. Measurement of the expected credit loss for loans and receivables under PFRS 9 (Note 5)

The measurement of the expected credit loss (ECL) for loans and receivables is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Allowance for credit losses on loans and receivables amounts to P3,040,929 as at December 31, 2019 (2018 - P93,643,990). Sensitivity analyses are further disclosed in Note 22.3.

ii. Estimated useful lives of bank premises, furniture, fixtures and equipment, and computer software (Notes 6 and 7)

The Bank estimates the useful lives of its bank premises, furniture, fixtures and equipment, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear. The estimation of the useful lives of the bank premises, furniture, fixtures and equipment and computer software are based on a collective assessment of industry practice and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of bank premises, furniture, fixtures and equipment and computer software would increase recorded operating expenses and decrease the related assets.

The Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimated useful lives of bank premises, furniture, fixtures and equipment, and computer software at the reporting date. One or more of the assumptions may differ significantly and as a result, the net carrying value of bank premises, furniture, fixtures and equipment, and computer software at the reporting date may differ significantly from the amount reported.

iii. Estimated retirement benefits obligation (Note 17)

The determination of the Bank's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 and include, among others, discount rates and salary increase rate. In accordance with PFRSs, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Retirement benefit obligation, including sensitivity analyses of certain assumptions, as at December 31, 2019 and 2018 is disclosed in Note 17.

Note 22 - Financial risk and capital management

22.1 Financial risk management objectives and policies

The Bank's operation involves the traditional banking activities of deposit-taking and lending to qualified individual or corporate borrowers and use of financial instruments. The Bank is exposed to the following risks from its use of financial instruments: (a) credit; (b) liquidity; (c) interest rate; (d) foreign currency; and (e) price risks.

The Bank is exposed to a variety of financial risks which results from its operating and investing activities. The Bank's risk management focuses on actively securing the Bank's short to medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

Risk management structure and process

The Bank has established sound risk management practices which include appropriate and reasonable contingency plans in handling risks and to guide the Bank's management and BOD to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintain capital commensurate with the risk exposure assumed.

The BOD and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. The BOD is responsible for understanding the nature and the level of risks taken by the Bank. The Senior Management is responsible for ensuring that risks are adequately managed both long-term and day-to-day basis. The Bank's BOD is in-charge of the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines, policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits.

To effectively manage the risks, the Bank identifies current and prospective risk exposures by understanding the sources of risks arising from the Bank's existing or new business initiatives. The head of each department identifies various risks on their current and future operations/products or services. Identifying risk includes identifying the Bank's desired level of risk exposure (risk appetite) based on its ability and willingness to assume the risk.

Risk appetite is set by the Bank's BOD after discussion of the impact, likelihood and alternative ways to manage risk with various department heads. Risk identification is a continuing process and occurs at both the transaction and portfolio level.

Once the sources of risks have been identified, risk measurement models are applied to quantify the Bank's risk exposures. Risk measurement systems and methodologies are integrated in the Bank's risk management process and results are interpreted in coordination with other risk exposures. The Bank's Asset and Liability Committee (ALCO) is responsible for the assessment of possible liquidity risks by establishing indicators of potential risk, assessment and matching potential sources of funds, and monitoring of internal as well as market indicators of liquidity problems of the Bank. ALCO is also responsible for communicating potential exposure of the Bank to interest risk and foreign currency risk to the Senior Management and BOD. The Bank has also created a Credit Committee (CRECOM) which is responsible for the stringent evaluation and approval of loans and for remedial actions on problematic loan accounts.

The Bank maintains an adequate system of internal controls to ensure the integrity of its risk management process. These internal controls are integral part of the Bank's overall system of control. An independent internal audit review on the risk management process is performed on an annual basis. The Internal Audit Department is mandated to conduct annual review and results are reported to the Audit Committee and Senior Management for proper action. The ALCO also conducts review of the guidelines and introduces revisions on the risk management process. The review of risk management process also includes assessment of the assumptions, parameters, and measures used.

22.2 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in these financial statements. It should be read in conjunction with the summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 22.2.1).
- An explanation of the Bank's internal grading system (Note 22.5.5).
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Note 23.3.1.4).
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 22.2.2).
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note 22.2.3).
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note 22.5.5).

22.2.1 Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The following enumerates the events triggering default for each financial asset:

(a) Receivables from customers

i. Principal or interest payments over 3 months (90 days) past due, or the bank has begun collection procedures or liquidation of collateral
ii. Cases where the court has initiated reorganization or liquidation proceedings
iii. Declaration of bankruptcy in court
iv. Debtor's loans from other banking institutions have been recognized as nonperforming, and reclassified as non-accrual or written off as bad debts
v. Debtor has filed for bankruptcy, reorganization, or other debt clearance proceedings
vi. Loans classified as "in default" according to the Bank's internal credit rating model

(b) Investments in debt instruments/ Due from BSP and other banks

i. External credit ratings of the instrument are "in default"
ii. Principal or interest payments over 3 months (90 days) past due, or are not made in accordance with the agreement
iii. Bankruptcy, reorganization, or other debt clearance proceedings has been filed
iv. Other breaches of contract by the debtor as assessed on a case-by-case basis

(c) *Other financial assets*

i. Miscellaneous deposits: At the balance sheet date, the deposit has not been returned at maturity or overdue from the collection date, unless the contractual terms specify it
ii. Remaining receivables: At the balance sheet date, the borrower is more than 90 days past due on its contractual payments

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated indicators at the time of the cure, and the asset no longer showing significant increase in credit risk compared to initial recognition.

22.2.2 Significant increase in credit risk (SICR)

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

At every balance sheet date, the Bank assesses the change in default risk over the lifetime of each financial asset to determine whether there has been a significant increase in credit risk since initial recognition. The Bank considers reasonable and supportable information (including forward-looking information) when determining whether there has been significant increase in credit risk. The main indicators taken into account for each financial asset are as follows:

(a) *Receivables from customers*

i. The borrower is over 30 days past due
ii. The Bank's internal credit rating of the asset is equivalent to a non-investment grade rating by an external agency, and the rating has dropped by more than two scales since initial recognition.
iii. Records of bad credit are confirmed after assessment

(b) *Investments in debt instruments/ Due from BSP and other banks*

i. The Bank's internal credit rating of the asset is equivalent to a non-investment grade rating by an external agency, and the rating has dropped by more than two scales since initial recognition
ii. The contractual payments of counterparties are more than 30 days past due

(c) *Other financial assets*

i. Miscellaneous deposits: At the balance sheet date, the deposit has not been returned at maturity
ii. Remaining receivables: At the balance sheet date, the borrower is more than 30 days past due on its contractual payment

22.2.3 Grouping of financial assets measured on a collective basis

Depending on the factors below, the Bank calculates ECL either on a collective or an individual basis.

Financial assets subject to ECL that have been assessed individually but for which no impairment is required and all individually insignificant exposure are then assessed collectively, in groups of assets with similar credit risk characteristics.

The Bank groups these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans.

22.3 Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 23 Summary of significant accounting policies and in Note 21 Critical accounting judgments, estimates and assumptions.

The following table shows the forecast of the key forward-looking economic variables used in each of the economic scenarios for the ECL calculations for financial years ended December 31. The figures for "Subsequent years" represent a long-term average and the same are applied for each scenario.

