City Savings Bank, Inc.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

Financial Statements
December 31, 2019 and 2018
and Years Ended December 31, 2019
and 2018

and

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
City Savings Bank, Inc.

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 34 and Revenue Regulations 15-2010 in Note 35 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of City Savings Bank, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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July 1, 2020

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018 (Note 11)
ASSETS		
Cash and Other Cash Items (Note 6)	**₱622,892,875**	₱408,712,128
Due from Bangko Sentral Ng Pilipinas (Note 7)	**5,933,175,145**	3,034,359,867
Due from Other Banks (Note 8)	**2,636,065,404**	2,863,246,006
Securities Purchased Under Resale Agreements (Note 9)	**6,326,728,448**	8,882,000,000
Loans and Receivables (Notes 10 and 11)	**53,141,009,673**	51,294,699,910
Investments in Associates and a Subsidiary (Note 11)	**1,012,928,633**	7,618,607,012
Premises, Furniture, Fixtures and Equipment (Note 12)	**1,065,940,637**	223,707,279
Investment Properties (Note 13)	**744,898,745**	1,577,055
Intangible Assets (Note 14)	**523,416,162**	149,348,119
Goodwill (Note 15)	**3,482,194,678**	–
Deferred Tax Assets (Note 28)	**878,714,520**	647,523,263
Prepayments and Other Resources (Note 16)	**636,789,171**	269,859,543
	₱77,004,754,091	₱75,393,640,182
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Note 18)		
Time	**₱43,101,948,318**	₱34,340,970,795
Savings	**3,039,349,220**	2,196,811,493
Demand	**116,304,152**	92,655,262
	46,257,601,690	36,630,437,550
Bills and Notes Payable (Note 19)	**12,956,604,745**	22,651,257,850
Accounts Payable and Accrued Expenses (Note 20)	**1,187,911,541**	1,114,256,863
Income Tax Payable (Note 28)	**146,137,616**	114,210,522
Other Liabilities (Note 21)	**694,499,194**	325,772,098
	61,242,754,786	60,835,934,883
EQUITY (Note 23)		
Capital Stock	**258,256,000**	258,256,000
Additional Paid-in Capital	**937,333,350**	937,333,350
Surplus Reserves	**415,815,663**	298,014,596
Surplus Free (Note 11)	**14,191,390,942**	13,073,762,094
Remeasurement Losses on Retirement Obligation (Note 26)	**(40,796,650)**	(9,660,741)
	15,761,999,305	14,557,705,299
	₱77,004,754,091	₱75,393,640,182

See accompanying Notes to Financial Statements.

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)
STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018 (Note 11)
INTEREST INCOME		
Loans and receivables (Note 10)	**₱8,418,986,553**	₱7,335,251,051
Deposits with banks and others (Notes 7, 8 and 9)	**318,716,611**	322,530,726
	8,737,703,164	7,657,781,777
INTEREST EXPENSE		
Deposit liabilities (Note 18)	**2,064,828,133**	1,709,833,107
Bills payable (Note 19)	**1,060,119,841**	721,296,621
Lease liabilities (Note 27)	**17,421,648**	–
	3,142,369,622	2,431,129,728
NET INTEREST INCOME	**5,595,333,542**	5,226,652,049
OTHER INCOME (Note 24)	**327,594,582**	295,623,188
TOTAL OPERATING INCOME	**5,922,928,124**	5,522,275,237
OPERATING EXPENSES		
Compensation and employee benefits (Note 26)	**1,091,347,220**	810,738,388
Taxes and licenses (see Note 35)	**755,748,321**	698,784,730
Depreciation and amortization (Notes 12, 13, and 14)	**511,899,640**	178,209,404
Provision for credit and impairment losses (Note 17)	**346,523,933**	66,920,631
Service charges (Note 10)	**224,598,202**	227,612,651
Communications, telephone and telegraph	**94,869,387**	51,291,388
Insurance	**93,950,766**	87,915,228
Contracted services	**89,590,291**	57,101,338
Management and professional fees	**85,329,264**	48,648,054
Security, messengerial and janitorial services	**72,763,533**	55,879,886
Fees and commissions (Note 10)	**53,022,055**	–
Rent (Note 27)	**57,049,523**	104,459,420
Transportation, travel and freight	**56,905,134**	40,446,057
Repairs and maintenance	**50,768,255**	37,789,013
Advertising and publicity	**48,111,859**	27,416,417
Fines and penalties	**46,123,075**	40,053,734
Loss on repossession of properties (Note 17)	**44,774,058**	–
Power, light and water	**37,207,893**	27,821,537
Stationery and supplies used	**33,358,075**	23,238,826
Fuel and lubricants	**22,497,573**	15,017,811
Membership fees and dues	**9,700,001**	7,503,549
Others (Note 25)	**220,713,299**	98,772,745
	4,046,851,357	2,705,620,807
INCOME BEFORE SHARE IN NET LOSS OF ASSOCIATES AND SUBSIDIARY	**1,876,076,767**	2,816,654,430
SHARE IN NET LOSS OF ASSOCIATES AND SUBSIDIARY (Note 11)	**(68,651,379)**	(103,512,352)
INCOME BEFORE TAX	**1,807,425,388**	2,713,142,078
PROVISION FOR INCOME TAX (Note 28)	**571,995,473**	888,847,220
NET INCOME	**₱1,235,429,915**	₱1,824,294,858

See accompanying Notes to Financial Statements.

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018 (Note 11)
NET INCOME	**₱1,235,429,915**	₱1,824,294,858
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified subsequently to profit or loss in subsequent periods		
Gain (loss) on remeasurements of retirement obligation, net of tax (Note 26)	**(32,083,583)**	40,126,775
Share in net remeasurement gain on retirement obligation of a subsidiary (Note 11)	**947,674**	–
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(31,135,909)**	40,126,775
TOTAL COMPREHENSIVE INCOME	**₱1,204,294,006**	₱1,864,421,633

See accompanying Notes to Financial Statements.

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 22)	Additional Paid-in Capital	Surplus Reserves	Surplus	Remeasurement losses on retirement obligation (Note 24)	Total
Balances at January 1, 2019, as previously reported	**₱258,256,000**	**₱937,333,350**	**₱298,014,596**	**₱13,115,994,974**	**(₱9,660,741)**	**₱14,599,938,179**
Finalization of the acquisition accounting of PR Savings Bank (Note 11)	–	–	–	**(42,232,880)**	–	**(42,232,880)**
Balances at January 1, 2019, as restated	**258,256,000**	**937,333,350**	**298,014,596**	**13,073,762,094**	**(9,660,741)**	**14,557,705,299**
Net income	–	–	–	**1,235,429,915**	–	**1,235,429,915**
Other comprehensive loss	–	–	–	–	**(31,135,909)**	**(31,135,909)**
Total comprehensive income	–	–	–	**1,235,429,915**	**(31,135,908)**	**1,204,294,006**
Appropriations during the year (Note 23)	–	–	**117,801,067**	**(117,801,067)**	–	–
Balances at December 31, 2019	**₱258,256,000**	**₱937,333,350**	**₱415,815,663**	**₱14,191,390,942**	**(₱40,796,650)**	**₱15,761,999,305**
Balances at January 1, 2018	₱258,256,000	₱937,333,350	₱116,857	₱11,547,364,975	(₱49,787,516)	₱12,693,283,666
Net income, as restated (Note 11)	–	–	–	1,824,294,858	–	1,824,294,858
Other comprehensive income	–	–	–	–	40,126,775	40,126,775
Total comprehensive income	–	–	–	1,824,294,858	40,126,775	1,864,421,633
Appropriations during the year	–	–	297,897,739	(297,897,739)	–	–
Balances at December 31, 2018	₱258,256,000	₱937,333,350	₱298,014,596	₱13,073,762,094	(₱9,660,741)	₱14,557,705,299

See accompanying Notes to Financial Statements.

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018 (Note 11)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,807,425,388**	₱2,713,142,078
Adjustments for:		
Depreciation and amortization (Notes 12, 13 and 14)	**511,899,638**	178,209,404
Share in net loss of associates and subsidiary (Note 11)	**68,651,379**	103,512,352
Provision for credit and impairment losses (Note 17)	**346,523,933**	66,920,631
Loss on foreclosure of other repossessed assets	**44,774,058**	
Loss (gain) on disposals of:		
Premises, Furniture, Fixtures and Equipment	**(8,847,108)**	(119,569)
Investment Properties	**418,774**	–
Other repossessed assets	**18,335,467**	–
Movements in of debt issuance costs (Note 18)	**30,171,915**	(55,160,747)
Changes in operating assets and liabilities		
Decreases (increases) in:		
Loans and receivables	**4,247,074,547**	6,843,462,403
Prepayments and other resources	**45,500,459**	(81,106,936)
Increases (decreases) in:		
Deposit liabilities	**5,881,150,008**	(11,689,215,879)
Accounts payable and accrued expenses	**18,254,161**	95,395,761
Other liabilities	**(14,440,494)**	(30,194,202)
Net cash provided by (used in) operations	**12,996,892,125**	(1,855,154,704)
Income taxes paid	**(642,360,714)**	(777,314,306)
Net cash provided by (used in) operating activities	**12,354,531,411**	(2,632,469,010)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Premises, furniture, fixtures and equipment (Notes 12 and 32)	**(91,517,636)**	(111,449,183)
Intangible assets (Note 14)	**(80,719,958)**	(114,925,974)
Proceeds from disposal of:		
Premises, furniture, fixtures and Equipment	**48,923,353**	1,114,158
Investment properties	**10,810,862**	–
Other repossessed assets	**89,920,022**	–
Cash and cash equivalents acquired from the merger of PR Savings Bank (Note 11)	**1,331,757,367**	–
Payments made for acquisition of investee companies (Notes 11 and 15)	**(95,483,681)**	(16,288,090)
Capital infusion to FAIR Bank (Note 11)	**(26,950,000)**	–
Acquisitions of investment in an associate and subsidiary (Notes 11 and 20)	**–**	(7,662,273,946)
Net cash provided by (used in) investing activities	**1,186,740,329**	(7,903,823,035)

(Forward)

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of bills payable (Note 19)	**₱11,777,123,750**	₱56,343,889,919
Settlements of bills payable (Note 19)	**(24,906,172,975)**	(47,698,078,124)
Payments of principal portion of lease liabilities (Note 31)	**(80,428,634)**	–
Net cash provided by (used in) financing activities	**(13,209,477,859)**	8,645,811,795
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**331,793,881**	(1,890,480,250)
CASH AND CASH EQUIVALENTS, GROSS OF IMPAIRMENT ALLOWANCE AT BEGINNING OF PERIOD		
Cash and other cash items (Note 6)	**408,712,128**	383,208,812
Due from Bangko Sentral ng Pilipinas (Note 7)	**3,034,359,867**	5,907,098,253
Due from other banks (Note 8)	**2,868,575,206**	1,351,812,028
Securities purchased under resale agreement (Note 9)	**8,882,000,000**	9,442,008,358
	15,193,647,201	17,084,127,451
CASH AND CASH EQUIVALENTS, GROSS OF IMPAIRMENT ALLOWANCE AT END OF PERIOD		
Cash and other cash items (Note 6)	**622,892,875**	408,712,128
Due from Bangko Sentral ng Filipinas (Note 7)	**5,933,175,145**	3,034,359,867
Due from other banks (Note 8)	**2,642,644,614**	2,868,575,206
Securities purchased under resale agreement (Note 9)	**6,326,728,448**	8,882,000,000
	₱15,525,441,082	₱15,193,647,201
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱3,253,872,796**	₱2,340,936,387
Interest received	**8,508,769,444**	7,545,880,608

See accompanying Notes to Financial Statements.

1. **Corporate Information**

City Savings Bank, Inc. (the Bank) was incorporated under Philippine laws and was registered with the Securities and Exchange Commission (SEC) on December 9, 1965. The Bank's application for the extension of their corporate existence was approved by the SEC on December 9, 2014 for another 50 years from December 9, 2015. The Bank was granted license to operate by the Bangko Sentral ng Pilipinas (BSP) on December 29, 1965.

The Bank is a thrift bank specializing in granting of teachers' loans under the Department of Education's (DepEd) Automatic Payroll Deduction System. As at December 31, 2019 and 2018, the Bank has 107 branches, including its head office, and 30 other banking offices, respectively.

The Bank is a subsidiary of Union Bank of the Philippines (UBP or Parent Bank). UBP, a universal bank incorporated and domiciled in the Philippines, is listed in the Philippine Stock Exchange (PSE) and is 49.36% owned by Aboitiz Equity Ventures, Inc. (AEVI). As at December 31, 2019 and 2018, UBP's ownership interest in the Bank is 99.79% and 99.78%, respectively.

The Bank acquired 100% ownership in Philippine Resources Savings Banking Corporation (PR Savings Bank), following the approvals of the Philippine Competition Commission (PCC) and the Monetary Board (MB) of the BSP on April 5, 2018 and June 14, 2018, respectively.

On July 5, 2018 and July 10, 2018, the Board of Directors (BOD) and the stockholders, respectively, approved the plan of merger of PR Savings Bank and the Bank, with the latter as the surviving entity. Subsequently on December 20, 2018, the Monetary Board (MB) of the BSP approved the merger subject to certain conditions, including completion of the merger within one year from the date of receipt of the BSP approval and that the merger should be effective on the date the SEC issues the certificate of merger.

On February 28, 2019, the SEC approved the merger of the Bank and PR Savings Bank (see Note 11). Accordingly, the assets and liabilities of PR Savings Bank are combined with CSB on the date of merger.

The Bank has 40% ownership interest in CSB Land, Inc. (CSBLI), a real estate development company and 49% ownership in First Agro Industrial Rural Bank, Inc. (FAIR Bank), a rural bank (see Note 11).

In February 2018, the Bank and Union Properties, Inc. (UPI), a wholly owned subsidiary of UBP, signed a share purchase agreement (SPA) with AEVI for the purchase of 2,461,338 common shares representing 51% ownership of AEVI on PETNET, Inc. (PETNET), whereby the Bank and UPI acquired 40% and 11% share in ownership, respectively. On May 8, 2018, the PCC approved the acquisition of PETNET by the Bank and UPI. The agreement was approved by the BSP on November 23, 2018. On December 17, 2018, the parties completed the transaction by settling the purchase price and confirming that all closing conditions have been fulfilled (see Note 11).

In February 2019, the Bank and UPI entered a SPA with the owners of the Bangko Kabayan, Inc. (BKI) for the purchase of 2,574,178 common shares representing 70% ownership, whereby the Bank and UPI acquired 49% and 21% share in ownership, respectively. The BSP and PCC approved the acquisition of BKI by the Bank and UPI on September 19, 2019 and January 9, 2020, respectively (see Note 11).

The Bank's principal and registered office of business is at City Savings Financial Plaza, Osmeña Boulevard, corner P. Burgos Streets, Cebu City.

The accompanying financial statements of the Bank were authorized and approved for issue by the Bank's Board of Directors (BOD) on July 1, 2020.

2. **Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso (₱), which is the Bank's functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

The Bank has elected not to prepare consolidated financial statements. The Bank availed the exemption from preparing the consolidated financial statements on the basis that its Parent Bank publishes consolidated financial statements that are available for public use and comply with PFRSs. The consolidated financial statements of the Parent Bank can be obtained from the SEC and the Parent Bank's respective registered business address at Union Bank Plaza, Meralco Avenue corner Onyx Street and Sapphire Road, Ortigas Center, Pasig City.

The accompanying financial statements are the Bank's separate financial statements in accordance with Philippine Accounting Standards (PAS) 27, *Separate Financial Statements*.