Key variables (2019)	ECL scenario	Assigned probabilities (%)	Next 12 months	2 to 5 years (Average)
Gross Domestic Product (GDP) (in million pesos)	Base scenario	50	10,608	11,989
	Upside	25	9,912	11,203
	Downside	25	6,305	7,086
Unemployment (%)	Base scenario	50	5.50%	5.50%
	Upside	25	5.30%	5.30%
	Downside	25	7.08%	6.86%
Trade balance (%)	Base scenario	50	(10.50%)	(10.50%)
	Upside	25	(14.70%)	(14.70%)
	Downside	25	(1.50%)	(1.50%)
Net Foreign Direct Investments Flows (%)	Base scenario	50	(32.40%)	(32.40%)
	Upside	25	157.30%	157.30%
	Downside	25	(53.40%)	(53.40%)
Overall Balance of Payments (in million US dollars)	Base scenario	50	778	778
	Upside	25	3,797	3,797
	Downside	25	(2,068)	(2,068)
Overall Surplus/Deficit (% of GDP)	Base scenario	50	(5.70)	(5.70)
	Upside	25	1.40	1.40
	Downside	25	(5.70)	(5.70)
Exports	Base scenario	50	6.10	6.10
	Upside	25	25.50	25.50
	Downside	25	(7.70)	(6.70)

Key variables (2018)	ECL scenario	Assigned probabilities (%)	Next 12 months	2 to 5 years (Average)
GDP (in million pesos)	Base scenario	50	9,912	11,681
	Upside	25	9,263	10,915
	Downside	25	5,297	30,527
Unemployment (%)	Base scenario	50	5.50%	5.50%
	Upside	25	5.48%	5.48%
	Downside	25	7.48%	7.21%

Sensitivity analysis

The loan portfolios have different sensitivities to movements in macroeconomic variables, so the above scenarios have varying impact on the expected credit losses of the Bank's portfolios. The allowance for impairment is calculated as the weighted average of expected credit losses under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was a decrease in the allowance for impairment by P113,225 from the baseline scenario as of December 31, 2019 (2018 - P232,267 increase).

22.4 Financial instrument by category

2019	Fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	At amortized cost	Total
Cash and other cash items	-	-	-	27,543,785	27,543,785
Due from BSP	-	-	-	534,906,206	534,906,206
Due from other banks	-	-	-	2,004,471,031	2,004,471,031
Investments securities at FVOCI	-	-	323,517,460	-	323,517,460
Investment securities at amortized cost	-	-	-	192,374,265	192,374,265
Loans and receivables, net	-	-	-	687,376,567	687,376,567
Miscellaneous deposits	-	-	-	7,527,081	7,527,081
	-	-	323,517,460	3,454,198,935	3,777,716,395

	Fair value through profit or loss	Designated at fair value through profit or loss	Other financial liabilities	Total
Deposit liabilities	-	-	1,689,419,792	1,689,419,792
Manager's checks	-	-	5,197,218	5,197,218
Accrued interest and other expenses	-	-	14,555,587	14,555,587
Deposit for future stock subscription	-	-	1,200,000,000	1,200,000,000
Lease liability	-	-	3,230,659	3,230,659
Other liabilities	-	-	18,675,070	18,675,070
	-	-	2,931,078,326	2,931,078,326

2018	Fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	At amortized cost	Total
Cash and other cash items	-	-	-	32,332,315	32,332,315
Due from BSP	-	-	-	331,958,742	331,958,742
Due from other banks	-	-	-	861,589,197	861,589,197
Investments securities at FVOCI	-	-	297,800,280	-	297,800,280
Investment securities at amortized cost	-	-	-	347,512,857	347,512,857
Loans and receivables, net	-	-	-	598,554,634	598,554,634
Miscellaneous deposits	-	-	-	5,798,081	5,798,081
	-	-	297,800,280	2,177,745,826	2,475,546,106

	Fair value through profit or loss	Designated at fair value through profit or loss	Other financial liabilities	Total
Deposit liabilities	-	-	1,752,694,620	1,752,694,620
Manager's checks	-	-	2,734,424	2,734,424
Accrued interest and other expenses	-	-	12,645,625	12,645,625
Other liabilities	-	-	5,902,807	5,902,807
	-	-	1,773,977,476	1,773,977,476

22.5 Credit risk

Credit risk is the risk of financial loss arising from the borrowers' inability to meet their contractual obligation. The Bank's operation involves the traditional banking activities of deposit-taking and lending to qualified individual or corporate borrowers. Financial problems may arise from lending activities specifically from failure of the borrowers to pay their obligation on time, poor monitoring of documentary requirements that are required to be submitted annually, or failure to regularly monitor the submission of updated reports for active accounts.

22.5.1 Credit risk management

The following guidelines are being implemented by the Bank to mitigate credit risk:

Collection management guidelines

This defines the collection or recovery process of delinquent accounts, the policies on loan loss provisioning, restructuring of accounts, writing off delinquent accounts, compromise agreements and other matters on collection.

Credit guidelines for loans

This defines the requirements, features, qualifications of loan products being offered by the Bank. It includes the process from loan application to approval and monitoring. The following were performed by the Bank to manage credit risk:

- The Bank offers loan products to qualified individuals based on sound and prudent bank practices and in accordance with its existing policies;
- Extending loan facilities to qualified individuals, by taking into consideration the character, capacity, collateral and condition of each borrower;
- For loans that are secured by collaterals, the Bank ensures that it can annotate its mortgage and therefore, protect its legal interest thereto; and
- The Bank ensures that loans are approved by the CRECOM and BOD based on set limits.

Credit rating of corporate finance is categorized into 10 levels according to the risk assessment on each credit extension case. When a loan is granted, in addition to the credit quality of the client, fund purpose, and repayment source, the protection of claims and credit prediction should be considered, and credit risk by credit account and facility should also be respectively assessed and rated based on the corporate or consumer risk rating referencing standards.

Credit risk rating of consumer finance is categorized by client category, client profession and the rating of collateral threshold.

22.5.2 Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk of the Bank as at December 31:

	2019	2018
Due from BSP	534,906,206	331,958,742
Due from other banks	2,004,471,031	861,589,197
Investment securities at FVOCI	321,217,460	296,400,280
Investment securities at amortized cost	192,374,265	347,512,857
Loans and receivables	690,417,496	692,198,624
Miscellaneous deposits	7,527,081	5,798,081
Commitment and contingent accounts	46,040,925	50,193,125
	3,796,954,464	2,585,650,906

Loans and receivables is presented gross of allowance for credit losses.

23.5.3 Credit risk concentration profile

Credit risk exposure is also analyzed by industry as of December 31 in respect of the Bank's financial assets as set out below:

2019	Due from BSP	Due from other banks	Investment securities at FVOCI	Investment securities at amortized cost	Loans and receivables	Miscellaneous deposit	Commitment and contingent accounts	Total
Financial institutions	534,906,206	2,004,471,031	-	61,622,319	320,000,000	-	-	2,920,999,556
Sovereign	-	-	253,578,500	80,637,177	-	-	-	334,215,677
Electricity, gas, steam and air-conditioning supply	-	-	-	-	61,335,430	-	-	61,335,430
Community, social and personal activities	-	-	-	-	14,625,259	-	-	14,625,259
Service activities	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-
Construction	-	-	67,638,960	50,114,769	35,800,000	-	-	153,553,729
Wholesale and retail	-	-	-	-	214,937,828	-	-	214,937,828
Real estate, renting and business activities	-	-	-	-	28,745,362	1,848,361	-	30,593,723
Others	-	-	-	-	14,973,617	5,678,720	46,040,925	66,693,262
	534,906,206	2,004,471,031	321,217,460	192,374,265	690,417,496	7,527,081	46,040,925	3,796,954,464

2018	Due from BSP	Due from other banks	Investment securities at FVOCI	Investment securities at amortized cost	Loans and receivables	Miscellaneous deposit	Commitment and contingent accounts	Total
Financial institutions	331,958,742	861,589,197	-	166,594,098	7,622,840	-	-	1,367,764,877
Sovereign	-	-	234,985,000	130,047,465	2,176,260	-	-	367,208,725
Electricity, gas, steam and air-conditioning supply	-	-	44,028,000	-	475,750	-	-	44,503,750
Community, social and personal activities	-	-	-	-	220,229,889	-	-	220,229,889
Service activities	-	-	-	-	170,280,002	-	-	170,280,002
Agriculture, forestry and fishing	-	-	-	-	125,309,375	-	-	125,309,375
Construction	-	-	-	-	57,066,445	-	-	57,066,445
Wholesale and retail	-	-	-	-	47,882,601	-	-	47,882,601
Real estate, renting and business activities	-	-	-	50,871,294	27,967,091	-	-	78,838,385
Others	-	-	17,387,280	-	33,188,371	5,798,081	50,193,125	106,566,857
	331,958,742	861,589,197	296,400,280	347,512,857	692,198,624	5,798,081	50,193,125	2,585,650,906

22.5.4 Collateral

The Bank holds collateral against specific type of loans and receivables in the form of chattel and mortgage interests, other registered securities over assets, hold-out agreements and guarantees such as post-dated checks. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and receivables to other banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The fair value of real and chattel mortgage held as collateral against loans and receivables amounts to P548 million as at December 31, 2019 (2018 - P663 million).

22.5.5 Credit quality of financial assets

Loans and receivables, net

In response to the characteristics and scale of business, the Bank sets up credit quality rating for risk management purposes (such as implementing internal evaluation model of credit risk, setting up credit rating table or other relevant regulations).

The Bank, using statistical methods and expert professional judgment, as well as the consideration of client information, developed a business credit rating model for the purpose of evaluating the credit risk of corporate clients. The model is regularly reviewed to check if the calculation result is consistent with the actual situation, and adjustment of various inputs is calibrated to optimize the calculation result.

The credit quality of borrowers can be divided into four risk categories, which are set out and defined below, from very low to high, apart from impaired:

	Corporate	Consumer
Credit risk rating	Internal credit ratings mapped to S&P's ratings	Internal credit ratings
Very low	AAA to A-	Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.
Low	BBB+ to BB+	Obligors rated in this category have a good capacity to meet financial commitments with low credit risk.
Medium	BB- to B+	Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.
High	B- to CCC	Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

Other than the above rated risk categories, other categories used internally are as follows:

Impaired/defaulted - Obligors with objective evidence of impairment as a result of one or more events that have an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in Note 22.2.1.

Unrated - Refer to obligors which are currently not assigned with obligors' ratings due to unavailability of ratings models.

Investment debt securities

The risk management of the Bank's debt instruments is based on credit rating of external institutions, credit quality of bonds, condition by geographical location and counterparty risk to identify the credit risk.

The Bank divides the credit quality of debt instrument investments similar to corporate loans from very low to high risk based on their external credit ratings.

Due from BSP and other banks

The Bank assesses the credit status of each counterparty before any transaction, and ratings assigned by domestic and foreign external ratings agencies are used in determining internal credit grades on which various credit risk exposure limits are set and then granted to different counterparties.

Other financial assets at amortized cost

For other financial assets (accounts receivable and miscellaneous deposits), the Bank applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

The following table sets out the credit quality of financial assets by category of the Bank:

Loans and receivables

	2019 ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Low	22,965,162	373,827	-	23,338,989
Medium	152,744,165	199,607	-	152,943,772
High	511,246,658	-	-	511,246,658
Unrated	-	-	-	-
Impaired	-	-	2,888,077	2,888,077
Gross carrying amount	686,955,985	573,434	2,888,077	690,417,496
Loss allowance	(1,126,729)	(82,258)	(1,831,942)	(3,040,929)
Carrying amount	685,829,256	491,176	1,056,135	687,376,567

	2018 ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Low	25,568,554	-	-	25,568,554
Medium	513,392,157	173,834	-	513,565,991
High	22,334,408	617,199	-	22,951,607
Unrated	21,844,039	1,853,477	-	23,697,516
Impaired	-	-	106,414,956	106,414,956
Gross carrying amount	583,139,158	2,644,510	106,414,956	692,198,624
Loss allowance	(11,184,227)	(119,931)	(82,339,832)	(93,643,990)
Carrying amount	571,954,931	2,524,579	24,075,124	598,554,634

Investment in debt securities and other financial assets

	2019 ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low				
Due from BSP	534,906,206	-	-	534,906,206
Due from other banks	2,004,471,031	-	-	2,004,471,031
Investment securities at FVOCI	321,217,460	-	-	321,217,460
Investment securities at amortized cost	192,374,265	-	-	192,374,265
Unrated				
Miscellaneous deposits	7,527,081	-	-	7,527,081
Gross carrying amount	3,060,496,043	-	-	3,060,496,043
Loss allowance	-	-	-	-
Carrying amount	3,060,496,043	-	-	3,060,496,043

	2018			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low				
Due from BSP	331,958,742	-	-	331,958,742
Due from other banks	861,589,197	-	-	861,589,197
Investment securities at FVOCI	296,400,280	-	-	296,400,280
Investment securities at amortized cost	347,512,857	-	-	347,512,857
Unrated				
Miscellaneous deposits	5,798,081	-	-	5,798,081
Gross carrying amount	1,843,259,157	-	-	1,843,259,157
Loss allowance	-	-	-	-
Carrying amount	1,843,259,157	-	-	1,843,259,157

As at December 31, 2019 and 2018, no allowance for credit losses is provided on other financial assets held by the Bank as they are deemed to be fully collectible.

22.5.6 Credit quality of impaired financial assets

Credit-impaired loans and advances refer to non-performing loans and advance for which the Bank determines that it is possible that it will be unable to collect all principal and interest due according to the contractual terms of the loans.

Financial assets that are credit-impaired are shown below:

	2019	2018
Gross exposure	2,888,077	106,414,956
Allowance for impairment loss	(1,831,351)	(82,339,832)
	1,056,726	24,075,124
Fair value of collateral	3,192,000	40,947,127

22.6 Liquidity risk

Liquidity represents the ability to fund assets and meet obligations as they become due. It is essential for banks to compensate for expected and unexpected balance sheet fluctuations and provide funds for growth. To manage liquidity risk, the Bank has established Liquidity Risk Management Practices (LRMP) to ensure that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner. The Bank's LRMP also reflects the ability of the Bank to manage unplanned changes in funding sources, as well as to react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. It also includes evaluating various funding sources and the costs associated with the sources identified.