Statement of Compliance

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 21.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Bank's financial position or performance unless otherwise indicated.

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

- Annual Improvements to PFRS 2015 to 2017 Cycle
  - PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously held interest in a joint operation*
  - PAS 12, *Income Taxes - Income tax consequence of payments on financial instruments classified as equity*
  - PAS 23, *Borrowing Costs - Borrowing costs eligible for capitalization*

- PFRS 16, *Leases*
  PFRS 16 supersedes PAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  The Bank adopted PFRS 16 using the modified retrospective approach as of January 1, 2019, date of initial application. The Bank elected to use the practical expedient allowing the new standard to be applied only to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4 as of January 1, 2019.

  The Bank, as lessee, has entered into lease agreements for its branches and branch lite units. Before the adoption of PFRS 16, the Bank classified each of its leases at the inception date as either a finance lease or an operating lease. Refer to *Leases* in Note 2 for the accounting policy prior to January 1, 2019.

  Upon adoption of PFRS 16, the Bank, as a lessee, applied a single recognition and measurement approach for all leases except for the short-term leases and leases of low value assets. Refer to *Leases* in Note 2 for the accounting policy beginning January 1, 2019.

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

  The Company also applied the available practical expedients wherein it:
  a. Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
  b. Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
  c. Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, of January 1, 2019, the effect of adopting PFRS 16 is an increase (decrease) in the following accounts in the Bank's statement of financial position:

Assets	
Right-of-use asset under 'Premises, furniture, fixtures and equipment'	₱158,874,755
Liabilities	
Lease liabilities under 'Other liabilities'	₱169,742,347
Accounts payable and accrued expenses	(10,867,592)
	₱158,874,755

The adoption did not have an impact on the Bank's deferred tax asset as of January 1, 2019.

The Bank's subsidiary and associates also adopted PFRS 16 effective January 1, 2019 under the modified retrospective approach, consistent with the transition method and policies applied by the Bank. The adoption of PFRS 16 by its subsidiary and associates did not have an impact on the carrying amounts of its investment accounts and the Bank's equity as of January 1, 2019.

The adoption of PFRS 16 did not have an impact on the Bank's total equity as of January 1, 2019.

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

Operating lease commitments, December 31, 2018 (PAS 17)	₱268,481,860
Short-term lease exemptions -	(13,307,223)
Operating lease liabilities before discounting	255,174,637
Discount using incremental borrowing rates	(85,432,290)
Weighted average incremental borrowing rate as at January 1, 2019	6.97%
Lease liabilities, January 1, 2019	₱169,742,347

The estimated useful lives of the ROU assets are assessed to be equal to the related lease terms. The Bank's ROU assets are presented under "Premises, Furniture, Fixtures and Equipment".

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

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

Upon adoption of the Interpretation, the Bank has assessed whether it has any uncertain tax position. The Bank applies significant judgement in identifying uncertainties over its income tax treatments. During 2019, the Bank identified an uncertain tax position and determined, based on its assessment, in consultation with its tax counsel, that it is probable that its uncertain income tax treatment will be accepted by the taxation authorities. The Interpretation did not have an impact on the Bank's financial statements upon adoption as of January 1, 2019.

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

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

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

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

Significant Accounting Policies

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities in the absence of a principal market, in the most advantageous market for the asset or liability
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash include cash and other cash items (COCI), due from BSP and other banks. Cash equivalents include placements in other banks and securities purchased under resale agreements (SPURA) with the BSP that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Financial assets and liabilities, except for loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. 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 marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

Initial recognition of financial instruments
All financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability except for financial assets and financial liabilities at fair value through profit or loss (FVTPL). The Bank classifies its financial assets in the following categories: financial assets at amortized cost, financial assets at FVTPL and financial assets classified under FVOCI. Financial liabilities are categorized as financial liabilities at FVTPL, and financial liabilities carried at amortized cost. The classification and measurement of financial assets is driven by the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the assets.

The Bank assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. Instruments with cash flows that do not represent as such are classified at FVTPL.

In making this assessment, the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

The Bank's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its group of financial assets in order to generate cash flows (i.e. collecting contractual cash flows, selling financial assets or both).

Relevant factors considered by the Bank in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel. The Bank also considers the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers, if any, of the business are compensated.

As at December 31, 2019 and 2018, the Bank's financial instruments are categorized as financial assets and liabilities at amortized cost. The Bank has no financial instruments at FVTPL or financial assets at FVOCI.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions for the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (or 'Day 1'difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where fair value is determined based on data which are not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets at amortized cost
This accounting policy relates to 'Due from BSP', 'Due from other banks', 'Securities purchased under resale agreements', 'Loans and receivables' and refundable deposits and other investments presented under 'Prepayments and other resources'.

Financial assets are measured at amortized cost if both of the following conditions are met:
- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value.

Reclassification of financial assets
The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. The reclassification will be applied prospectively from the 'reclassification date', which is defined as, the first day of the first reporting period following the change in business model that results in the Bank reclassifying financial assets. Accordingly, any previously recognized gains, losses or interest will not be restated.

In 2019 and 2018, the Bank did not reclassify its financial assets subsequent to their initial recognition.

Financial liabilities at amortized cost
This category represents issued financial instruments, which are not designated at FVTPL and comprises ‘Deposit liabilities’, ‘Bills payable’ and ‘Accounts payable and accrued expenses’ (excluding documentary stamp taxes and other taxes and licenses payable).

Financial liabilities at amortized cost are contractual arrangements resulting in the Bank having the obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank’s own equity shares.

After initial measurement, these financial liabilities are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

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

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; and

- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risk and rewards of the asset but has transferred control over the asset.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Impairment of Financial Assets
The Bank records the allowance for expected credit losses for all loans and other debt financial assets carried at amortized cost, together with loan commitments and financial guarantee contracts.

Expected credit loss (ECL) methodology
ECL represents credit loss that reflects an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (i.e. the General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL is the credit loss that results from all possible default events over the expected life of a financial instrument. Both 12-month ECL and lifetime ECL are calculated on either an individual basis or a collective basis, depending on the nature and shared credit risk characteristics of the underlying portfolio of financial instruments. The Bank’s policy for grouping financial assets measured on a collective basis is explained in Note 4.

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

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. This also includes financial instruments, where the credit risk has improved, and the instrument has been reclassified from Stage 2. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. This also includes financial instruments, where the credit risk has improved, and the instrument has been reclassified from Stage 3. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of the financial instrument or portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.
- Purchased or credit originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and interest income is subsequently recognized based on a credit adjusted EIR. The ECL allowance is only recognized or released to the extent that there is a subsequent change in the ECL.

The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

Definition of "default" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes more than 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered no longer in default (i.e., to have cured) when it no longer meets any of the default criteria and the borrower demonstrated consistent payments for a consecutive period of 180 days.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors such as downgrade in the credit rating of the borrowers and a backstop based on delinquency. The credit risk of an exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are past due for more than a specified number of days (i.e. 30 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has

not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

ECL parameters and methodologies
ECL is a function of the PD, EAD and LGD, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and employing the use of the experienced credit judgment.

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

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

The Bank incorporates economic overlays into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of economic overlays are considered as economic inputs.

Collateral valuation
To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, real estates, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

The fair value of collateral affects the calculation of ECLs. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collaterals, such as real estate and chattels, are valued based on data provided by external and internal appraisers.

Write-offs
Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment loss.

Restructured loans
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are moved to Stage 3.

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

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method of accounting. The acquisition cost is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Bank elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Subsequent changes in the fair value of the contingent consideration that is classified an asset or liability is recognized in accordance with PFRS 9 *Financial Instruments* in the statements of income.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports in its financial statements the provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively in the following reporting period to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date. The measurement period ends as soon as the Bank, being the acquirer, receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one (1) year from the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Refer to accounting policy on *Impairment of Goodwill*.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in Subsidiary and Associates
A subsidiary is an investee entity over which the Bank exercises control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

The Bank reassesses whether or not it has control over an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

An associates is an entity over which the Bank demonstrates significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Investments in subsidiary and associates in the Bank's separate financial statements are initially recognized at cost and subsequently accounted for under the equity method.

On acquisition of investment, any difference between the cost of the investment and the Bank's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortization of that goodwill is not permitted.
- Any excess of the Bank's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Bank's share of the associate or subsidiary's profit or loss in the period in which the investment is acquired.

Under the equity method, an investment in subsidiary is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share of the net assets of the subsidiary. Post-acquisition changes in the share of net assets of the subsidiaries include the share in the: (a) income or losses; and (b) other comprehensive income (i.e. remeasurements on retirement plan). Dividends received are treated as a reduction in the carrying amount of the investments.

The statement of income reflects the share of the results of operations of the subsidiary and associate. Where there has been a change recognized directly in the equity of the subsidiary or associate, the Bank recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Bank's share of losses in a subsidiary or an associate equals or exceeds its interest in the subsidiary, the Bank discontinues recognizing its share in further losses, unless it has incurred obligations or made payments on behalf of the subsidiary or associate. If the subsidiary or associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Appropriate adjustments to the Bank's share of the subsidiary's or associate's profit or loss after acquisition are made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the Bank's share of the subsidiary's or associate's profit or loss after acquisition are made for impairment losses, such as for goodwill or non-financial assets.

Unrealized gains and losses on transactions between the Bank and its associate are eliminated to the extent of the Bank's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a group perspective.

Impairment loss is provided when there is objective evidence that the investments in associates will not be recovered. Refer to accounting policy on *Impairment of Nonfinancial Assets*.

Impairment of Goodwill

Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Recoverable amount is the higher of fair value less costs to sell and value-in-use. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment of goodwill is never reversed.

Premises, Furniture, Fixtures and Equipment

Premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization, and any impairment in value.

Effective January 1, 2019, it is the Bank's policy to classify right-of-use assets as part of property and equipment. Prior to that date, the Bank's lease arrangements are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. Refer to the policy *Leases beginning January 1, 2019* for the recognition and measurement of right-of-use assets.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings and building improvements	15 to 25 years
Furniture, fixtures and equipment	2 to 5 years
Leasehold improvements	3 to 10 years or term of the lease, whichever is shorter

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see accounting policy on *Impairment of Non-financial Assets*).

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

An item of premises, furniture, fixtures and equipment, including the related accumulated depreciation and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in statement of income in the period the item is derecognized.

Investment Properties

Investment properties pertain to condominium units and to parcels of land and buildings acquired by the Bank in settlement of loans from defaulting borrowers through foreclosure or dacion in payment, which are held by the Bank to earn rental income or for capital appreciation or both, rather than for administrative purposes or sale in the ordinary course of business.

The Bank adopted the cost model in measuring its investment properties. These are carried at acquisition cost less accumulated depreciation and amortization, and any impairment in value.

Investment properties are measured initially at acquisition cost. Investment properties such as condominium units and buildings are depreciated over the estimated useful lives ranging from two to ten years and is recognized under 'Depreciation and amortization' in the statement of income.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see accounting policy on *Impairment of Non-financial Assets).*

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

Investment property, including the related accumulated depreciation and any allowance for impairment losses, is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Other Repossessed Assets

Other repossessed assets are comprised primarily of repossessed motor vehicles. Repossessed assets acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such asset cannot be determined, in which case, it is measured at the fair value of the asset given up.

Subsequent to initial recognition, repossessed chattels are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of repossessed chattels are estimated to be no longer than three (3) years.

Intangible Assets

Intangible assets include computer software, branch licenses, dealership agreement and core deposits which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the consideration given up in acquiring the asset at the time of its acquisition. Those intangible assets acquired from business combination are recognized at their acquisition date fair values.

Amortization expense is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Computer software	2 – 5 years
Dealership agreement	7 years
Core deposits	10 years

These amortization expense is presented under 'Depreciation and amortization' in the statement of income. Costs associated with maintaining the intangible assets are expensed as incurred.

Acquired branch licenses from BSP are capitalized based on the costs incurred to acquire the license. Estimated useful lives of branch licenses are considered infinite; hence, not amortized.

The estimated useful lives of and method of amortization for intangible assets with finite useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. For those intangible assets with indefinite useful lives, the useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see accounting policy on *Impairment of Non-financial Assets*).

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the net proceeds and the carrying amount of the asset is recognized in profit or loss.

Prepayments and Other Resources

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

Leases beginning January 1, 2019

Bank as lessee

The Bank applies a single recognition and measurement approach for all leases.

(a) Right-of-use (ROU) assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis from the commencement date to earlier of the end of the useful life of the right-of-use or end of the lease term. The Bank assessed that the estimated useful life of the right-of-use assets is equal to the lease terms. The Bank's ROU assets are presented under "Premises, Furniture, Fixtures and Equipment".

Depreciation of ROU asset is presented under "Depreciation and amortization" in the statement of income.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.

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

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

The Bank's lease liabilities are presented under "Other liabilities".

(c) Short-term leases
The Bank applies the short-term lease recognition exemption to its short-term leases of office premises (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Bank as lessor
The Bank classifies a lease as finance lease if it transfers substantially all the risks and rewards incidental to ownership of asset arising from the lease, having considered the any of the following criteria:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset; and

- The asset is of such a specialized nature that only the lessee can use it without major modifications.

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an income in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

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

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

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

Impairment of Non-financial Assets
The Bank's investments in associates and subsidiary, premises, furniture, fixtures and equipment, investment properties, intangible assets and other nonfinancial assets are subject to impairment testing. Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually. All other individual assets or group of assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes an estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Revenue Recognition (outside the scope of PFRS 15)
Interest income
Interest income is recognized in the statement of income for all financial assets measured at amortized cost using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial instrument.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the financial asset.

Service fees arising from activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction that are considered integral in the creation or acquisition of financial asset is recognized in the statement of income using the EIR method.

The Bank calculates interest income on financial assets, other than those considered credit impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (regarded as 'Stage 3'), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. For POCI financial assets, the Bank calculates interest income by calculating the credit adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

Rental income
Rent arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is presented as part of 'Other income' in the statement of income.

Revenue Recognition (within the scope of PFRS 15)
Revenue from contracts with customers, if any, is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for goods or services. The following specific recognition criteria must also be met before revenue is recognized:

Service charges and fees
Service charges and penalties relating to loans and receivables and deposit transactions are recognized point in time, i.e. only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Income from sale or disposal of non-financial assets
Gain (loss) from sale of non-financial assets which pertains to the difference between the consideration from the sale or disposal and the carrying amount of the asset is recognized when it satisfies an identified performance obligation by transferring the promised good (i.e. asset) to a buyer. The asset is considered transferred when the buyer obtains control of the asset. This is presented as part of 'Other income' in the statement of income.

Expense Recognition
Costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on an accrual basis using the EIR method.

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

full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan (presented under 'Other liabilities') is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

The cost of providing benefits under the defined benefit plan is calculated regularly by independent actuaries using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account any changes in the net defined benefit asset or liability during the period as a result of contributions and benefit payments. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

When a plan amendment, curtailment or settlement occurs during the annual reporting period, the amendments to PAS 19 specify that an entity must:

a. Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
b. Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

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

Compensated Absences
Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. These are included in 'Accounts Payable and Accrued Expenses' in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

Equity
Capital stock represents the nominal value of shares that have been issued. Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus free includes all current and prior period results as reported in the statements of income and which are available and not restricted for use by the Bank, reduced by the amounts of dividend declared, if any.

Surplus reserves pertains to the difference of the one percent (1%) required General Loan Loss Provision, as required by the BSP Circular No. 1011 - *Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments,* on Stage 1 on-balance sheet loans over the computed allowance for expected credit losses on Stage 1 accounts under PFRS 9.