Funding diversification allows the Bank to maintain access to different funding lines and allows more flexibility in selecting the appropriate funding source.

The Bank uses the following risk measurement methodologies to measure liquidity risk exposure:

a) *Risk impact and likelihood rating guide*

- No. 1 rating - may occur only in exceptional circumstances
- No. 2 rating - could occur at some time (low probability of occurrence)
- No. 3 rating - might occur at some time (moderate probability)
- No. 4 rating - will probably occur in most circumstances
- No. 5 rating - is expected to occur in most circumstances and has occurred several times in the unit

b) Daily cash level report (in Philippine peso and US dollar)

The Bank uses daily cash level report to measure excess funds on a daily basis and exposure on day to day (short term) funding liquidity risk. It is also used to determine the sufficiency of the Bank's reserves and excess funds available for BSP overnight lend.

c) Maturity matching

The Bank measures the exposure on liquidity risk arising from mismatched maturities of assets and liabilities, otherwise known as "tenor gaps". In this method, the Bank's financial assets and liabilities are divided into time bands and then slots each cash inflow and outflow items according to maturity dates. The overall objective is to determine and control liquidity "gaps" and highlight long term build ups in cash inflows and outflows. A gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Bank's net excess funds for the time band. A negative liquidity gap is an estimate of the future funding requirements of the Bank.

The table below presents an analysis of the maturity groupings of resources and liabilities in accordance with BSP account classifications. The liability balances disclosed in the following tables are based on contractual undiscounted cash flows, which may differ from the amounts included in the statement of financial position due to certain items which are based on discounted cash flows.

December 31, 2019	1-3 months	3 months-1 year	over 1-5 years	over 5 years	Total
Assets					
Cash and other cash items	27,543,785	-	-	-	27,543,785
Due from BSP	534,906,206	-	-	-	534,906,206
Due from other banks	1,793,933,436	88,334,976	122,202,619	-	2,004,471,031
Investment securities at FVOCI	-	101,187,671	268,082,556	-	369,270,227
Investment securities at amortized cost	5,033,453	9,931,310	75,326,222	113,529,549	203,820,534
Loans and receivables	89,517,075	213,459,260	316,981,990	81,452,791	701,411,116
Miscellaneous deposits	-	-	7,527,081		7,527,081
	2,450,933,955	412,913,217	790,120,468	194,982,340	3,848,949,980
Liabilities					
Deposit liabilities	476,065,922	62,364,444	1,178,442,497	-	1,716,872,863
Manager's check	5,197,218	-	-	-	5,197,218
Lease liability	-	-	3,230,659	-	3,230,659
Deposit for future stock subscription	1,200,000,000	-	-	-	1,200,000,000
Accrued interest and other expenses	14,555,587	-	-	-	14,555,587
Other financial liabilities	18,675,070	-	-	-	18,675,070
	1,714,493,797	62,364,444	1,181,673,156	-	2,958,531,397
Gap	736,440,158	350,548,773	(391,552,688)	194,982,340	890,418,583

December 31, 2018	1-3 months	3 months-1 year	over 1-5 years	over 5 years	Total
Assets					
Cash and other cash items	32,332,315	-	-	-	32,332,315
Due from BSP	331,958,742	-	-	-	331,958,742
Due from other banks	564,443,682	130,176,476	166,969,039	-	861,589,197
Investment securities at FVOCI	-	-	343,466,298	-	343,466,298
Investment securities at amortized cost	34,264,787	122,779,735	45,729,574	153,685,904	356,460,000
Loans and receivables	76,862,815	139,587,775	103,862,930	362,386,053	682,699,573
Miscellaneous deposits	-	-	5,798,081	-	5,798,081
	1,039,862,341	392,543,986	665,825,922	516,071,957	2,614,304,206
Liabilities					
Deposit liabilities	473,631,265	209,488,472	1,246,656,345	-	1,929,776,082
Manager's check	2,734,424	-	-	-	2,734,424
Accrued interest and other expenses	12,645,625	-	-	-	12,645,625
Other financial liabilities	5,902,807	-	-	-	5,902,807
	494,914,121	209,488,472	1,246,656,345	-	1,951,058,938
Gap	544,948,220	183,055,514	(580,830,423)	516,071,957	663,245,268

The Bank performs the following to mitigate exposure to liquidity risk:

- Avoiding extreme concentration of transactions in a single market and loan exposure in a single industry;
- Diversification of loan / asset exposures in different industries, the types of transactions in which the Bank will engage in and establish exposure limits per industry/per individual type of products;
- Lending and investing only in highly liquid markets;
- Consideration of the availability of alternative markets as protection against the possibility of losing access to one or more markets during periods of overall market stress;
- Requiring treasury personnel to continuously observe market conditions and notify Risk Managers/Senior Management of any indications of market illiquidity (including suspension of availment on existing credit lines);
- Requiring Account Officers and Loan Officers to continuously observe market conditions and report to Risk Managers/Senior Management any indications of stress or problems in any industry/borrower;
- Consideration of the possible need to rebalance portfolios, provide extra collateral and manage potential defaults;
- Establishment of procedures that will identify and address timing mismatches in offsetting payment and delivery obligations, such as early terminations of deposits. This will be achieved through the preparation and analysis of various reports; and
- Observation of various control limits set by the BOD to minimize exposure on liquidity risk.

In addition to the developed procedures that mitigate liquidity risk exposure, the Bank has established a contingency plan to deal with temporary and long term liquidity disruptions.

d) BSP liquidity requirements

On June 9, 2015, the MB issued BSP Circular No. 881, Implementing Guidelines on the BASEL III Leverage Ratio Framework, which approved the guidelines for the implementation of the BASEL III Leverage Ratio in the Philippines and designed to act as supplementary measure to the risk-based capital requirements. It is defined as the capital measure (numerator) divided by the exposure measure (denominator). The leverage ratio shall not be less than 5.0% computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

On March 10, 2016, the MB approved the liquidity standards and issued BSP Circular No. 905, Implementation of BASEL III Framework on Liquidity Standards-Liquidity Coverage Ratio (LCR) and Disclosure Standards. The Minimum Liquidity Ratio (MLR) is expressed as a percentage of a bank's/QB's eligible stock of liquid assets to its total qualifying assets. Standalone Thirft Banks, Rural Banks, Cooperative Banks and Quasi-Banks is subject to MLR of 20% from January 1, 2019 and onwards.

The table below shows the actual liquidity metrics of the Bank:

	2019	2018
Minimum liquidity ratio	97.08%	89.55%
Leverage ratio	55.19%	34.09%
Total exposure measure	4,011,083,812	2,720,311,035

22.7 Interest rate risk

Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value of a financial institution. Accepting interest rate risk is a normal part of the Bank's operation and is a major source of profitability and shareholder value. Excessive or inadequately understood and controlled interest rate risk, however, can pose a significant threat to the Bank's earnings and capital. Thus, an effective risk management process that maintains interest rate risk within prudent levels is essential to ensure the safety and soundness of the Bank. The Bank classifies sources of interest rate risk as option risk and repricing.

a) Prepayment option risk

Option risk is presented by optionality that is embedded in some assets and liabilities. The most common example is the mortgage loan. This type of loan presents significant option risk due to prepayment option available to clients.