Remeasurements on retirement liability comprise of cumulative actuarial gains and losses resulting from remeasurements of post-employment defined benefit obligation, net of related deferred taxes.

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

3. Significant Accounting Judgments and Estimates

The preparation of the Bank's financial statements in accordance with PFRS requires the Bank to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

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

a. *Distinction between Operating and Finance Leases*
The Bank, as a lessee, has entered into various lease agreements. Prior to January 1, 2019, critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. The Bank's lease agreements were determined to be operating leases.

Estimates
Following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

a. *Estimation of impairment losses on loans and receivables*
The measurement of expected credit losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank adopted a loan loss methodology based on the requirements of PFRS 9. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- The Bank's internal grading model, which assigns PDs to individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit Loss basis and the qualitative assessment;
- The Bank's definition of default, which is consistent with regulatory requirements;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs; and
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Notes 10 and 16, respectively.

b. *Estimation of expected life of loans*
The Bank recognizes the upfront fees from loan originations as interest income using the EIR method over the expected life of the loans. The Bank estimates the expected life of the loans, based on the period over which the loans are expected to be settled in full. The estimation is reviewed periodically and is updated based on the current expectations on the behavior and repayment of the borrowers.

The carrying values of loans and receivables are shown in Note 10.

c. *Valuation of post-employment defined benefit obligation*
The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, future salary rate increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

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

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases are based on expected future inflation rates, seniority, promotion and other market factors.

The amounts of post-employment defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation are presented in Note 24.

d. *Impairment of non-financial assets*
The Bank assesses impairment on its nonfinancial assets (e.g., investment properties, premises, furniture, fixtures and equipment, right-of-use assets, intangible assets, other repossessed assets and investment in associates) and considers the following impairment indicators:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is the higher of fair value less cost to sell and value in use. The Bank is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The carrying values of the Bank's investments in associates, premises, furniture, fixtures and equipment (including the ROU assets), investment properties, intangible assets and other repossessed assets are disclosed in Notes 11, 12, 13, 14 and 16, respectively.

e. *Impairment of goodwill*
The Bank conducts a review of any impairment in value of goodwill annually every December 31 or frequently, if events if events or changes in the circumstances indicate that the carrying value of the cash generating unit to which to goodwill is allocated may be impaired. The Bank's impairment assessment requires significant judgement and is based on management's assumptions.

For purposes of impairment testing, the Bank measures the recoverable amount of the CGU to which the goodwill is allocated, based on a value-in-use calculation using cash flow projections from the five-year financial projection covering, which are approved by the senior management. The value-in-use calculation is most sensitive to the following assumptions: a) revenue growth rate; b) discount rate; and c) projected growth rate used to extrapolate cash flows beyond the five-year financial projection and to determine the terminal value.

The discussion of key assumptions used in the impairment calculation and the carrying value of the goodwill is disclosed in Note 15.

f. *Fair value determination of assets acquired and liabilities assumed from the acquisition of PR Savings Bank*
In June 2018, the Bank provisionally determined the fair values of the certain assets acquired and liabilities assumed from the acquisition of PR Savings Bank.

Upon merger on February 28, 2019, the Bank finalized the acquisition accounting, particularly on the determination of the final fair values of the assets and liabilities. The fair values of the assets and liabilities of the acquiree without quoted market prices are determined based on the following:

- For assets and liabilities that are short term in nature, carrying values approximate fair values;
- For financial assets and liabilities that are long-term in nature, fair values are estimated through the discounted cash flow methodology, using the appropriate market rates (e.g., current lending rates)
- For nonfinancial assets such as property and equipment and investment properties, fair values are determined based on an appraisal which follows sales comparison approach and depreciated replacement cost approach depending on the highest and best use of the assets
- For intangible assets, these are determined based on discounted cash flow over the benefits and liabilities of ownership over the assets acquired, including an exit or terminal value.

The final fair values of the assets acquired, and liabilities assumed are disclosed in Note 11.

g. *Leases – Estimating the incremental borrowing rate*
Upon adoption of PFRS 16 effective January 1, 2019, the Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the credit spread for a stand-alone credit rating).

The carrying amount of the lease liabilities as of December 31, 2019 is disclosed in Note 27.

4. Financial Risk Management Objectives and Policies

The Bank is committed to protect its reputation, core investments, team members, customers and communities and to create long-term value for all its stakeholders and to adopt an agile, scalable, defensible, and competitively opportunistic Enterprise Risk Management (ERM) framework. The Bank recognizes that the management of risk is fundamental to the business of banking. In this regard, it aims to consciously and actively manage the risks inherent in the business by striking a balance between risks and returns and achieving growth through an appropriate risk management policy.

The Bank enters into financial instruments contracts, which consist primarily of loans and receivables and financial liabilities such as deposits and bills payable to finance the Bank's operations. In carrying out its business, the Bank is exposed to a number of risks, including credit risk, liquidity risk, market risk and operational risk. The Bank also closely monitors other nonfinancial risks, such as strategic risk, compliance risk, regulatory and legal risks, IT risk, and reputation and brand risk.

Risk Management Structure
The Bank's risk governance structure is embedded in its organizational structure. There are four components of the structure: (1) the Branch Operations, the Operations Committee and Credit Committee, (2) the independent risk management team together with the corporate staff functions (Compliance, Information Technology, Accounting and Finance, and Human Resources), (3) Internal Audit, and (4) the Board Committees.

The BOD is ultimately responsible for the overall risk management approach, and reviews and approves the policies for managing each of these risks. The BOD oversees and monitors the implementation of its policies through the various committees that it has created.

Risk Measurement and Reporting
The Bank has established an adequate information system for measuring, monitoring, controlling and reporting risks or existing or potential problems and for evaluating policies vis-à-vis prevailing circumstances and emerging portfolio trends.

Monitoring and controlling risks are primarily performed based on the risk appetite of the Bank. The Bank's risk appetite defines in general terms its risk-taking capacity given the acceptable business opportunities that the Bank is willing to pursue and determines how risks are viewed and addressed by the Bank as a whole. This is expressed and guided by the various limits that are mandated and delegated by the Bank's BOD and shareholders.

The Bank has developed and utilized an internal risk rating system in order to help the Board and Senior Management differentiate risks across the individual credits and groups and to facilitate informed decision making. The internal credit risk rating system influences the portfolio management and board reporting, credit approval and underwriting process, allowance for credit losses from a portfolio basis, relationship management and credit administration.

The Bank measures the performance and risk level of its credit portfolio and reports these findings to the BOD through the Risk Management Committee.

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

Risk Mitigation
Risks are inherent in the business activities of the Bank. Among its identified risks are credit risk, liquidity risk, market risk, interest rate risk, operational risk, legal risk, and regulatory risk. To exploit opportunities and mitigate the adverse effects of key risks, the Bank develops and implements appropriate and effective systems and procedures in managing and controlling the risks in line with the risk management policies.

Risk management is the Bank's strong advocate of testing and measuring effectiveness as well as adopting a policy of rigorous and forward-looking stress testing that is performed at least every year to identify possible events or changes in industry conditions that could adversely impact the Bank. The main objective of risk management is to ensure that the Bank conducts its business within the risk levels set by the BOD while business units pursue their objective of maximizing returns.

Financial Risks
The relevant financial risks to which the Bank is exposed to are described below.

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

i. *Foreign Currency Risk*, arising from changes in exchange rates or risk arising from adverse movements/mismatches in currencies.

   The Bank has minimal exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency.

ii. *Interest Rate Risk*, arising from changes in prevailing interest rates and implied volatilities on interest rate options

   The Bank follows a prudent policy on managing its assets and liabilities that shall ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Long-term borrowings are usually at fixed rates. As at December 31, 2019 and 2018, the Bank has no significant exposure to interest rate risk as most of its financial instruments have fixed rates.

Credit Risk
Credit risk is the risk that a counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to credit risk arising from loan defaults of its clients, with a maximum exposure without taking into account collateral and other credit enhancements equal to the carrying amount of their loans. As a mitigating factor, stringent policy has been implemented in loan granting such that the Bank grants credit only with recognized, creditworthy clients. The Bank transacts only with clients which have demonstrated financial soundness.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Periodic stress tests are likewise conducted to identify potential changes in market and political conditions such as the loss of the Automatic Payroll Deduction System (APDS) facility afforded to the Bank that could adversely impact the performance of its credit portfolios. Exposure of certain consumption, real estate and commercial loans to credit risk is also managed in part by obtaining collateral.

The Bank extends loans, such as salary loans to teachers under the DepEd Regional Payroll Services Unit (RPSU) and Autonomous schools, teachers of Private Colleges and Universities and State Universities, as well as pension loans. It also gives out loans to private individuals for the specific purpose of purchasing Motorcycles.

The Credit Committee undertakes the evaluation of existing policies, practices and procedures on credit or credit-related matters and if necessary, formulate or create new policies that would be used as guidelines for the management of credit risks at the same time ensuring that these are within the risk appetite of the Bank.

The Bank, being an accredited lending institution with DepEd, has entered into an agreement with DepEd for automatic payroll deductions on salary loans granted to teachers. In 2018, upon release of the new Terms and Conditions of the Automatic Payroll Deduction System (APDS) Accreditation, the Bank may approve a loan only upon certification by the DepEd verifier, stating that the monthly payments can be accommodated within the threshold of the monthly net take home pay as required in the General Appropriations Act at the time of approval of loan.

In 2019, the Bank has entered into a Memorandum of Agreement with various motorcycle dealers, where the latter have agreed to refer to the Bank prospective buyers of motorcycle units for financing arrangement, albeit subject to the credit standards of the Bank. These buyers undergo credit investigation and evaluation of repayment capacity before approval decision are rendered. Approvals are then relayed to the motorcycle (MC) dealers who release the units to the buyers, in the presence of the Sales associates of the Bank. This is backed up by independent unit composed of Credit Specialists who perform the evaluation of the repayment capacity of the borrower subject to a set of metrics duly approved by the Credit Committee, and the Collection team whose responsibility comes with payment reminders to the borrower all the way to the repossession of the MC unit in the event of payment defaults.

Collateral and other credit enhancements
The Bank holds collateral against certain loans and receivables from borrowers in order to mitigate risk. The collateral may be in the form of mortgages over real estate properties, chattels, deposits and others. The Bank regularly monitors and updates the fair value of the collaterals depending on the type of credit exposure. Estimates of the fair value of collaterals are considered in the review and assessment of the adequacy of allowance for impairment losses. Fair values are determined by the Bank's internal appraisers.

As of December 31, 2018, the Bank does not hold any collateral for its salary loans to teachers which comprise 92.90% of the total loan portfolio. With the merger of PR Savings Bank in 2019, the Bank holds additional collaterals in the form of real estate and deposit hold-out for its non-salary loans. As of December 31, 2019, the Bank's portfolio consisting primarily of salary loans to teachers and motorcycle loans, representing 83.90% and 5.09% of the total loan portfolio, respectively, are classified as unsecured loans and included in the consumption loans.

Maximum exposure to credit risk after collateral held and other credit enhancements
The table below shows the Bank's maximum exposure to credit risk on loans and receivables as of December 31, 2019 and December 31, 2018:

	December 31, 2019			December 31, 2018		
	Maximum Exposure			Maximum Exposure		
	Carrying Value*	**Financial Effect of Collateral in Mitigating Credit Risk**	**Maximum Exposure to Credit Risk**	Carrying Value*	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk
Loans:						
Consumption**	**₱49,736,667,371**	**₱82,227,636**	**₱49,654,439,735**	₱48,330,005,932	₱13,235,000	₱48,316,770,932
Commercial	**1,113,343,654**	**670,000,000**	**443,343,654**	55,015,710	–	55,015,710
Real Estate	**83,360,992**	**1,017,200**	**82,343,792**	692,158	6,113,644	–
Agricultural	**327,410,351**	**174,893,458**	**152,516,893**	246,338,185	–	246,338,185
Accounts receivable	**2,448,061,054**	–	**2,448,061,054**	2,489,621,754	–	2,151,080,169
Sales contract receivable	**6,385,700**	–	**6,385,700**	–	–	–
Unquoted debt securities	**46,130,783**	–	**46,130,783**	376,972,586	–	376,972,586
Accrued interest receivable	**790,102,590**	–	**790,102,590**	631,474,717	–	631,474,717
	₱54,551,462,495	**₱928,138,294**	**₱53,623,324,201**	₱52,130,121,042	₱19,348,644	₱51,777,652,299

*Net of unearned interest, discounts and other deferred credits but gross of allowance for credit losses
**Consumption loans include teachers and motorcycle loans.

Financial effect of collaterals in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Risk Concentration
Concentration of credit arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank maintains its focus and its drive to cater the financial needs of the teachers, notwithstanding the concentration risk it entails, as it continues to believe that said strategy remains viable in terms of financial returns, at the same time morally rewarding as the same actualizes the original core values and mission of the Bank along the lines of financial inclusion and literacy.

While the Bank has taken on this concentration risk, efforts to mitigate the risk have started specifically the diversification of the portfolio by expanding the Bank's reach to more autonomous schools and State Universities and Colleges (SUCs). The Bank also started to lend to pensioners, overseas Filipino workers (OFWs) and seafarers. With the merger of PR Savings Bank in 2019 and the growth prospects in loan portfolio and net interest margin, the Bank expanded to cater motorcycle loans to a wide array of consumers, which also aid in the mitigating the credit risk concentration.

The Bank, through its Board Risk Committee, likewise manages concentration risks by setting exposure limits to borrowing groups, industries, and where appropriate, on products and facilities.

a. *Concentration by Counterparty*
Information on concentration of financial assets (i.e. Due from BSP, Due from other banks, SPURA, Loans and receivables, and security deposits and other investments under 'Prepayments and other resources') as to counterparties as at December 31, 2019 and 2018 follows. The amounts are gross of unearned interest, discounts and other deferred credits.

	2019	2018
School teachers	**₱50,284,596,720**	₱50,929,552,347
Financial intermediaries	**14,350,879,056**	15,294,725,587
Corporate	**1,159,608,449**	140,979,815
Other individuals	**3,704,206,778**	252,703,569
	69,499,291,003	66,617,961,318
Allowance for impairment loss	**(1,475,600,439)**	(840,960,944)
	₱68,023,690,564	₱65,777,000,374

b. *Concentration by Industry*

The tables below show the distribution of maximum credit exposure by industry sector of financial assets before taking into account the fair value of the loan collateral or other credit enhancements (excluding cash and other cash items):

	2019		2018	
	Amount	**Percentage**	Amount	Percentage
Other service activities	**₱49,238,829,207**	**74.34%**	₱49,053,605,900	76.46%
Financial and insurance activities	**14,902,548,207**	**22.50%**	14,784,935,074	23.05%
Agricultural, forestry and fishing	**1,153,216,940**	**1.74%**	247,612,337	0.39%
Wholesale and Retail, Trade, Repair of Motor, Vehicles, Motorcycle	**476,876,228**	**0.72%**	168,996	0.00%
Transportation and Storage	**314,791,179**	**0.48%**	30,105	0.00%
Real estate activities	**87,492,275**	**0.13%**	67,014,951	0.10%
Education	**45,727,996**	**0.07%**	–	–

(Forward)

	2019		2018	
	Amount	**Percentage**	Amount	Percentage
Administrative and Support Service Activities	**₱11,188,707**	**0.02%**	₱–	–
Manufacturing	**1,725,257**	**0.00%**	1,240,165	0.00%
Accommodation and Food Service Activities	**2,744,641**	**0.00%**	–	–
Activities of households as employers and undifferentiate goods and services	**–**	**–**	–	–
Other community, social and personal activities	**–**	**–**	–	–
	₱66,235,140,637	**100.00%**	₱64,154,607,528	100.00%

[2]*Others include refundable deposits and other investments.*

Credit quality per class of financial assets
In assessing their credit quality and calculating the ECL, the Bank disaggregates its loans and receivables based on loan products: (a) DepEd/Teachers loans; (b) Motorcycle loans, (c) Other consumption loans; and (d) Other loans acquired from PR Savings Bank. Other consumption loans include loans granted to pensioners, OFWs and seafarers.

DepEd/Teachers loans
Beginning January 1, 2018, the Bank uses a rating system for purposes of impairment assessment. The model is applied on DepEd/Teachers loans and incorporates borrowers profile, capacity to pay and payment history and credit relationship with the Bank, such as the age, teaching position, net take home pay, number of accounts, customer's months on books, among others, to determine the risk rating for each account.

Each borrower is assigned a credit score as follows:

Credit Score	**Risk Rating**
E	Minimal
D	Low
C	Moderate
B	Average
A	High

The credit grades used by the Bank in evaluating the credit quality of its financial assets are as follows:

(a) High grade (accounts with risk grades of low to minimal)
These are receivables which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation

(b) Standard grade (accounts with risk grades of average to moderate)
These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

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

(d) Default or individually impaired comprise accounts.

These consist of individual credits or portions thereof where existing facts, conditions, and values make collection or liquidation highly improbable and in which substantial loss is probable. Also, these consist of accounts which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

Accounts which are not subjected to risk rating are considered unrated.

The Bank classifies the DepEd/Teachers loans according to stages based on the following:

- Stage 1 – Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with minimal credit risk. These are accounts that are in current status and no downgrade of two notches in risk rating since origination.
- Stage 2 – Credit exposures that are considered "under-performing" and with significant increase in credit risk since initial recognition. These are accounts with downgrade of two notches in risk rating since origination and are tagged as high-risk accounts.
- Stage 3 – Credit exposures that demonstrate objective evidence of impairment as of reporting date and thus, considered "non-performing". These are accounts with age of over 90 days past due. These are borrowers having at least one account that was either written-off, unpaid until its maturity ("Real Past Due") or endorsed to Legal Department ("Items in Litigation").

For purposes of the ECL calculation, the Bank assigns a probability of default (PD) to each risk rating. The Bank has developed the PDs based on historical experience for each risk rating and staging transition and calibrates them to reflect current and forward-looking information. Loss given default (LGD) estimates are based on the historical cash flow recovery experience

Below is the breakdown of the Bank's DepEd loans exposure (outstanding balance and accrued interest receivable) by credit scoring as of December 31, 2019 and 2018:

	December 31, 2019			
Credit Score	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
D to E	**₱42,720,291,122**	**₱–**	**₱–**	**₱42,720,291,122**
B to C	**20,789,598**	**25,453,782**	**–**	**46,243,380**
A		**15,552,247**	**–**	**15,552,247**
Default	**–**	**–**	**2,213,810,246**	**2,213,810,246**
	₱42,741,080,721	**₱41,006,029**	**₱2,213,810,246**	**₱44,995,896,996**

	December 31, 2018			
Credit Score	Stage 1	Stage 2	Stage 3	Total
D to E	₱45,059,018,290	₱–	₱–	₱45,059,018,290
B to C	80,318,685	49,243,706	–	129,562,391
A	–	196,141,839	–	196,141,839
Default	–	–	1,620,327,095	1,620,327,095
	₱45,139,336,975	₱245,385,545	₱1,620,327,095	₱47,005,049,615

Motorcycle Loans, Other Consumption Loans, and Other Loans Acquired from PR Savings Bank
Receivables of the Bank, other than DepEd/Teachers loans, include smaller portfolios such as household, GSIS pensioners' loans, motorcycle loans and the loans acquired from merger with PR Savings Bank. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits when appropriate. The ECL stage bases are determined based on the aging and delinquency of the accounts.

The description of each groupings according to stage is explained further as follows:

(a) Stage 1 (Standard grade)
Those that are considered current and up to 30 days past due, and based on delinquencies and payment history, does not demonstrate significant increase in credit risk.

(b) Stage 2 (Substandard grade)
Those that are considered more 30 days past due but does not demonstrate objective evidence of impairment as of reporting date, and, based on delinquencies and payment history, demonstrates significant increase in credit risk.

(c) Stage 3 (Credit impaired)
Those that are considered default or demonstrates objective evidence of impairment as of reporting date. These are accounts with over 90 days past due.

(d) Purchased or originated credit impaired (POCI)
These are receivables which are credit impaired on initial recognition or at the time of acquisition. Lifetime ECL is recognized on these loans.

Motorcycle Loans
Below is the breakdown of the motorcycle loans (outstanding balance and accrued interest receivable) as of December 31, 2019. The credit risk associated with these loans is assessed based on days past due.

	December 31, 2019				
Risk rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard	**₱1,979,446,443**	**₱–**	**₱–**	**₱–**	**₱1,979,446,443**
Substandard	–	**378,414,440**	–	–	**378,414,440**
Credit impaired	–	–	**361,736,155**	**9,985,480**	**371,721,635**
	₱1,979,446,443	**₱378,414,440**	**₱361,736,155**	**₱9,985,480**	**₱2,729,582,518**

Motorcycle loans include those acquired from PR Savings Bank, originated by CSB and bought-out from CFFC (see Note 10).

Other consumption loans
Below is the breakdown of the Bank's other consumption loans exposure (outstanding balance and accrued interest receivable) by credit quality as of December 31, 2019 and 2018:

	December 31, 2019			
Risk rating	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard	**₱2,583,181,498**	**₱–**	**₱–**	**₱2,583,181,498**
Substandard	**–**	**21,851,655**	**–**	**21,851,655**
Credit impaired	**–**	**–**	**166,290,206**	**166,290,206**
	₱2,583,181,498	**₱21,851,655**	**₱166,290,206**	**₱2,771,323,359**

	December 31, 2018			
Risk rating	Stage 1	Stage 2	Stage 3	Total
Standard	₱3,321,284,414	₱–	₱–	₱3,321,284,414
Substandard	–	18,979,020	–	18,979,020
Credit impaired	–	–	273,526,500	273,526,500
	₱3,321,284,414	₱18,979,020	₱273,526,500	₱3,613,789,934

Other Loans Acquired from PR Savings Bank
Below is the breakdown of the loans acquired from PR Savings Bank (outstanding balance and accrued interest receivable) as of December 31, 2019. The credit risk associated with these loans is assessed based on days past due.

	December 31, 2019				
Risk rating	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Standard	**₱2,015,670,886**	**₱–**	**₱–**	**₱–**	**₱2,015,670,886**
Substandard	**–**	**125,956,739**	**–**	**–**	**125,956,739**
Credit impaired	**–**	**–**	**599,903,106**	**377,074,386**	**976,977,492**
	₱2,015,670,886	**₱125,956,739**	**₱599,903,106**	**₱377,074,386**	**₱3,118,725,108**

Other loans are composed of teachers and other legacy portfolio (e.g. agricultural loans, real estate mortgage) acquired from PR Savings Bank.

Other Financial Assets
As of December 31, 2019 and December 31, 2018, other financial assets, which include ‘Due from BSP’, ‘Due from other banks’, ‘SPURA’, ‘Accounts receivable’ and ‘Unquoted debt securities’ under ‘Loans and receivables’, and ‘Security deposits’ under ‘Prepayments and other resources’ are classified as high grade (“Stage 1”) since these are receivables which have a high probability of collection because the counterparty has the apparent ability to satisfy its obligation and the security on the receivables is readily enforceable.

Liquidity Risk
Liquidity risk is the risk to earnings or capital arising from the Bank’s inability to make timely payment on its financial obligations to customers and repay deposits on maturity. The Bank’s objective is to strike a balance between liquidity and profitability in managing this type of risk. The Bank closely monitors the current and prospective maturity structure of its resources and liabilities and the market condition to guide pricing and asset/liability allocation strategies to manage its liquidity risks. In addition, the Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. It seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

Liquidity is monitored by the Bank on a daily basis. The table below shows the maturity profile of the Bank's financial assets and liabilities, based on the contractual undiscounted cash flows as at December 31, 2019 and 2018:

	December 31, 2019					
	On Demand	**Up to 1 Month**	**Over 1 to 3 Months**	**Over 3 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
Cash and other cash items	**₱622,892,875**	**₱–**	**₱–**	**₱–**	**₱–**	**₱622,892,875**
Due from BSP	**1,807,175,145**	**4,128,406,833**	**–**	**–**	**–**	**5,935,581,978**
Due from other banks	**2,529,179,653**	**102,669,275**	**4,552,586**	**–**	**–**	**2,636,401,514**
Securities purchased under resale agreement*	**–**	**6,330,946,267**	**–**	**–**	**–**	**6,330,946,267**
Loans and receivables						
Loans*	**1,451,167,434**	**55,645,559**	**302,682,915**	**3,494,373,185**	**61,481,458,472**	**66,785,327,565**
Unquoted debt securities*	**–**	**103,406**	**627,095**	**2,670,656**	**43,153,993**	**46,555,150**
Accounts receivable	**151,529,888**	**1,725,433,609**	**169,916,349**	**115,774,878**	**132,729,944**	**2,295,384,668**
Accrued interest receivable	**–**	**790,102,590**	**–**	**–**	**–**	**790,102,590**
Sales contract receivable	**–**	**2,811,255**	**–**	**–**	**3,574,445**	**6,385,700**
Other assets	**–**	**9,724,022**	**15,276,212**	**34,398,578**	**12,411,249**	**71,810,061**
	₱6,561,944,995	**₱13,149,417,261**	**₱493,055,157**	**₱3,647,217,297**	**₱61,669,753,658**	**₱85,521,388,368**
Financial Liabilities						
Deposit liabilities						
Time*	**₱–**	**₱31,668,091,859**	**₱648,641,579**	**₱2,082,502,167**	**₱9,032,598,774**	**₱43,431,834,379**
Savings	**3,039,349,220**	**–**	**–**	**–**	**–**	**3,039,349,220**
Demand	**116,304,152**	**–**	**–**	**–**	**–**	**116,304,152**
Bills payable*	**–**	**1,045,231,733**	**3,021,517,223**	**8,499,908,489**	**938,790,970**	**13,505,448,415**
Accounts payable and accrued expenses**	**1,187,911,541**	**–**	**–**	**–**	**–**	**1,187,911,541**
Other liabilities**	**–**	**400,867,470**	**–**	**–**	**153,163,949**	**55,4031,419**
	₱4,343,564,913	**₱33,114,191,062**	**₱3,670,158,802**	**₱10,582,410,656**	**₱10,124,553,693**	**₱61,834,879,127**

**Includes future interest*
***Excludes statutory liability*

	December 31, 2018					
	On Demand	Up to 1 Month	Over 1 to 3 Months	Over 3 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Cash and other cash items	₱408,712,128	₱–	₱–	₱–	₱–	₱408,712,128
Due from BSP	3,034,359,867	–	–	–	–	3,034,359,867
Due from other banks	2,868,575,206	–	–	–	–	2,868,575,206
Securities Purchased under Resale Agreement*	8,887,859,653	–	–	–	–	8,887,859,653
Loans and Receivables						
Loans*	607,531,955	83,589	259,096,700	3,267,535,588	55,076,655,753	59,210,903,585
Unquoted debt securities*	331,104	946,675	192,152,440	168,525,145	15,810,555	377,765,919
Accounts Receivable	–	2,004,909,765	–	–	146,170,404	2,151,080,169
Accrued Interest Receivable	–	631,474,717	–	–	–	631,474,717
Other assets	–	–	–	–	41,446,788	41,446,788
	₱15,807,369,913	₱2,637,414,746	₱451,249,140	₱3,436,060,733	₱55,280,083,500	₱77,612,178,032
Financial Liabilities						
Deposit liabilities						
Time*	₱45,878,439	₱18,690,450,880	₱3,330,995,114	₱3,865,967,435	₱9,381,432,093	₱35,314,723,961
Savings	2,196,811,493	–	–	–	–	2,196,811,493
Demand	92,655,262	–	–	–	–	92,655,262
Bills payable*	–	8,539,004,208	951,135,735	13,780,487,923	79,177,192	23,349,805,058
Accounts payable and accrued expenses**	230,381,176	614,526,389	–	–	–	844,907,565
Other liabilities**	–	5,600,340	–	300,000,000	–	305,600,340
	₱2,565,726,370	₱27,849,581,817	₱4,282,130,849	₱17,946,455,358	₱9,460,609,285	₱62,104,503,679

**Includes future interest*
***Excludes statutory liabilities*

5. Fair Value Measurement and Categories of Financial Assets and Liabilities

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

Cash and other cash items, due from BSP and other banks, and SPURA
The carrying amounts approximate fair values due to the short-term nature of these accounts.

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

Security deposits
The fair value of refundable deposits was computed using the discounted cash flow methodology, using the prevailing market rate of interest for a similar instrument.

Investment Properties
The fair values of the condominium units classified under "Investment Properties" and the land, buildings and improvements acquired from merger of PR Savings Bank (see Note 13) are determined by independent external appraisers using the sales comparison approach. This is a comparative approach that considers the sales of similar or substitute properties and related market data and economic conditions prevailing at the time of valuations were made and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

Liabilities
The fair values of liabilities approximate their carrying amounts due to either the demand nature or the relatively short term maturities of these liabilities except for time deposit liabilities and bills payable whose Level 3 fair values are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

The following table sets forth the carrying values and estimated fair values of financial instruments for which fair values are required to be disclosed and with fair values different from their carrying amounts as at December 31, 2019 and 2018:

	2019				
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Loans and receivables	**₱52,920,787,542**	**₱–**	**₱–**	**₱52,006,001,827**	**₱52,006,001,827**
Security deposits (included as part of 'Prepayments and Other Resources')	**71,471,244**	**–**	**–**	**68,674,207,**	**68,674,207**
	₱52,992,258,786	**₱–**	**₱–**	**₱52,074,676,034**	**₱52,074,676,034**
Financial liabilities					
Deposit liabilities					
Time	**₱43,101,948,318**	**₱–**	**₱–**	**₱43,431,834,379**	**₱43,431,834,379**
Bills and notes payable	**12,956,604,745**	**–**	**–**	**11,818,064,413**	**11,818,064,413**
	₱56,058,553,063	**₱–**	**₱–**	**₱55,249,898,792**	**₱55,249,898,792**

	2018 (As restated - Note 11)				
	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
At Amortized cost					
Loans and receivables	₱50,956,158,325	₱–	₱–	₱45,986,837,225	₱45,986,837,225
Security deposits (included as part of 'Prepayments and Other Resources')	41,107,971	–	–	37,929,649	37,929,649
	₱50,997,266,296	₱–	₱–	₱46,024,766,874	₱46,024,766,874
Financial liabilities					
Deposit liabilities					
Time	₱34,340,970,795	₱–	₱–	₱33,404,173,669	₱33,404,173,669
Bills payable	22,651,257,850	–	–	22,648,472,416	22,648,472,416
	₱56,992,228,645	₱–	₱–	₱56,052,646,085	₱56,052,646,085

The tables below summarize the fair value hierarchy of the Bank's nonfinancial assets which are not measured at fair value in the statement of financial position but for which fair value is disclosed:

	2019				
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Nonfinancial assets					
Investment properties					
Condominium units	**₱394,225**	**₱–**	**₱–**	**₱68,087,241**	**₱68,087,241**
Land	**719,938,210**	**–**	**–**	**719,938,210**	**719,938,210**
Building and building improvements	**24,566,310**	**–**	**–**	**24,566,310**	**24,566,310**

	2018				
	Carrying value	Level 1	Level 2	Level 3	Total
Nonfinancial assets					
Investment properties					
Condominium units	₱1,577,055	₱–	₱–	₱48,315,538	₱48,315,538

As of December 31, 2019, there are no material differences in the carrying amounts and fair values of the land, building and improvements acquired from merger of PR Savings Bank and classified as "Investment properties".