For salary loans and other types of loans, the clients have the option to prepay the loan or they can extend the term of the loan which has the effect of slowing down the repayment. In terms of deposit products, clients have the option to terminate deposit accounts which in turn would lessen deposit liabilities of the Bank. As at December 31, 2019, loans subject to option risk represents commercial and consumption loans with an aggregate amount of P640,661,462 (2018 - P651,641,509) (Note 5). The effect of prepayment option is deemed not significant as the option price normally approximates the amortized cost of the financial instruments at option date.

b) Repricing risk

The simplest technique for measuring interest rate risk exposure starts with a maturity or repricing schedule that distributes interest-sensitive assets, liabilities and off-balance sheet positions into a certain number of predefined time bands according to their maturity or time remaining to their next repricing. The Bank has condominium loan products in which borrowers may choose to avail of the fixed interest rate from one (1) to five (5) years. The market rate may tend to go up or down which exposes the Bank to repricing risk. As at December 31, 2019, the Bank's condominium loans under Real estate account which are subject to repricing risk amount to P34,782,418 (2018 - P27,363,932) (Note 5).

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

The Bank adopts repricing gap analysis in analyzing its resources and liabilities based on expected interest realization and recognition.

If the analysis shows a positive gap, the Bank is exposed to the risk that interest rates will go down; however, if the analysis shows a negative gap, the Bank is exposed to the risk that interest rates will go up.

The analyses of the groupings of the Bank's assets and liabilities based on expected interest realization or recognition are as follows:

	Repricing				
December 31, 2019	1-3 months	3 months-1 year	1-5 years	Non-repricing	Total
Assets					
Cash and other cash items	-	-	-	27,543,785	27,543,785
Due from BSP	-	-	-	534,906,206	534,906,206
Due from other banks	-	-	-	2,004,471,031	2,004,471,031
Investment securities at FVOCI	-	-	-	321,217,460	321,217,460
Investment securities at amortized cost	61,622,319	-	-	130,751,946	192,374,265
Loans and receivables	-	489,325,899	43,722,901	154,327,767	687,376,567
Miscellaneous deposits	-	-	-	7,527,081	7,527,081
	61,622,319	489,325,899	43,722,901	3,180,745,276	3,775,416,395
Liabilities and equity					
Deposit liabilities	673,099,282	101,554,812	59,625,480	855,140,218	1,689,419,792
Manager's check	-	-	-	5,197,218	5,197,218
Lease liability	-	-	-	3,230,659	3,230,659
Deposit for future stock subscription	-	-	-	1,200,000,000	1,200,000,000
Other financial liabilities	-	-	-	18,675,070	18,675,070
	673,099,282	101,554,812	59,625,480	2,082,243,165	2,916,522,739
Gap	(611,476,963)	387,771,087	(15,902,579)	1,098,502,111	858,893,656

December 31, 2018	Repricing 1-3 months	3 months-1 year	1-5 years	Non-repricing	Total
Assets					
Cash and other cash items	-	-	-	32,332,315	32,332,315
Due from BSP	-	-	-	331,958,742	331,958,742
Due from other banks	-	-	-	861,589,197	861,589,197
Investment securities at FVOCI	-	-	-	296,400,280	296,400,280
Investment securities at amortized cost	-	113,449,374	-	234,063,483	347,512,857
Loans and receivables	-	190,585,600	27,127,592	380,841,442	598,554,634
Miscellaneous deposits	-	-	-	5,798,081	5,798,081
	-	304,034,974	27,127,592	2,142,983,540	2,474,146,106
Liabilities and equity					
Deposit liabilities	795,713,293	141,541,852	-	815,439,475	1,752,694,620
Manager's check	-	-	-	2,734,424	2,734,424
Other financial liabilities	-	-	-	5,902,807	5,902,807
	795,713,293	141,541,852	-	824,076,706	1,761,331,851
Gap	(795,713,293)	162,493,122	27,127,592	1,318,906,834	712,814,255

The Bank can tolerate a cumulative positive or negative gap of at least 35% for regular banking unit and 85% for the FCDU's total interest rate sensitive assets or liabilities and equity. Any excess thereon is communicated to the ALCO who courses through to Senior Management and BOD for proper action.

The table below represents the sensitivity of the Bank's financial assets to a ±100 basis points possible interest rate changes with all other variables held constant as at December 31:

Effect of reasonably possible shift	Change in interest rate	2019	2018
Interest rate-sensitive financial assets			
Investment securities at amortized cost	±100 bps	±616,223	± 1,134,494
Loans and receivables, net	±100 bps	±5,330,488	± 2,177,132
		±5,946,711	±3,311,626
Interest rate-sensitive financial liability			
Deposit liabilities	±100 bps	±8,342,796	± 9,372,551

22.8 Foreign currency exchange risk

Foreign currency exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. In contracting to meet clients' foreign currency needs or simply buying and selling foreign exchange for its own account, the Bank undertakes a risk that exchange rates might change subsequent to the time the contract is consummated.

Most of the Bank's transactions are carried out in Philippine peso. Exposures to foreign currency exchange risk arise mainly from the foreign currency denominated due from other banks maintained by the Bank.

Foreign currency denominated financial assets as at December 31 are translated into Philippine peso at closing rate as follows:

	2019		2018	
	In US Dollar	In Philippine Peso	In US Dollar	In Philippine Peso
Financial assets				
Cash and other cash items	129,516	6,557,395	223,473	11,750,210
Due from other banks	15,551,452	787,370,005	16,084,573	845,726,844
Investment securities at amortized cost	1,000,142	50,637,177	1,020,913	53,679,625
Loans and receivables	600,000	30,378,000	552,888	29,070,841
Other assets	58,162	2,944,719	2,939	154,527
	17,339,272	877,887,296	17,884,786	940,382,047
Financial liabilities				
Deposit liabilities	16,377,514	829,193,550	17,245,770	906,782,584
Accrued interest payable	1,598	80,917	1,943	102,156
	16,379,112	829,274,467	17,247,713	906,884,740
Total net exposure	960,160	48,612,829	637,073	33,497,307

These balances were translated using the Bankers Association of the Philippines (BAP) peso-dollar exchange rate of P50.63 as at December 31, 2019 (2018 - P52.58). Net unrealized foreign exchange loss for the year ended December 31, 2019 amounts to P1,464,506 (2018 - P1,958,319 gain).

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency denominated loans and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency denominated liabilities with the foreign currency denominated assets held under the FCDU books. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held under the FCDU. As at December 31, 2019 and 2018, the Bank is in compliance with the said regulations.

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

For a 3.71% and 5.31% change in the foreign exchange rate of the Bank against relevant currency, there would be an equal and opposite impact on the pre-tax income and equity and the effects are shown below:

	Change in FX rate	Impact on pre-tax income	Impact on equity
December 31, 2019	+/-3.71%	+/-1,803,536	+/-1,262,475
December 31, 2018	+/- 5.31%	+/- 1,778,707	+/- 1,332,929

Exposures to foreign exchange rate fluctuation vary during the year depending on the volume of USD buying and selling transactions. Nonetheless, the analysis above is considered to be representative of the Bank's exposure to foreign currency risk.