In 2019 and 2018, there were no transfers made among each of these levels in the fair value hierarchy.

6. Cash and Other Cash Items

Cash and other cash items consist of the following items:

	2019	2018
Cash in vault	**₱335,468,394**	₱311,817,185
Checks and other cash items	**203,126,181**	37,801,143
Cash in automated teller machines (ATM)	**84,298,300**	59,093,800
	₱622,892,875	₱408,712,128

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including ATM.

Other cash items include checks drawn on other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours.

7. Due from Bangko Sentral Ng Pilipinas

This account is composed of the following:

	2019	2018
Mandatory reserves	**₱1,807,175,145**	₱3,034,359,867
Non-mandatory reserves	**4,126,000,000**	–
	₱5,933,175,145	₱3,034,359,867

Due from BSP includes balance of noninterest-bearing peso deposit account which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims and the aggregate amounts of placements made under the overnight and term deposit facility with BSP.

Under Section 254 of the Manual of Regulations for Banks (MORB), a bank shall keep its required reserves in the form of deposits placed in the bank's demand deposit account with the BSP. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as drawings against such deposits shall be limited to: (a) settlement of obligation with the BSP, and (b) withdrawals to meet cash requirements.

Due from BSP held that are non-mandatory reserves include overnight deposit facility (ODF) earns annual interest that ranges from 3.50% to 4.25% and from 2.50% to 4.75% in 2019 and 2018, respectively. The total interest income earned amounted to ₱26.09 million and ₱26.67 million in 2019 and 2018, respectively, and is presented as part of 'Interest income on deposits with banks and others' in the statements of income.

8. Due from Other Banks

This account consists of the following:

	2019	2018
Savings and demand deposits	**₱2,535,748,798**	₱1,241,291,310
Time deposits	**106,895,816**	1,627,283,896
	2,642,644,614	2,868,575,206
Less: Allowance for impairment (Note 17)	**(6,579,210)**	(5,329,200)
	₱2,636,065,404	₱2,863,246,006

Savings and demand deposits generally earn interest based on daily bank deposit rates. Time deposits, having maturities of up to three months, earn interest rates per annum of 2.70% to 6.75% in 2019 and 1.26% to 7.10% in 2018. Interest income on deposits with other banks amounted to ₱38.63 million and ₱26.90 million in 2019 and 2018, respectively, and is shown as part of 'Interest income on deposits with banks and others' in the statements of income.

In 2019 and 2018, the Bank recognized provision for impairment amounting to ₱1.25 million and ₱3.47 million, respectively, for Due from other banks (see Note 16).

9. Securities Purchased Under Resale Agreements

Securities purchased under resale agreements (SPURA) pertain to overnight placements with the BSP, where the underlying securities cannot be sold or repledged. SPURA yielded 3.50% to 4.75% and 2.50% to 4.75% annual interest in 2019 and 2018, respectively.

In 2019 and 2018, interest income from SPURA amounted to ₱254.19 million and ₱268.96 million, respectively, and is shown as part of 'Interest income on deposits with banks and others' in the statements of income.

As of December 31, 2019 and 2018, the Bank's outstanding SPURA amounted to ₱6.33 billion and ₱8.88 billion, respectively, which have maturity periods of six days and five days, respectively.

10. **Loans and Receivables**

This account consists of:

	2019	2018 (Note 11)
Loans	**₱52,782,364,953**	₱49,987,364,832
Unearned service fee and unearned interest and discount (UID)	**(1,521,582,585)**	(1,355,312,847)
Deferred dealers' commissions and other charges	**67,545,744**	–
	51,328,328,112	48,632,051,985
Accounts receivable	**2,448,061,054**	2,489,621,754
Sales contract receivable	**6,385,700**	–
Unquoted debt securities, net of UID amounting to ₱232,948 and ₱770,609 in 2019 and 2018, respectively	**46,322,203**	376,972,586
Accrued interest receivable	**790,102,590**	631,474,717
	54,619,199,659	52,130,121,042
Allowance for impairment (Note 17)	**(1,478,189,986)**	(835,421,132)
	₱53,141,009,673	₱51,294,699,910

Loans

Loans to customers bear effective interest rates as follows:

	2019	2018
DepEd/Teachers loans	**7.50% - 12.00%**	6.50% - 52.00%
Non-DepEd loans	**3.84% - 96.00%**	0.25% - 96.00%
Motorcycle loans	**17.52% - 86.00%**	
Other loans	**4.00% - 60.00%**	

Unearned service fees pertain to the upfront fees received by the Bank from borrowers upon origination of the loans of Teachers/DepEd loans. Deferred dealers' commissions and other charges are the upfront commissions paid to dealers for the origination of the motorcycle loans.

In 2019 and 2018, the Bank incurred service charges amounting to ₱224.60 million and ₱227.61 million, recorded in "Service charges" and representing fees paid/payable to DepEd for the payments collected from the borrowers by DepEd on behalf of the Bank.

In 2019, the Bank also incurred commissions paid/payable to the dealers amounting to ₱42.83 million, recorded in "Fees and commissions" and pertaining to commissions other than related to origination of the loans, like for meeting sales quota and early submission of motorcycle documents.

Certain loans as at December 31, 2019 and December 31, 2018 amounting to ₱1.40 billion and ₱2.35 billion, respectively, are pledged as collaterals to secure the Bank's bills payable (see Note 19).

In June 2019, the Bank entered into a loan receivable purchase agreement with Country Funders Finance Corporation ("CFFC"), whereby the Bank agreed to purchase and CFFC agreed to sell its loans receivable from various motorcycle loan borrowers for a total consideration equivalent to the outstanding balance and accrued interest plus a percentage of processing fee. In 2019, total amount of motorcycle loans purchased by the Bank from CFFC amounted to ₱1.16 billion. In addition, the

Bank and CFFC entered into collection service agreement whereby CFFC will handle the collections of these receivables for fee. In 2019, the Bank incurred fees, under the collection service agreement with CFFC, of ₱8.02 million.

Accounts receivable
Accounts receivable include ₱1.83 billion and ₱1.94 billion accrued remittances from DepEd as at December 31, 2019 and 2018, respectively, representing the payment collected by DepEd on behalf of the Bank which is normally remitted to the Bank within one month.

Account receivables also includes amount due from Land Bank of the Philippines (LBP) pertaining to redemption of matured unquoted debt securities amounting to ₱151.53 million and ₱164.10 million as of December 31, 2019 and 2018.

Pursuant to the share purchase agreement, the previous shareholders of PR Savings Bank agreed to carve out certain assets and settle certain claims totaling ₱338.54 million, which is to be deducted from the escrow amount (see Note 11). As of December 31, 2019, the outstanding balance of these receivable, presented in 'Account receivable', amounted to ₱248.54 million.

Unquoted debt securities
Unquoted debt securities consist of LBP agrarian reform bonds and investments in Small Business Corporation (SB) in a form of Micro, Small and Medium Enterprise (MSME) notes, as part of the reserve requirements and in compliance with Presidential Decree (PD) No. 717, Agri Agra Law, with Section 15 of Republic Act (RA) No. 9501, Magna Carta for MSMEs, and BSP Circular No. 625-Magna Carta for Micro, Small and Medium Enterprises.

Details are as follows:

	2019	2018
LBP - Agrarian reform bonds	**₱10,363,731**	₱29,731,511
SB - MSME notes	**36,000,000**	348,011,684
Other LBP bonds	**191,420**	–
	46,555,151	377,743,195
UID	**(232,948)**	(770,609)
	₱46,322,203	₱376,972,586

The agrarian reform bonds are redeemable in a monthly installment from the dates these were issued and bear interest based on an average 91-day treasury bill rates. MSME notes bear interest at rates ranging from 1.50% to 2.23% and from 1.50% to 2.39% per annum in 2019 and 2018, respectively, and have maturities of 182 to 364 days.

Interest income
Interest income earned on loans and receivables are as follows:

	2019	2018
Interest income on:		
Loans	**₱8,346,487,750**	₱7,275,683,235
Accounts and sales contract receivable	**24,608,683**	51,757,770
Unquoted debt securities	**5,941,773**	7,810,046
	₱8,377,038,206	₱7,335,251,051

In 2018, interest income on accounts receivable pertains to interest income earned on deposits on an escrow account related to the acquisition of PR Savings Bank. The amount was released on the closing date of the transaction in 2018.

Allowance for impairment
Movements in allowance for credit losses on loans and receivables follow:

	2019	2018
Balance at beginning of year	**₱835,421,132**	₱1,670,427,268
Allowance carried over upon merger (Note 11)	**529,778,562**	–
Provision for credit losses	**327,139,551**	63,453,447
Write off and others	**(214,149,259)**	(898,459,583)
Balance at end of year	**₱1,478,189,986**	₱835,421,132

11. **Investments in Associates and a Subsidiary**

The movements in the investments in associates and a subsidiary accounted for under the equity method are as follow:

		2019	2018 (As restated)
Acquisition costs	*% Equity interest*		
Balance at beginning of the year			
PR Savings Bank *(Subsidiary)**	100.00%	**₱6,677,459,405**	₱6,677,459,405
PETNET *(Associate)***	40.00%	**941,176,956**	941,176,956
FAIR Bank *(Associate)****	49.00%	**61,445,510**	56,349,510
CSBLI *(Associate)*****	40.00%	**2,000,000**	2,000,000
		7,682,897,071	7,676,985,871
Effect of merger of PR Savings Bank		**(6,677,459,405)**	–
Capital infusion to FAIR Bank		**26,950,000**	5,096,000
Balance at the end of the year		**1,031,572,466**	7,682,081,871
Accumulated equity in net earnings			
Balance at beginning of the year		**(63,474,859)**	40,037,493
Share in net loss during the year			
PR Savings Bank		**(33,281,724)**	(80,200,681)
FAIR Bank		**(28,122,258)**	(23,294,642)
PETNET		**(6,896,834)**	–
CSBLI		**(350,563)**	(17,029)
		(68,651,379)	(103,512,352)
Effect of merger of PR Savings Bank		**113,482,405**	–
Balance at the end of the year		**(18,643,833)**	(63,474,859)
Accumulated share in other comprehensive income			
Balance at the beginning of the year		**–**	–
Share in gain on remeasurement of retirement plan of PR Savings Bank		**947,674**	–
Effect of merger of PR Savings Bank		**(947,674)**	–
Balance at the end of the year		**–**	–

(Forward)

	2019	2018 (As restated)
Net carrying amount at end of year		
PR Savings Bank	**₱–**	₱6,598,073,923
PETNET	**934,280,122**	941,176,956
FAIR Bank	**76,548,595**	77,720,853
CSBLI	**2,099,916**	2,450,479
	₱1,012,928,633	₱7,618,607,012

*As of December 31, 2018, the principal place of business of PR Savings Bank was at Alignog Center, Rizal Avenue corner Canciller Avenue, Cauayan City, Isabela.
**The principal place of business of PETNET is at East Offices Building, 114 Aguirre Street, Legaspi Village, Makati City.
***The principal place of business of FAIR Bank is at Dela Vina cor. J. Lequin Sts., Gairan, Bogo City, Cebu, Philippines.
****The principal place of business of CSBLI is at Osmena Boulevard, Cebu City.

There were no impairment losses recognized on these investments in 2019 and 2018.

Business Acquisition and Merger

Acquisition of PR Savings Bank
On December 29, 2017, the Bank and the registered holders and beneficial owners of PR Savings Bank from the Ropali Group signed a share purchase agreement ("SPA"), whereby the former shall acquire 127.72 million common stock of PR Savings Bank with par value of ₱10 per share or a total par value of ₱1,277.23 million. The shares represents 66.28% of the total outstanding capital stock of PR Savings Bank.

As part of the conditions precedent to purchase the common stock, the Bank and International Finance Corporation (IFC) entered into a separate share purchase agreement on February 23, 2018, whereby the former shall acquire the 65.00 million preferred shares of PR Savings Bank owned by IFC, with par value of ₱10.00 per share or a total par value of ₱650.00 million. The shares represent 33.72% of the total issued and outstanding capital stock. Total consideration for the purchase of the preferred stock amounted to ₱888.27 million.

On April 5, 2018, the Philippine Competition Commission ("PCC") approved the acquisition of PR Savings Bank by the Bank. Furthermore, the acquisition was also approved by the MB of the BSP under MB Resolution No. 1003 dated June 14, 2018.

The acquisition of PR Savings Bank is an acquisition of a business. The acquisition date, which the final approval of the BSP, is June 14, 2018. For convenience purposes, the Bank used June 30, 2018 as the date of the business combination.

Total consideration for the acquisition of the common and preferred shares from the Ropali Group and IFC, respectively, amounted to ₱7,106.00 million. However, under an escrow agreement dated December 29, 2017, as amended by an Amendment to the Escrow Agreement executed on August 9, 2019, the parties agreed that an indemnity retention in the amount of ₱582.77 million shall be retained in escrow and shall be released only upon compliance by the previous shareholders of PR Savings Bank with certain conditions specified in the SPA and the escrow agreement.

In addition, out of the total consideration, ₱300.00 million of which shall be released by the Bank directly to the Joint Venture (JV) Company. As part of the other undertakings relevant to the SPA, the sellers shall cause the relevant Ropali Group entity to execute a joint venture agreement with the Bank to form an incorporated JV Company within one year from closing date or such longer period as the parties may agree upon in writing. The JV Company shall engage in motorcycle dealership. The parties agree that the remaining balance of ₱300.00 million shall be utilized exclusively to fund the capital subscription of the relevant Ropali Group entity in the JV Company. As of December 31, 2019, the JV Company has not yet been incorporated.

In 2018, other than cash and other cash items and due from BSP and other banks, the Bank provisionally determined the fair values of the assets and liabilities, subject to adjustment once the relevant information has been obtained, such as valuation from external appraisers.

Prior to the merger (as discussed below) in 2019, based on the final acquisition accounting, the fair values of the identifiable assets and liabilities acquired at the date of acquisition are as follows (amounts in thousands):

	Provisional fair values	Final fair values
Assets		
Cash and other cash items	₱59,281	₱59,281
Due from BSP and Other Banks	870,689	870,689
Loans and receivables	8,699,868	8,726,594
Premises, furniture, fixtures and equipment	823,439	862,726
Investment properties	926,208	762,223
Deferred tax assets	100,703	–
Other resources	693,760	862,731
Total assets	12,173,948	12,144,244
Liabilities		
Deposit liabilities	4,419,570	4,419,570
Bills payable	4,323,572	4,323,572
Other liabilities	196,603	205,838
Total liabilities	8,939,745	8,948,980
Net assets acquired	₱3,234,203	₱3,195,264

The acquisition resulted in goodwill determined as follows:

Consideration for the common shares		₱6,127,727
Consideration for the preferred shares held by IFC		888,274
Purchase price		7,016,001
Fair value of net assets acquired		3,234,203
Provisional goodwill		3,781,798
Measurement adjustments on:		
Purchase price	(₱338,542)	
Fair value of assets acquired	38,939	(299,603)
Final goodwill		**₱3,482,195**

Analysis of cash flows on acquisition:

Total consideration transferred, net of ₱300.00 million unpaid consideration	₱6,716,001
Net cash acquired with the acquiree*	(929,970)
Net cash outflow	₱5,786,031

**Includes Cash and other cash items, Due from BSP and Due from other banks*

Pursuant to the SPA, the previous shareholders of PR Savings Bank agreed to carve out certain assets and settle certain claims totaling ₱338.54 million, which was deducted from the escrow amount, i.e. reduction from the agreed purchase price. The amount is presented under 'Accounts receivable'.