22.9 Price risk

The Bank is exposed to price risk on the fluctuation on the price or fair value of its investments at FVOCI - quoted equity securities. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. The fair value of investments at FVOCI are based on published prices in the market.

The following table details the Bank's sensitivity to a 10% increase and decrease in the market prices of investments at FVOCI. The sensitivity rate used represents the management's assessment of the reasonably possible changes in the market values.

2019	Change in market values	Impact on pre-tax income	Impact on equity
Investment securities at	+10%	-	161,000
FVOCI	-10%	-	(161,000)

2018	Change in market values	Impact on pre-tax income	Impact on equity
Investment securities at	+10%	-	98,000
FVOCI	-10%	-	(98,000)

22.10 Fair value information

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

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

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.

Financial asset measured at fair value

The fair value and fair value hierarchy of financial assets at fair value through other comprehensive income (FVOCI) as at December 31 are as follows:

	2019	2018	Valuation
Financial assets at FVOCI			
Level 1	321,217,460	296,400,280	Published prices
Level 2	2,300,000	1,400,000	Published prices
	323,517,460	297,800,280	

Financial assets and liabilities measured at amortized cost for which fair value is disclosed

The following gives the fair value information of the Bank's investment securities at amortized cost, which are not measured at fair value, but the fair values are disclosed at the end of each reporting period:

	2019		2018	
	Carrying values	Fair values	Carrying values	Fair values
Investment securities at amortized cost	192,374,265	197,448,472	347,512,857	333,863,605

These investment securities at amortized cost is classified under Level 2 based on market prices or broker/dealer price quotations.

Cash and other cash items and due from BSP and other banks

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date.

Loan and receivables

Fair value of loans and receivables is estimated by discounting anticipated cash (including interest at contractual rates). Performing loans are grouped, to the possible, into homogenous pools segregated by maturity and the coupon rates of the loans within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and risk characteristics.

For non-performing loans and receivables, an estimate is made of the time period to realize these cash flows and the fair value is estimated by discounting these cash flows at the effective interest rate. For non-performing loans and receivables where collateral exists, the fair value is the lesser of the carrying value of the loans and receivables net of specific allowances, or the fair value of the collateral, discounted as appropriate.

Based on the methodology described above, the Bank has determined that the carrying values of loans and receivables approximate fair values.

Deposit liabilities

Deposit liabilities is calculated using discounted cash flow models, based on the deposit type and its related maturity, applying either market rates, where applicable or current rates offered for deposits of similar remaining maturities.

Based on the described above, the Bank has determined that the carrying values of deposits by customers approximate fair values.

Other financial assets and liabilities

Carrying amounts of other financial assets and liabilities which have no definite repayment dates are assumed to be their fair values.

22.11 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the BSP imposed minimum capital requirements and to maintain healthy capital ratios in order to support its business and to maximize shareholders' value.

Under MORB Section 111.1, the Bank has complied with the minimum capitalization set by the BSP which is P750 million for thrift banks with head office in Metro Manila with up to ten (10) branches.

The Bank also complies with the minimum Capital Adequacy Ratio (CAR) as mandated by the BSP. The risk based CAR of thrift banks expressed as a percentage of qualifying capital to risk-weighted asset, shall not be less than ten percent (10%). Qualifying capital consists of Tier 1 (core plus hybrid) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital. Tier 1 capital consists of the Bank's total equity excluding net unrealized losses on financial assets at FVOCI, unbooked valuation reserves and other capital adjustments based on latest report of examination as approved by the Monetary Board, total outstanding unsecured loans and credit accommodations, net of allowance for credit losses and deferred tax asset, net of deferred tax liability. Tier 2 capital consists of general loan loss provision and unsecured subordinated debt. Risk-weighted asset is the assigned risk weight to assets after exclusion of zero percent (0%) risk weight assets such as 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 of the BSP.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRSs.

On May 13, 2010, the Monetary Board, in its Resolution No. 688 approved the revised guidelines implementing the revised risk-based capital adequacy framework for thrift banks. The circular took effect on January 1, 2012. Thereafter, the Bank measures CAR based on the revised framework.

As at December 31, the Bank's CAR is computed as follows:

	2019	2018
	(In Thousands of Pesos)	
Qualifying capital		
Net Tier 1 capital	2,213,854	927,371
Net Tier 2 capital	5,720	18,435
Total qualifying capital	2,219,574	945,806
Risk weighted assets		
Credit risk weighted assets	2,836,706	1,846,492
Operational risk weighted assets	169,099	153,575
Total risk weighted assets	3,005,805	2,000,067
CAR	73.84%	47.29%

The Bank has fully complied with the minimum CAR requirement of ten percent (10%)

Note 23 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

23.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs in general includes all applicable PFRSs, Philippine Accounting Standards (PASs) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The Bank's financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVOCI.

The Bank presents its statement of financial position in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 22.6.

23.2 Changes in accounting policy and disclosures

(a) New standards adopted by the Bank

The Bank has adopted the following standards effective January 1, 2019:

- PFRS 16, 'Leases', replaces the guidance of PAS 17 that relate to the accounting by lessees and the recognition of almost all leases in the balance sheet. PFRS 16 removes the current distinction between operating and finance leases and requires recognition of an asset (the right-of-use asset) and a lease liability to pay rentals for virtually all lease contracts. Under PFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  Upon the adoption of PFRS 16, the Bank recognized a lease liability and right-of-use asset in relation to lease which had previously been classified as 'operating lease' under the principles of PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019.

  The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at January 1, 2019.

  In applying PFRS 16 for the first time, the Bank used the following practical expedients permitted by the standard:

  i) For all contracts entered into before January 1, 2019 and that were previously identified as leases under PAS 17 and IFRIC 4, 'Determining whether an arrangement contains a Lease', the Company has not reassessed if such contracts contain leases under PFRS 16; and
  ii) On a lease-by-lease basis, the Bank has:
     a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
     b) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
     c) accounted for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
     d) excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
     e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The effects of adoption of PFRS 16 on the Bank's financial statements as at January 1, 2019 are as follows:

	Increase (decrease)
Right-of-use-asset	5,286,730
Leased liabilities	5,788,765
Deferred tax asset	150,610
Retained earnings	(351,424)

- *Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments*

  It has been clarified previously that *PAS 12, 'Income Taxes'* not *PAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'*, applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

  An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

  The adoption of the above interpretation did not have a material impact on the financial statements of the Bank.

(b) New standards, amendments and interpretations not yet adopted

There are no new standards, amendments or interpretations that are effective beginning on or after January 1, 2020 that would be expected to have a material impact on the Bank.

23.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognizes a financial instrument in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

23.3.1 Financial assets

23.3.1.1 Date of recognition

All financial assets are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset.

23.3.1.2 Initial recognition and subsequent measurement

At initial recognition, the Bank measures a financial asset at its fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, which results in the loss provision being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Bank recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics, measure at either:

- Amortized cost, as explained in Note 23.3.1.2 (1);
- Fair value through other comprehensive income ("FVOCI"), as explained in Note 23.3.1.2 (2); and
- Fair value through profit or loss ("FVTPL"), as explained in Note 23.3.1.2 (3).