Based on the finalized fair values of the net assets acquired, the Bank recognized additional share in net losses of ₱42.23 million for the six-month ended December 31, 2018. As required under PFRS 3, the Bank restated the comparative 2018 financial statements to reflect the effects of the finalization of the acquisition accounting of PR Savings Bank. Accordingly, net income and total comprehensive income for 2018 and total assets and equity as of December 31, 2018 have been reduced by ₱42.23 million.

The goodwill arising from the acquisition is attributed to expected synergies from combining operations of the Bank and PR Savings Bank. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of the loans and receivables acquired as part of the business combination amounted to ₱8,726.59 million, with gross contractual amount of ₱9,990.52 billion. As of the acquisition date, the Bank's estimate of the contractual cash flows not expected to be collected amounted to ₱984.89 million.

For the six-month ended December 31, 2018, PR Savings Bank, based on finalized fair values of the net assets acquired, reported a total operating income and net loss of ₱302.53 million and ₱80.20 million, respectively. As of December 31, 2018, the accumulated share in net loss of the Bank related to its investment with PR Savings Bank amounted to ₱80.20 million. Had the acquisition occurred at the beginning of 2018, the share in net loss would have been increased by ₱20.89 million.

On July 5, 2018 and July 10, 2018, the BOD and the stockholders, respectively, approved the plan of merger with PR Savings Bank, with the Bank as the surviving entity. Subsequently on December 20, 2018, the MB of the BSP approved the merger subject to certain conditions, including completion of the merger within one year from the date of receipt of the BSP approval and that the merger should be effective on the date the SEC issues the certificate of merger. The BSP granted certain merger incentives, including temporary relief from compliance with the minimum CAR of 10% on solo basis for both the Bank and PRSB from June 2018 until the effectivity of the merger, provided that the Bank's CAR shall not fall below 7%; ten-year amortization of goodwill from July 2018 to June 2028, and staggered booking of un-booked allowance for impairment over a period of 5 years to start on the year the merger becomes effective, of the resulting capital adjustments on PR Savings Bank based on BSP's examination as of June 30, 2018.

On February 28, 2019, the SEC approved the merger of the Bank and PR Savings Bank.

The Bank accounted for the legal merger that is in substance the redemption of shares in the subsidiary, in exchange for the underlying net assets of the subsidiary. Accordingly, the acquired assets and assumed liabilities are recognized at the carrying amounts in the consolidated financial statements of the UBP Group as of the date of the legal merger. This includes any associated goodwill, intangible assets, or other adjustments arising from measurement at fair value upon acquisition that were recognized when PR Savings Bank was originally acquired, less the subsequent related amortization, depreciation, impairment losses, as applicable.

The following are the amounts of the assets and liabilities of PR Savings Bank merged to the Bank at February 28, 2019, the date of merger (in thousands):

	Carrying value recognized on date of merger
Assets	
Cash and other cash items	₱24,109
Due from BSP and Other Banks	1,307,649
Loans and receivables	6,740,587
Premises, furniture, fixtures and equipment	824,633
Investment properties	758,410
Deferred tax assets	118,544
Right-of-use assets	43,875
Goodwill	3,482,195
Other resources	637,943
	13,937,944
Liabilities	
Deposit liabilities	3,746,014
Bills payable	3,404,224
Lease liabilities	44,294
Other liabilities	178,488
	7,373,020
Carrying amount of the net assets merged	₱6,564,925

Upon merger, the carrying amount of the investment in PR Savings Bank is closed against the net assets acquired as follows (amounts in thousands):

Carrying amount of the net assets merged	₱6,564,925
Carrying amount of Investment in PR Savings Bank	(6,564,925)
	₱–

Acquisition of PETNET, Inc.
In February 2018, the Bank and UBP Investments Corporation (UIC), formerly Union Properties, Inc., signed a SPA with AEVI for the purchase of common shares representing the 51% ownership of AEVI on PETNET, Inc. On May 8, 2018, PCC approved the acquisition of PETNET, Inc. by the Bank. The acquisition was also approved by the BSP on November 23, 2018. The date on which the Bank obtains significant influence, equivalent to 40% equity interest and voting rights, is on December 17, 2018, which is the settlement date of the purchase price. For convenience purposes, the Bank used December 31, 2018 in applying the equity method of accounting.

PETNET is engaged in the business of money remittance, acts as money changer/foreign exchange dealer or engages in the business of buying and/or selling foreign currencies, and manage and engage in such other businesses, as may be necessary, in accordance with laws and prevailing BSP rules and regulations.

Acquisition of FAIR Bank
On December 21, 2015, the Bank, UIC and the major stockholders of FAIR Bank signed a Memorandum of Agreement which provided for the terms of the acquisition of a total of 77.78% of the issued and outstanding capital stock of FAIR Bank by CSB and UIC. On December 15, 2016, the MB of the BSP approved the acquisition by the Bank and UIC of FAIR Bank's 441,000 common

shares and 259,002 common shares respectively, from the selling shareholders of FAIR Bank. Total acquisition price paid by the Bank amounted to ₱26.95 million.

Subsequently, in 2017, the Bank subscribed to FAIR Bank's new common shares amounting to ₱29.40 million. In 2019 and 2018, the Bank infused additional capital of ₱26.95 million and ₱5.10 million, respectively, to FAIR Bank to assist the latter in its liquidity and capital requirements.

The common shares acquired by CSB represented 49.00% of the issued and outstanding capital stock of FAIR Bank.

FAIR Bank is presently engaged in carrying and engaging in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises under the Rural Bank Act of 1992 and is regulated and supervised by the BSP.

Acquisition of Progressive Rural Bank, Inc. (PBI)
On January 5, 2018, the Bank, together with UPI and the majority shareholders of PBI, entered into an SPA for the acquisition and subscription of shares of stock in PBI, subject to approval from the BSP.

The acquisition involves the purchase of 11,980,916 issued and outstanding common shares of stock in PBI. The shares to be sold represent 55% interest of the existing shareholders in PBI, with the Bank and UPI having 49% and 6% ownership interests, respectively. Subsequently, the controlling interest in PBI will be increased to 75% by way of capital infusion through the subscription of 18,000,000 common shares, of which the Bank shall own as much shares to retain its 49% interest after the issuance.

As of December 31, 2019, the acquisition has not been approved yet by the BSP. As of December 31, 2019 and 2018, the total payments made the Bank amounting to ₱31.29 million were recorded under 'Prepayments and Other Resources' account in the statement of financial position.

Acquisition of Bangko Kabayan, Inc. (BKI)
On February 6, 2019, the Bank, together with UIC and the shareholders of BKI, entered into an SPA for the acquisition of shares of stock in BKI, subject to the approval of BSP. The Bank and UIC shall acquire 1.80 million and 0.772 million common shares equivalent to 49.00% and 21.00% of the total outstanding shares of BKI, respectively.

On September 19, 2019, the BSP approved the transfer of the voting shares of stock of BKI to the Bank and UIC, subject to certain conditions. However, the Bank was enjoined by the BSP to comply with PCC requirements. On January 9, 2020, the PCC found that the acquisition by the Bank and UIC of shares in BKI will not likely result in substantial lessening of competition and thus resolved to take no further action with respect to the proposed acquisition. Accordingly, management assessed that the Bank already has the significant influence beginning January 9, 2020 and the Bank accounts for its 49.00% equity and voting interest as investment in associate.

BKI operates as a rural bank that serves micro, small, and medium enterprises (MSMEs) and individuals in the Philippines. It offers microfinance, deposit products, loans, OFW housing loans, remittance, and mobile banking services. BKI was founded in 1957 and is based in Ibaan, Batangas.

Selected financial information
The following table presents the financial information of the associates and a subsidiary as of and for the years ended December 31, 2019 and 2018:

	Assets	Liabilities	Revenues	Net Loss
2019				
PETNET	**₱1,298,145,027**	**₱330,184,816**	**₱613,603,861**	**(₱22,242,084)**
FAIR Bank	**426,547,659**	**355,939,950**	**100,732,774**	**(57,392,363)**
CSBLI	**6,720,418**	**265,738**	**–**	**(127,444)**
2018				
PR Savings Bank*	₱10,060,718,902	₱7,604,545,520	₱1,547,408,948	(₱58,861,384)
PETNET	1,305,102,173	300,988,931	644,566,082	(32,597,161)
FAIR Bank	372,712,787	303,110,232	47,105,388	(29,132,657)
CSBLI	7,012,154	416,443	168,159	(42,572)

**Merged with the Bank in 2019*

12. Premises, Furniture, Fixtures and Equipment

The composition of and movements in this account follow:

	2019						
	Land	**Building**	**Building Improvements**	**Right-of -use Asset**	**Leasehold Improvements**	**Furniture, Fixtures and Equipment**	**Total**
Cost							
Balances at beginning of year, as previously reported	**₱5,442,688**	**₱91,077,148**	**₱24,863,130**	**₱–**	**₱453,155,426**	**₱657,261,010**	**₱1,231,799,402**
Effect of adoption of PFRS 16, *Leases* (Note 2)	**–**	**–**	**–**	**158,874,755**	**–**	**–**	**158,874,755**
Balances at the beginning of the year, as restated	**5,442,688**	**91,077,148**	**24,863,130**	**158,874,755**	**453,155,426**	**657,261,010**	**1,390,674,157**
Additions	**–**	**110,000**	**1,822,384**	**94,901,828**	**46,682,659**	**55,052,989**	**198,569,860**
Acquisitions through merger (Note 11)	**523,076,000**	**144,431,275**	**–**	**46,506,196**	**156,127,675**	**83,068,605**	**953,209,751**
Disposals	**(37,500,000)**	**–**	**(2,254)**	**–**	**–**	**(22,388,724)**	**(59,890,978)**
Reclassifications	**–**	**–**	**–**	**–**	**(7,901,376)**	**6,023,766**	**(1,877,610)**
Balances at end of year	**491,018,688**	**235,618,423**	**26,683,260**	**300,282,779**	**648,064,384**	**779,017,646**	**2,480,685,180**
Accumulated Depreciation and Amortization							
Balances at beginning of year	**–**	**83,515,144**	**17,673,646**	**–**	**347,590,571**	**559,312,762**	**1,008,092,123**
Acquisitions through merger (Note 11)	**–**	**7,235,139**	**–**	**2,631,022**	**63,618,626**	**11,216,449**	**84,701,236**
Depreciation and amortization	**–**	**11,207,950**	**4,955,333**	**87,115,606**	**130,155,663**	**110,208,974**	**343,643,527**
Disposals	**–**	**–**	**(2,254)**	**–**	**–**	**(21,690,088)**	**(21,692,342)**
Balances at end of year	**–**	**101,958,233**	**22,626,725**	**89,746,628**	**541,364,860**	**659,048,097**	**1,414,744,544**
Net Book Values	**₱91,018,688**	**₱133,660,190**	**₱4,056,535**	**₱210,536,151**	**₱106,699,524**	**₱119,969,549**	**₱1,065,940,637**

	2018						
	Land	Building	Building Improvements	Right-of -use Asset	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Cost							
Balances at beginning of year	₱5,442,688	₱91,077,148	₱23,639,182	₱–	₱412,487,688	₱ 584,523,314	₱1,117,170,020
Additions	–	–	1,223,948	–	40,667,738	77,596,371	119,488,057
Disposals	–	–	–	–	–	(4,858,675)	(4,858,675)
Balances at end of year	5,442,688	91,077,148	24,863,130	–	453,155,426	657,261,010	1,231,799,402
Accumulated Depreciation and Amortization							
Balances at beginning of year	–	78,664,523	(13,021,821	–	286,004,916	506,532,120	884,223,380
Depreciation and amortization	–	4,850,621	4,651,825	–	61,585,655	56,644,728	127,732,829
Disposals	–	–	–	–	–	(3,864,086)	(3,864,086)
Balances at end of year	–	83,515,144	17,673,646	–	347,590,571	559,312,762	1,008,092,123
Net Book Values	₱5,442,688	₱7,562,004	₱7,189,484	₱–	₱105,564,855	₱97,948,248	₱223,707,279

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

The Bank recognized gain from disposal of premises, furniture, fixtures and equipment amounting to ₱8.85 million and ₱0.12 million in 2019 and 2018, respectively, and is presented as part of 'Other Income' in the statements of income (see Note 24).

As at December 31, 2019 and December 31, 2018, the cost of fully depreciated assets still in use amounted to ₱809.43 million and ₱427.29 million, respectively.

13. Investment Properties

The components and movements in this account follow:

		2019	
	Land	**Building and improvements**	**Total**
Cost			
Balances at beginning of year	**₱–**	**₱21,917,813**	**₱21,917,813**
Acquired by merger (Note 11)	**728,234,643**	**32,514,000**	**760,748,643**
Disposals and other adjustments	**(8,296,431)**	**(3,244,000)**	**(11,540,431)**
	719,938,212	**51,187,813**	**771,126,025**
Accumulated amortization			
Balances at beginning of year	–	**20,340,758**	**20,340,758**
Acquired by merger (Note 11)	–	**2,338,745**	**2,338,745**
Depreciation	–	**3,858,572**	**3,858,572**
Disposals		**(2,933,202**	**(2,933,202**
Balances at end of year	–	**26,227,278**	**26,227,278**
Net book values	**₱719,938,210**	**₱24,960,535**	**₱744,898,745**

		2018	
	Land	Building	Total
Cost			
Balances at beginning of year	₱–	₱21,917,813	₱21,917,813
		21,917,813	21,917,813
Accumulated amortization			
Balances at beginning of year	–	19,157,930	19,157,930
Depreciation	–	1,182,828	1,182,828
Balances at end of year	–	20,340,758	20,340,758
Net book values	₱–	₱1,577,055	₱1,577,055

This account represents condominium units acquired by the Bank that are held to earn rentals. Rental income from investment properties amounted to ₱1.77 million and ₱2.01 million in 2019 and 2018, respectively, and is presented as part of 'Other Income' in the statements of income (see Note 24).

This also includes foreclosed land, building and improvements acquired through merger from PR Savings Bank. These properties are not held for rentals.

Direct operating expenses arising from the investment properties that generated rental income during the period, pertaining to common area maintenance fee, which were booked as part of 'Membership fees and dues' under 'Operating expenses' in the statements of income, amounted to ₱3.70 million both in 2019 and 2018. It also includes real estate tax amounting to ₱0.51 million and ₱0.09 million for 2019 and 2018, respectively.

Direct operating expenses arising from the investment properties that did not generated rental income during the period, pertaining to common area maintenance fee, which were booked as part of 'Litigations/Assets acquired expense' under 'Operating expenses' in the statements of income, amounted to ₱1.50 million in 2019. It also includes real estate tax amounting to ₱4.06 million for 2019.

There are no investment properties that are pledged as security to Bank's liabilities as of December 31, 2019 and 2018.

Loss on sale of investment properties is disclosed in Note 24.