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and receivables, due from BSP and other banks, government and corporate bonds and other financial receivables.

Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Based on these factors, the Bank classifies its financial assets into one of the following measurement categories:

1. Financial assets at amortized cost

The Bank measures financial assets at amortized cost if both of the following conditions are met:

(a) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding; and
(b) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The details of these conditions are outlined below:

Business model assessment: The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified and measured at fair value through profit or loss. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI test: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, investment securities at amortized cost, loans and receivables, and miscellaneous deposits under Other assets.

2. Fair value through other comprehensive income (FVOCI)

The Bank applies the new category under PFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

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

Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost are recognized in the statement of total comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, the Bank measure the changes through FVOCI (without recycling profit or loss upon derecognition).

Included in financial assets at FVOCI are investment securities at FVOCI.

3. Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of total comprehensive income within 'Trading gain on securities' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately. As at December 31, 2019 and 2018, the Bank has no financial assets at fair value through profit loss.

23.3.1.3 Derecognition

A financial asset is derecognized when there is a substantial modification of terms and conditions or factors other than substantial modification.

i. *Derecognition due to substantial modification of terms and conditions*

The Bank derecognizes a financial asset, such as a loan and receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference between the carrying amounts after and prior to modification recognized as a gain or loss, to the extent that an impairment loss has not already been recorded.

The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired ("POCI").

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate ("EIR"), the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. As at December 31, 2019, no financial assets were derecognized due to substantial modification of terms and conditions.

ii. *Derecognition other than for substantial modification*

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

(1) The rights to receive cash flows from the financial asset have expired; or
(2) The transfer of financial asset is as set out below and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

(1) The Bank has transferred its contractual rights to receive cash flows from the financial asset; or
(2) It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either the Bank has:

- Transferred substantially all the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and have retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

23.3.1.4 Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- 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.

PFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired. The Bank determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired (POCI) financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). There are no POCI as at December 31, 2019.

The following diagram summarizes the impairment requirements under PFRS 9 (other than purchased originated credit-impaired financial assets):

Change in credit quality since initial recognition

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Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The Bank uses the following key judgments and assumptions when estimating expected credit losses in accordance with PFRS 9:

Determination of significant increase in credit risk (SICR)

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition.

Measuring ECL - Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), defined as follows:

- The PD represents the likelihood that the borrower will default (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset. The estimation of PD for consumer loans is based on the Bank's aging reports with the incorporation of forward-looking economic information. While for corporate loans and investment in debt securities, PD is calculated based on default rate tables published by external credit rating agencies, incorporating forward-looking information.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). The 12-month and lifetime EADs are determined based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. They are grouped according to type (corporate or consumer). For consumer loans, the LGD is calculated based on the historical recovery experience. For corporate loans and investments in debt instruments, the LGD is calculated based on the collateral and liquidity preference of the debt instrument, incorporating the average recovery rate disclosed by external credit rating agencies.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Expected life

Lifetime expected credit losses must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayments, extensions, calls and similar options.

Investment securities at FVOCI

The ECLs for financial investments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

Forward-looking information incorporated in the ECL models

The Bank incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and expected credit losses for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgment. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 22.3.

Reclassification of financial assets

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Financial liabilities

23.3.1.5 Date of recognition

All financial liabilities are initially recognized on trade date (i.e. the date that the Bank becomes a party to the contractual provision of the instruments). This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss, and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

As at December 31, 2019 and 2018, the Bank has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

Financial liabilities measured at amortized cost include deposit liabilities, manager's check, accrued interest and other expenses, deposit for stock subscription, lease liability and other liabilities, primarily accounts payable.

23.3.1.6 Initial recognition and subsequent measurement

Financial liabilities at amortized cost are initially recognized at fair value plus transaction costs.

Financial liabilities are subsequently measured at amortized cost using the effective interest method.

23.3.1.7 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

23.3.2 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

As at December 31, 2019 and 2018, there are no financial assets and liabilities that have been offset.

23.4 Fair value measurement

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

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

Financial instruments

The Bank classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp. (PDEX), etc.).

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The Bank has no assets or liabilities classified under Level 3 as at December 31, 2019 and 2018.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

- For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from PDEX and Bloomberg.

- A financial instrument is regarded as quoted in an active market 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. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

- For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The Bank uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity. For these financial instruments, inputs into models are generally market observable.

The fair value for loans and receivables as well as liabilities to customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

Non-financial assets or liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.
- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

23.5 Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are initially recognized as assets and subsequently apportioned over the period covered by the payment and charged to the appropriate accounts in the statement of total comprehensive income when incurred.

Prepayments are presented under "Other assets, net" account (Note 7).

23.6 Bank premises, furniture, fixtures and equipment

Bank premises, furniture, fixtures and equipment are initially recognized at historical cost which comprises its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location necessary for it to be capable of operating in the manner intended by management. These are subsequently carried at cost less accumulated depreciation and any impairment in value. Expenses that provide incremental future economic benefits to the Bank are added to the carrying amount of an item of bank premises, furniture, fixtures and equipment.

All other expenses are recognized in the statement of total comprehensive income as incurred.

Depreciation of bank premises, furniture, fixtures and equipment commences once the property and equipment are available for use and computed using the straight-line basis over the estimated useful lives of property and equipment as follows:

	Number of years
Bank premises	25-50
Furniture, fixtures and equipment	3-5
Transportation and equipment	5
Leasehold improvement	5 or lease term; whichever is shorter

The useful lives and depreciation method are reviewed at each reporting date to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

When bank premises, furniture, fixtures and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. Fully depreciated bank premises, furniture, fixtures and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged against current operations.

23.7 Computer software

The Bank's computer software was acquired separately and was initially recognized at cost. Following initial recognition, computer software is carried at cost less any accumulated amortization and any accumulated impairment losses. Computer software is amortized over the useful or economic life, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method is reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on the basis of the expected useful lives of five (5) years. Costs associated with maintaining computer software are expensed as incurred. The assets are derecognized when there is no future economic benefit associated with its continuing use.

23.8 Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of bank premises, furniture, fixtures and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

23.9 Leases

The Bank is the lessee

Until December 31, 2018, leases of office space, equipment and vehicles were classified as either finance leases or operating leases. From January 1, 2019, the Bank recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

From January 1, 2019 (PFRS 16)

Assets and liabilities arising from a lease are initially measured on a present value basis. Interest expense is recognized in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.

i. Measurement of lease liability

Lease liability includes the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Bank's leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and interest expense. Interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

ii. Measurement of right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

iii. Extension and termination options

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 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 revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Prior to January 1, 2019 (PAS 17)

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to operating expenses in the profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

23.10 Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of total comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date, the Bank reassess the need to recognize previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

23.11 Retirement benefit obligation

The Bank provides defined benefit retirement plan for all regular and qualified employees. The retirement plan is generally funded through payments to a trustee bank determined by periodic actuarial calculations.

The retirement benefit that an employee will receive on retirement under a defined benefit plan is dependent on several factors such as age, years of service and compensation. The Bank's defined benefit retirement plan provides a retirement benefit equivalent to one hundred percent (100%) of plan salary for every year credited service for qualified employees.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. 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 using interest rates of government bonds 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 retirement obligation.