14. Intangible Assets

The components and movements in this account are as follows:

	2019				
	Software	**Branch Licenses and Trademark**	**Core Deposits**	**Dealership Agreement**	**Total**
Cost					
Balances at beginning of year	**₱335,162,205**	**₱58,500,000**	**₱–**	**₱–**	**₱393,662,205**
Acquired by merger (Note 11)	**83,531,189**	**3,561,250**	**270,711,496**	**35,200,000**	**393,003,935**
Additions	**80,719,958**	**–**	**–**	**–**	**80,719,958**
Balances at end of year	**499,413,352**	**62,061,250**	**270,711,496**	**35,200,000**	**867,386,098**
Accumulated Amortization					
Balances at beginning of year	**244,314,086**	**–**	**–**	**–**	**244,314,086**
Acquired by merger (Note 11)	**13,121,176**	**–**	**18,047,433**	**3,352,381**	**34,520,990**
Amortization	**38,385,093**	**–**	**22,559,291**	**4,190,476**	**65,134,860**
Balances at end of year	**295,820,355**	**–**	**40,606,724**	**7,542,857**	**343,969,936**
Net Book Values	**₱203,592,997**	**₱62,061,250**	**₱230,104,772**	**₱27,657,143**	**₱523,416,162**

	2018				
	Software	Branch Licenses and Trademark	Core Deposits	Dealership Agreement	Total
Cost					
Balances at beginning of year	₱220,236,231	₱58,500,000	₱–	₱–	₱278,736,231
Additions	114,925,974	–	–	–	114,925,974
Balances at end of year	335,162,205	58,500,000	–	–	393,662,205
Accumulated Amortization					
Balances at beginning of year	195,020,339	–	–	–	195,020,339
Amortization	49,293,747	–	–	–	49,293,747
Balances at end of year	244,314,086	–	–	–	244,314,086
Net Book Values	₱90,848,119	₱58,500,000	₱–	₱–	₱149,348,119

Core deposits and Dealership Agreement

The business combination between the Bank and PR Savings Bank resulted in acquisition of core deposits and dealership agreement with fair values as of date of business combination amounting to ₱270.71 million and ₱35.20 million, respectively.

15. **Goodwill**

Impairment Testing of Goodwill
As discussed in Note 11, the Bank's acquisition of PR Savings Bank in 2018 resulted in goodwill amounting to ₱3,842.19 million recognized in the consolidated financial statements of the Parent Bank. As a result of the merger of PR Savings Bank to the Bank, the goodwill is recognized in the Bank's separate financial statements and is allocated to the Bank (i.e., at entity-level), being the CGU. Management assessed that the Bank is operating as one (1) business segment, and that the integration of the net assets of PR Savings Bank will provide synergies to the Bank's operations.

The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from five-year financial projections approved by the BOD. Key assumptions in VIU calculation of CGUs are most sensitive to revenue growth rate, discount rate and growth rates used to extrapolate cash flows after the projection period. Future cash flows and growth rates were based on historical experiences and strategies developed and prospects. The discount rate used for the computation of the net present value is the weighted average cost of capital and was determined by reference to a comparable entity, market observable inputs and assumptions consistent with the valuation practice. In 2019, the post-tax discount rate applied to cash flow projections ranges from 8.6% to 10.6%. Average loan and deposit growth rates, which are the key drivers of growth, for the over the five-year projections are 15% and 13%, respectively. For purposes of impairment testing, the Bank assumes a long-term average growth rate of zero percent in calculating the terminal value.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount

16. **Prepayments and Other Resources**

This account consists of:

	2019	2018
Other repossessed assets, before allowance for impairment	**₱286,230,688**	₱–
Advance payment for acquisition of investee companies (Note 11)	**126,771,771**	31,288,090
Prepaid expenses and other deferred charges	**99,490,148**	48,086,752
Unused documentary stamps	**81,265,666**	147,229,640
Security deposits	**71,471,244**	41,107,971
Unused stationery and supplies	**9,491,784**	2,001,504
Others	**2,751,794**	424,248
	677,473,095	270,138,205
Allowance for impairment (Note 16)	**(40,683,924)**	(278,662)
	₱636,789,171	₱269,859,543

Prepaid expenses include prepaid life and health insurance, rental, gross receipts tax, and others.

The advance payment for investment in 2019 pertains to the down payment made by the Bank in relation to the acquisition and subscription of shares of stocks of Bangko Kabayan Inc. while the advance payment for investment in 2018 pertains to the acquisition and subscription of shares of stocks of Progressive Bank, Inc.(see Note 11).

Other repossessed assets
Other repossessed assets primarily pertain to the Bank's repossessed motor vehicles acquired in settlement of the defaulted loans. These motor vehicles are recognized at their fair values upon repossession. Loss recognized upon repossession amounted to ₱44.77 million.

The movements in 'Other repossessed assets' follow:

	2019
Cost	
Balance at merger date	**₱248,176,928**
Additions	**320,063,239**
Disposals	**(155,506,654)**
Reclassification to "Premises, Furniture, Fixtures and Equipment"	**(15,115,633)**
Balance at end of year	**397,617,880**
Accumulated depreciation	
Balance at merger date	**48,967,147**
Depreciation	**99,262,680**
Disposals	**(33,914,044)**
Reclassification to "Premises, Furniture, Fixtures and Equipment"	**(2,928,591)**
Balance at end of year	**111,387,192**
Allowance for impairment losses	
Balance at merger date	**35,665,523**
Provision for impairment losses	**18,134,372**
Disposals	**(13,337,121)**
Reclassification to "Premises, Furniture, Fixtures and Equipment"	**(36,646)**
Balance at end of year	**40,426,128**
Net Book Value	**₱245,804,560**

Loss on disposals of other repossessed assets is disclosed in Note 24.

17. Allowance for Impairment

Movements in the allowance for impairment are as follow:

	2019	2018
Balances at beginning of year:		
Loans and receivables	**₱835,421,131**	₱1,670,427,268
Due from other banks	**5,329,200**	1,862,016
Other resources	**278,662**	278,662
	841,028,994	1,672,567,946
Movements during the year:		
Allowance carried over upon merger (Note 11)	**565,444,084**	–
Provision for allowance		
Loans and receivables	**327,139,551**	63,453,447

(Forward)

	2019	2018
Due from other banks	**₱1,250,010**	₱3,467,184
Other repossessed assets	**18,134,372**	–
Accounts written-off	**(214,147,903)**	(898,459,583)
Disposals and others	**(13,375,123)**	–
	684,444,991	(831,538,952)
Balances at end of year:		
Loans and receivables (Note 10)	**1,478,189,986**	835,421,132
Due from other banks (Note 8)	**6,579,210**	5,329,200
Other repossessed assets (Note 15)	**40,426,127**	–
Other resources (Note 15)	**278,662**	278,662
	₱1,525,473,985	₱841,028,994

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans (outstanding balances before unearned service fee and unearned interest and discounts, including accrued interest receivables) and the breakdown of movements in 2019 and 2018 for total receivables from customers follow:

DepEd/Teachers Loans

	December 31, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross Carrying Amount				
Gross carrying amount as at January 1, 2019	**₱45,139,336,975**	**₱245,385,545**	**₱1,620,327,095**	**₱47,005,049,615**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**34,945,841,406**	**–**	**–**	**34,945,841,406**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**30,505,859**	**255,644,432**	**286,150,291**
Movements in loans balance (excluding write-offs)	**(36,509,139,310)**	**(162,706,859)**	**(510,347,059)**	**(37,182,193,228)**
Transfers to Stage 1	**2,499,275**	**(1,513,747)**	**(985,528)**	**–**
Transfers to Stage 2	**(10,046,603)**	**10,250,794**	**(204,191)**	**–**
Transfers to Stage 3	**(827,384,777)**	**(80,915,563)**	**908,300,340**	**–**
Amounts written-off	**–**	**–**	**(101,898,846)**	**(101,898,846)**
Gross carrying amount as at December 31, 2019	**₱42,741,106,966**	**₱41,006,029**	**₱2,170,862,493**	**₱44,952,949,238**
Expected Credit Losses				
ECL allowance as at January1, 2019	**₱168,489,808**	**₱14,857,635**	**₱204,809,344**	**₱388,156,787**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**269,632,486**	**–**	**–**	**269,632,486**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**3,268,493**	**33,644,412**	**36,912,905**
Effect of collections and other movements in loans (excluding write-offs)	**(76,855,614)**	**(395,036)**	**(62,542,123)**	**(139,792,773)**
Transfers to Stage 1	**44,235**	**(33,746)**	**(10,489)**	**–**
Transfers to Stage 2	**(1,100,176)**	**1,122,959**	**(22,783)**	**–**
Transfers to Stage 3	**(104,581,436)**	**(10,227,727)**	**114,809,163**	**–**
Impact on ECL of exposures transferred between stages and change in model	**64,038,799**	**(4,173,140)**	**92,367,893**	**152,233,552**
Amounts written-off	**–**	**–**	**(101,898,847)**	**(101,898,847)**
ECL allowance as at December 31, 2019	**₱319,668,102**	**₱4,419,438**	**₱281,156,570**	**₱605,244,110**

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount				
Gross carrying amount as at January 1, 2018	₱51,806,927,992	₱656,073,810	₱2,058,981,962	₱54,521,983,764
Newly originated assets that remained in Stage 1 as at December 31, 2019	32,929,925,660	–	–	32,929,925,660
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	19,016,887	4,855,028	23,871,915
Movements in loans balance (excluding write-offs)	(38,744,884,272)	(409,829,033)	(465,229,624)	(39,619,942,928)
Transfers to Stage 1	162,675,361	(61,852,731)	(100,822,630)	–
Transfers to Stage 2	(263,640,272)	265,807,578	(2,167,306)	–
Transfers to Stage 3	(751,693,739)	(223,830,966)	975,524,705	–
Amounts written-off	–	–	(850,788,795)	(850,788,795)
Gross carrying amount as at December 31, 2018	₱45,139,336,975	₱245,385,545	₱1,620,327,095	₱47,005,049,615
Expected Credit Losses				
ECL allowance as at January1, 2018	₱135,704,513	₱1,338,610	₱1,001,865,794	₱1,138,908,917
Newly originated assets that remained in Stage 1 as at December 31, 2019	110,509,219	–	–	110,509,219
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	1,351,686	613,675	1,965,361
Effect of collections and other movements in loans (excluding write-offs)	(65,536,061)	(995,999)	(40,817,480)	(107,349,540)
Transfers to Stage 1	12,876,975	(132,995)	(12,743,980)	–
Transfers to Stage 2	(1,800,818)	2,074,765	(273,947)	–
Transfers to Stage 3	(10,372,871)	(2,085)	10,374,956	–
Impact on ECL of exposures transferred between stages and change in model	(12,891,149)	11,223,653	96,579,121	94,911,625
Amounts written-off	–	–	(850,788,795)	(850,788,795)
ECL allowance as at December 31, 2018	₱168,489,808	₱14,857,635	₱204,809,344	₱388,156,787

Motorcycle loans

	December 31, 2019				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross Carrying Amount					
Gross carrying amount as at Merger date	**₱1,274,998,400**	**₱204,994,854**	**₱252,946,396**	**₱106,013,919**	**₱1,838,953,569**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**1,501,766,451**	–	–	–	**1,501,766,451**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	**279,316,666**	**93,631,249**	–	**372,947,915**
Movements in loans balance (excluding write-offs)	**(596,980,880)**	**(132,326,255)**	**(158,487,860)**	**(76,566,513)**	**(964,361,508)**
Transfers to Stage 1	**11,809,450**	**(10,759,577)**	**(1,049,873)**	–	–
Transfers to Stage 2	**(88,266,206)**	**89,189,021**	**(922,815)**	–	–
Transfers to Stage 3	**(124,006,410)**	**(52,000,269)**	**176,006,679**	–	–
Amounts written-off	–	–	–	**(19,924,309)**	**(19,924,309)**
Gross carrying amount as at December 31, 2019	**₱1,979,320,805**	**₱378,414,440**	**₱362,123,776**	**₱9,523,097**	**₱2,729,382,118**
Expected Credit Losses					
ECL allowance as at Merger date	**₱60,913,386**	**₱44,868,740**	**₱172,043,033**	**₱33,637,591**	**₱311,462,750**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**92,614,575**	–	–	–	**92,614,575**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	**49,581,835**	**56,178,701**	–	**105,760,536**

(Forward)

	December 31, 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Effect of collections and other movements in loans (excluding write-offs)	(₱5,987,201)	(₱13,218,437)	(₱86,185,444)	(₱5,188,759)	(₱110,579,841)
Transfers to Stage 1	637,844	(586,365)	(51,479)	–	–
Transfers to Stage 2	(17,945,376)	18,103,887	(158,511)	–	–
Transfers to Stage 3	(81,190,680)	(36,256,764)	117,447,444	–	–
Impairment loss (gain)	–	–	–	(6,939,392)	(6,939,392)
Impact on ECL of exposures transferred between stages and change in model	71,145,051	10,381,185	(20,315,164)		61,211,072
Amounts written-off				(19,924,309)	(19,924,309)
ECL allowance as at December 31, 2019	₱120,187,599	₱72,874,081	₱238,958,580	₱1,585,131	₱433,605,391

Other consumption loans

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount				
Gross carrying amount as at January 1, 2019	₱3,321,284,413	₱18,979,020	₱273,526,501	₱3,613,789,934
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,015,237,150	–	–	1,015,237,150
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	14,627,158	6,159,416	20,786,574
Movements in loans balance (excluding write-offs)	(1,765,187,491)	(11,125,209)	(102,177,596)	(1,878,490,296)
Transfers to Stage 1	30,538,657	(2,708,481)	(27,830,176)	–
Transfers to Stage 2	(6,833,153)	6,833,153	–	–
Transfers to Stage 3	(11,858,078)	(4,753,986)	16,612,064	–
Amounts written-off	–	–	–	–
Gross carrying amount as at December 31, 2019	₱2,583,181,498	₱21,851,655	₱166,290,209	₱2,771,323,362
Expected Credit Losses				
ECL allowance as at January1, 2019	₱243,234,596	₱1,389,930	₱198,334,066	₱442,958,592
Newly originated assets that remained in Stage 1 as at December 31, 2019	18,624,556	–	–	18,624,556
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	268,336	4,466,192	4,734,528
Effect of collections and other movements in loans (excluding write-offs)	(54,151,135)	(258,949)	(51,949,348)	(106,359,432)
Transfers to Stage 1	560,233	(49,687)	(510,546)	–
Transfers to Stage 2	(125,354)	125,354	–	–
Transfers to Stage 3	(8,598,292)	(3,447,115)	12,045,407	–
Impact on ECL of exposures transferred between stages and change in model	(152,156,061)	2,373,000	(41,808,743)	(191,591,804)
Amounts written-off	–	–	–	–
ECL allowance as at December 31, 2019	₱47,388,543	₱400,869	₱120,577,028	₱168,366,440