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

Remeasurement comprising actuarial gains and losses, return on plan asset and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account "Remeasurement gains (losses) on retirement plan" is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

Past-service costs are recognized immediately in the statement of total comprehensive income.

23.12 Capital stock

Capital stock comprise common shares which meet the equity classification. This is presented in the statement of financial position equal to the par value of the shares issued and outstanding as at reporting dates.

Additional paid-in capital

Additional paid-in capital represents premium received on the issuance of capital stock above its par value. Transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Deficit

Deficit includes all current and prior period results as reported in the statement of total comprehensive income.

Deposit for future stock subscription

Under the Financial Reporting Bulletin No. 6 (as revised) dated May 11, 2017, deposit for future stock subscription is accounted for as a separate account under equity when all of the following elements are present at the end of the reporting period:

- The unissued authorized capital stock of the Bank is insufficient to cover the amount of shares indicated in the contract;
- There is BOD's approval on the proposed increase in authorized capital stock (for which a deposit was received by the Bank);

- There is stockholder's approval of the said proposed increase; and
- The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

Provided, however, that all companies that adopted full PFRSs as their financial reporting framework should have observed the definition of equity instruments under PAS 32, *Financial Instruments: Presentation*. When one of the foregoing conditions is not met, the amount is recorded as a liability. As at December 31, 2019, the Deposit for future stock subscription is classified as a liability as the application for approval of the increase in authorized capital stock has not been presented for filing with the SEC.

23.13 Interest income and expense

Interest income and expense are recognized in the statement of total comprehensive income for all interest-bearing financial instruments using the effective interest method.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

23.14 Service charges and fees

Revenue is recognized when (or as) the Bank satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the Bank satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the Bank expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

Commission and fees arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions. Service charges and fees are generally recognized over time as the Bank satisfies a performance obligation of performing the related service. There are no variable considerations related to these services.

23.15 Other income

Revenue is recognized when earned.

23.16 Expense recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses in the statement of total comprehensive income are presented using the functional method.

Operating expenses constitute costs of operating, marketing and administering the Bank and are expensed as incurred.

23.17 Foreign currency transactions and translation

Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The financial statements are presented in Philippine Peso, which is the Bank's functional currency.

Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

23.18 Related party relationships and transactions

Related party relationship exists when (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity, (b) an entity is related to the Bank if, the entity and the Bank are members of the same group, one entity is an associate or joint venture of the other entity, both entities are joint ventures of the same third party, one entity is a joint venture of a third entity and the other entity is an associate of the third party, an entity is a post-employment benefit plan for the benefit of employees of the Bank, the entity is controlled or jointly controlled by a person who has control or joint control over the Bank and a person as identified in (a) above has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

23.19 Provisions and contingencies

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Bank expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statement of total comprehensive income, net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

23.20 Events after the reporting date

The Bank identifies post year-end events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Post year-end events that provide additional information about the Bank's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the financial statements when material.

Note 24 - Supplemental information required under BSP Circular No. 1074

Presented below are the additional information as at and for the year-ended December 31, 2019 required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements. The amounts presented in 2018 are for comparative purposes only.

(i) Basic quantitative indicators of financial performance

The key financial performance indicators follow (in %):

	2019	2018
Return on average equity	(7.14%)	(5.45%)
Return on average assets	(2.04%)	(1.90%)
Net interest margin	2.60%	3.33%

(ii) Description of capital instrument issued

The Bank considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2019 and 2018.

(iii) Significant credit exposures

Details of the loans and advances portfolio as to concentration as to industry/economic sector at December 31 are as follows:

	2019	%	2018	%
Community, social and personal activities	61,335,430	9.08	219,896,493	32.39
Service activities	14,625,260	2.17	169,695,607	24.99
Agriculture, forestry and fishing	-	-	125,000,000	18.41
Construction	35,800,000	5.30	57,000,000	8.39
Wholesale and retail, trade, repair of motor vehicles and motorcycles	214,937,828	31.82	47,816,213	7.04
Real estate, renting and business activities	28,745,362	4.26	27,363,932	4.03
Financial institution	320,000,000	47.38	-	-
Others	-	-	32,233,196	4.75
	675,443,880	100.00	679,005,441	100.00

Breakdown of total loans

Details of the loans and advances portfolio at December 31 as to collateral (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	2019	2018
Secured by:		
Real estate	141,746,653	135,458,676
Chattel	32,288,729	109,291,390
Others	16,000,000	1,843,841
	190,035,382	246,593,907
Unsecured	485,408,498	432,411,534
	675,443,880	679,005,441

Breakdown of performing and non-performing loans, net of allowance for credit losses, are as follows:

	2019	2018
Performing loans	673,565,447	573,295,898
Non-performing accounts (NPL)	1,878,432	105,709,543
	675,443,880	679,005,441
Allowance attributable to performing loans	(378,206)	(10,507,979)
Allowance attributable to NPL	(1,831,942)	(82,339,832)
	673,233,732	586,157,630

BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans,* states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

(iv) Information on related party loans

Details of DOSRI loans are as follows:

	2019	2018
Outstanding DOSRI loans	338,125	327,792
% to total outstanding loans and advances	0.05%	0.05%
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	100%	100%
Past due DOSRI loans	-	-
Non-performing DOSRI loans	-	-

The Bank is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans as at December 31, 2019 and 2018.

(v) Secured liabilities and assets pledged as security

There are no loans and advances at December 31, 2019 and 2018 used as security for liabilities.

(vi) Contingencies and commitments arising from off-balance sheet items

Credit risk exposures relating to off-balance sheet items are as follows:

	2019	2018
Undrawn loan commitments	46,040,925	50,193,125

Note 25 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by RR No. 15-2010 that is relevant to the Bank. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Documentary stamp taxes

Documentary stamp taxes paid for the year ended December 31, 2019 amount to P8,244,119.

(ii) Withholding taxes

Withholding taxes paid and accrued for the year ended December 31, 2019 consist of:

	Paid	Accrued	Total
Income taxes withheld on compensation	5,191,382	203,674	5,395,056
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,282,143	100,836	1,382,979
Creditable income taxes withheld (expanded)	2,642,930	358,210	3,001,140
Fringe benefit tax	2,394,846	652,241	3,047,087
	11,511,301	1,314,961	12,826,262

Withholding taxes are presented as part of accrued interest and other expenses and other liabilities in the statement of financial position.

(iii) All other local and national taxes

Local and national taxes paid and accrued for the year ended December 31, 2019 consist of:

	Paid	Accrued	Total
Gross receipts tax	5,534,544	1,200,000	6,734,544
Real property tax	521,768	-	521,768
Municipal taxes	397,256	-	397,256
Others	-	-	-
	6,453,568	1,200,000	7,653,568

Local and national taxes imposed by the government which are incurred under the normal courses of business are part of Taxes and Licenses under Operating Expenses.

(iv) Tax cases and assessments

The Bank received a formal assessment notice dated October 18, 2017 covering deficiency income tax for the taxable year 2014. The Bank requested for reinvestigation on a letter dated November 16, 2017 which was granted by the BIR in December 2017. As at December 31, 2019, no decision is yet made on the reinvestigation.

As at December 31, 2019, the open tax years of the Bank are 2018, 2017, and 2016.