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount				
Gross carrying amount as at January 1, 2018	₱3,880,207,429	₱58,540,346	₱307,475,848	₱4,246,223,623
Newly originated assets that remained in Stage 1 as at December 31, 2019	746,780,782	–	–	746,780,782
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	11,130,351	5,450,358	16,580,709
Movements in loans balance (excluding write-offs)	(1,238,988,293)	(48,363,218)	(60,772,882)	(1,348,124,393)
Transfers to Stage 1	100,263,149	(253,912)	(100,009,237)	–
Transfers to Stage 2	(10,936,859)	10,966,709	(29,850)	–
Transfers to Stage 3	(156,041,795)	13,041,256)	169,083,051	–
Amounts written-off	–	–	(47,670,788)	(47,670,788)
Gross carrying amount as at December 31, 2018	₱3,321,284,413	₱18,979,020	₱273,526,500	₱3,613,789,933
Expected Credit Losses				
ECL allowance as at January1, 2018	₱284,167,379	₱4,287,208	₱236,147,947	₱524,602,534
Newly originated assets that remained in Stage 1 as at December 31, 2019	54,690,565	–	–	54,690,565
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	815,132	3,952,055	4,767,187
Effect of collections and other movements in loans (excluding write-offs)	(46,175,574)	(652,886)	(33,904,212)	(80,732,672)
Transfers to Stage 1	81,397,617	(2,597,844)	(78,799,773)	–
Transfers to Stage 2	(800,962)	822,606	(21,644)	–
Transfers to Stage 3	(11,427,736)	(955,078)	12,382,814	–
Impact on ECL of exposures transferred between stages and change in model	(118,616,693)	(329,208)	106,247,667	(12,698,234)
Amounts written-off	–	–	(47,670,788)	(47,670,788)
ECL allowance as at December 31, 2018	₱243,234,596	₱1,389,930	₱198,334,066	₱442,958,592

Other loans acquired from PR Savings Bank

	December 31, 2019				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross Carrying Amount					
Gross carrying amount as at Merger date	**₱4,114,511,532**	**₱314,452,587**	**₱486,302,743**	**₱863,015,351**	**₱5,778,282,213**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**223,225,568**	**–**	**–**	**–**	**223,225,568**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**21,849,807**	**15,058,403**	**–**	**36,908,210**
Movements in loans balance (excluding write-offs)	**(1,897,749,904)**	**(169,693,495)**	**(341,487,957)**	**(418,345,707)**	**(2,827,277,063)**
Transfers to Stage 1	**12,936,936**	**(9,276,310**	**(3,660,627)**	**–**	**–**
Transfers to Stage 2	**(102,512,090)**	**104,309,717**	**(1,797,627)**	**–**	**–**
Transfers to Stage 3	**(224,089,260)**	**(133,866,697)**	**357,955,957**	**–**	**–**
Amounts written-off	**–**	**–**	**–**	**(92,326,103)**	**(92,326,103)**
Gross carrying amount as at December 31, 2019	**₱2,126,322,782**	**₱127,775,610**	**₱512,370,892**	**₱352,343,541**	**₱3,118,812,825**

(Forward)

	December 31, 2019				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected Credit Losses					
ECL allowance as at Merger date	**₱1,309,184**	**₱33,468,142**	**₱101,244,984**	**₱82,293,502**	**₱218,315,812**
Newly originated assets that remained in Stage 1 as at December 31, 2019	**46,844,620**	**–**	**–**	**–**	**46,844,620**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	**–**	**557,556**	**5,052,361**	**–**	**5,609,917**
Effect of collections and other movements in loans (excluding write-offs)	**(6,202,320)**	**(12,978,089)**	**(86,008,273)**	**(5,175,392)**	**(110,364,074)**
Transfers to Stage 1	**2,391,535**	**(2,212,596)**	**(178,939)**	**–**	**–**
Transfers to Stage 2	**(20,501,832)**	**21,042,154**	**(540,322)**	**–**	**–**
Transfers to Stage 3	**(82,633,403)**	**(46,954,655)**	**129,588,058**	**–**	**–**
Impairment loss (gain)	**–**	**–**	**–**	**33,862,302**	**33,862,302**
Impact on ECL of exposures transferred between stages and change in model	**93,748,872**	**23,354,818**	**49,338,335**	**–**	**166,442,025**
Amounts written-off	**–**	**–**	**–**	**(92,326,103)**	**(92,326,103)**
ECL allowance as at December 31, 2019	**₱34,956,656**	**₱16,277,330**	**₱198,496,204**	**₱18,654,309**	**₱268,384,499**

18. Deposit Liabilities

The components of deposit liabilities follow:

	2019	2018
Time	**₱43,101,948,318**	₱34,340,970,795
Savings	**3,039,349,220**	2,196,811,493
Demand	**116,304,152**	92,655,262
	₱46,257,601,690	₱36,630,437,550

Deposit liabilities bear annual fixed interest rates ranging from nil to 7.00% both in 2019 and 2018. Interest expense on deposit liabilities recognized in 2019 and 2018 amounted to ₱2.06 billion and ₱1.71 billion, respectively.

Under existing BSP regulations, thrift banks are subject to statutory and liquidity reserves equivalent to 4.00% (BSP Circular 1063 series of 2019) and 8.00% (BSP Circular 832 series of 2014) as of December 31, 2019 and 2018, respectively. As at December 31, 2019 and December 31, 2018, the Bank is in compliance with the said regulation. Liquidity and statutory reserves included as part of Due from BSP amounting to ₱1.81 billion and ₱3.03 billion as at December 31, 2019 and 2018, respectively (see Note 7).

19. Bills and Notes Payable

This account consists of the following:

	2019	2018
Bills and notes payable	**₱13,021,790,326**	₱22,719,000,000
Unamortized debt issuance costs	**(65,185,581)**	(67,742,150)
	₱12,956,604,745	₱22,651,257,850

This account consists of borrowings from local banks and other financial institutions including related parties (see Note 29).

Bills payable
Bills payable bear annual interest rates ranging from 3.75% to 8.28% and from 2.80% to 6.85% in 2019 and 2018, respectively.

Notes payable
In 2012, the Bank issued a ₱3.00 billion fixed-rate Note Facility and Security Agreement divided into three tranches and is broken down as follows:

Tranche	Date of Issue	Maturity Period	Face Amount
Tranche 1	March 29, 2012	7 years	₱1,000,000,000
Tranche 2	Apri1 19, 2012	7 years	1,000,000,000
Tranche 3	September 27, 2012	5 years	1,000,000,000
			₱3,000,000,000

The loans related to the Note Facility and Security Agreement above were subject to annual interest rate of 5.25%. In September 2017, Tranche 3 was fully paid. In March and April 2019, the Tranches 1 and 2 were fully settled, respectively. As of December 31, 2018, the loans were secured by the assignment of loans receivables related to the Bank's teacher-borrowers with a book value of ₱2.35 billion (see Note 10). The loans had been fully settled in 2019.

With the acquisition of and merger with PR Savings Bank, the Bank assumed a five-year fixed rate corporate notes with carrying amount of ₱1,132.90 million, net of unamortized debt issuance costs of ₱10.85 million as of December 31, 2019. The significant terms and conditions of the corporate notes are as follows:

a. the corporate shall be redeemed on a quarterly basis starting October 2015, until July 9, 2020 based on the Principal Redemption Dates and/or the Maturity Date as set forth in the Facility Agreement;
b. starting from the end of the third year from August 20, 2015 and prior to the Maturity Date, the Bank may redeem in whole or in part, of the relevant outstanding balance of the corporate notes; provided, however, the Bank shall give the Note Holders through the Notes Facility Agent not less than sixty days prior written notice;
c. the corporate notes shall constitute direct, unconditional, unsubordinated and secured obligation ranking at least pari passu with other present and future direct unconditional, unsubordinated and unsecured Peso-denominated obligations of the Bank insofar as the amount owed to each Note Holders are not fully covered by the proceeds of the Assigned Credits and,
d. the corporate notes bear interest rate determined on the relevant Interest rate Setting Date by reference of the five-year Philippine Dealing System Treasury (PDST)-R2 Reference Rate.

As of December 31, 2019, the corporate notes bear interest ranging from 6.11% to 6.78% per annum. These corporate notes are collateralized by the assignment of loans amounting to ₱1.40 billion as of December 31, 2019 (see Note 10).

Interest expense on bills payable recognized in 2019 and 2018 amounted to ₱1,060.12 million and ₱721.30 million, respectively, inclusive of ₱93.30 million and ₱55.16 million amortization of debt issuance costs in 2019 and 2018, respectively.

The Bank is not subject to any debt covenant requirements with its borrowings as of December 31, 2019 and 2018.

20. **Accounts Payable and Accrued Expenses**

This account consists of:

	2019	2018
Accounts payable – borrowers	**₱344,714,274**	₱613,871,572
Accounts payable	**244,390,299**	95,221,562
Accounts payable on motorcycle loan buyout	**173,304,711**	–
Accrued expenses	**171,480,589**	137,234,549
Accrued interest payable	**136,910,303**	230,381,176
Accounts payable on motorcycle dealership	**75,358,221**	–
Accrued other taxes and licenses	**41,753,144**	37,548,004
	₱1,187,911,541	₱1,114,256,863

Accounts payable - borrowers represents collections from DepEd held for refund to the Bank's borrowers. This liability arises when DepEd continues to deduct from the salaries of the teachers the amortization of the existing loans prior to re-loan, while the Bank already deducts the full outstanding amount of the existing loan from the proceeds of the new loan.

Accounts payable on loan buyout represents unpaid purchase price of motorcycle loans acquired from CFFC (see Note 10).

Accounts payable on motorcycle dealership pertains to unpaid commissions to the motorcycle dealers (see Note 10).

Accounts payable and accrued expenses represent payables and accruals for operating expenses such as repairs and maintenance, management and professional fees, security services, electricity and water, postage and telephone, fines and penalties, and others.

21. **Other Liabilities**

This account consists of:

	2019	2018
Payable related to PR Savings Bank acquisition	**₱300,000,000**	₱300,000,000
Lease liabilities (Note 27)	**228,509,376**	–
Pension liability (Note 26)	**60,109,858**	12,246,079
Withholding tax payable	**80,357,916**	5,302,918
Others	**25,643,359**	8,223,101
	₱694,620,509	₱325,772,098

Payable related to PR Savings Bank acquisition is the consideration for the acquisition of PR Savings Bank amounting to ₱300.00 million which shall be released by the Bank directly to the JV Company (see Note 11).

22. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	2019			2018		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Financial Assets						
Cash and other cash items	**₱622,892,875**	**₱–**	**₱622,892,875**	₱408,712,128	₱–	₱408,712,128
Due from BSP	**5,933,175,145**	**–**	**5,933,175,145**	3,034,359,867	–	3,034,359,867
Due from other banks	**2,642,644,614**	**–**	**2,642,644,614**	2,868,575,206	–	2,868,575,206
SPURA	**6,326,728,448**	**–**	**6,326,728,448**	8,882,000,000	–	8,882,000,000
Loans and receivables:						
Loans:						
Consumption	**3,289,597,549**	**47,841,746,901**	**51,131,344,450**	3,726,058,949	45,956,686,383	49,682,745,332
Agricultural	**206,133,166**	**202,579,199**	**408,712,365**	142,607,525	106,302,995	248,910,520
Real estate	**79,975,709**	**3,385,283**	**83,360,992**	692,158	–	692,158
Commercial	**–**	**1,158,947,146**	**1,158,947,146**	50,000,000	5,016,822	55,016,822
	4,140,105,807	**48,642,259,145**	**52,782,364,952**	3,919,358,632	46,068,006,200	49,987,364,832
Unquoted debt securities	**39,401,157**	**7,153,993**	**46,555,150**	361,240,787	16,502,408	377,743,195
Accounts receivable	**2,169,040,422**	**132,729,944**	**2,301,770,366**	2,004,909,765	146,170,404	2,151,080,169
Accrued interest receivable	**790,102,590**	**–**	**790,102,590**	631,474,717	–	631,474,717
	7,138,649,976	**48,782,143,082**	**55,920,793,058**	6,916,983,901	46,230,679,012	53,147,662,913
Prepayments and other resources	**–**	**71,810,061**	**71,810,061**	–	41,446,788	41,446,787
	22,664,091,058	**48,853,953,143**	**71,518,044,201**	22,114,557,764	46,268,199,137	68,382,756,901
Nonfinancial Assets						
Investment in Associates	**–**	**1,012,928,632**	**1,012,928,632**	–	7,999,381,478	7,999,381,478
Premises, Furniture, Fixtures and Equipment	**–**	**1,065,940,637**	**1,065,940,637**	–	223,707,279	223,707,279
Investment properties	**–**	**744,898,747**	**744,898,747**	–	1,577,055	1,577,055
Intangible assets	**–**	**523,416,162**	**523,416,162**	–	149,348,119	149,348,119
(Forward)						
Deferred tax assets	**–**	**878,714,520**	**878,714,520**	–	647,523,263	647,523,263
Prepayments and other resources	**–**	**456,029,165**	**673,208,783**	197,335,277	31,356,140	228,691,417
Goodwill	**–**	**3,482,194,677**	**3,482,194,677**	–	–	–
	–	**8,164,122,540**	**8,381,302,158**	197,335,277	9,052,893,334	9,250,228,611
Less: Allowance for impairment and credit losses			**(1,525,453,120)**			841,028,994
Unearned discounts and other deferred income			**(1,521,815,533)**			1,356,083,456
Total Assets			**₱77,004,754,095**			₱75,435,873,062

	2019			2018		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Financial Liabilities						
Deposit liabilities:						
Demand	**₱116,304,152**	**₱–**	**₱116,304,152**	₱92,655,262	₱–	₱92,655,262
Savings	**3,039,349,220**	**–**	**3,039,349,220**	2,196,811,493	–	2,196,811,493
Time	**34,381,758,160**	**–**	**43,101,948,318**	25,876,627,870	8,464,342,925	34,340,970,795
	37,537,411,532	**8,720,190,157**	**46,257,601,690**	28,166,094,625	8,464,342,925	36,630,437,550
Bills payable	**12,155,658,151**	**800,946,594**	**12,956,604,745**	22,580,457,024	70,800,826	22,651,257,850
Accounts payable and accrued expenses	**1,158,610,361**	**29,301,180**	**1,187,911,541**	1,114,256,863	–	1,114,256,863
Other liabilities	**400,847,470**	**153,163,949**	**554,031,419**	308,223,101	–	308,223,101
	51,252,547,515	**9,703,601,881**	**60,956,149,395**	52,169,031,612	8,535,143,751	60,794,175,363
Nonfinancial Liabilities						
Income tax payable	**146,137,616**	**–**	**146,137,616**	114,210,522	–	114,210,522
Other liabilities	**80,357,916**	**60,109,858**	**140,467,775**	5,302,917	12,246,080	17,548,997
	627,363,002	**60,109,858**	**286,605,391**	119,513,440	12,246,080	131,759,520
Total Liabilities	**₱51,479,043,047**	**₱9,763,711,739**	**₱61,242,754,786**	₱52,288,545,052	₱8,547,389,831	₱60,835,934,883

23. Capital and Liquidity Management

Capital stock
Capital stock consists of

	Shares		Amount	
	2019	2018	**2019**	2018
Common - ₱1,000 par value				
Authorized - 300,000 shares				
Issued and outstanding				
Balances at beginning and end of year	**258,256**	258,256	**₱258,256,000**	₱258,256,000

Surplus
In 2018, upon the full adoption of PFRS 9, the BSP has required the appropriation for the difference of the 1% general loan loss provision over the computed ECL allowance for impairment losses related to Stage 1 accounts. The Bank appropriated surplus amounting to ₱117.80 million and ₱297.90 million in 2019 and 2018, respectively.

Capital Management
It is the Bank's policy to maintain a strong capital base to sustain the development of its business and to meet regulatory capital requirements at all times. It also seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

When managing capital, the Bank determines the levels of risk weighted asset growth and the optimum amount of capital required to support planned business growth. As part of its management policy, capital generated in excess of planned requirements is returned to stockholders normally by way of dividends.

Regulatory Qualifying Capital
Under current banking regulations, the Bank's compliance with regulatory requirements and ratios is based on the "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects. Moreover, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than ten percent (10.00%). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:
(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI);
(c) deferred tax asset or liability; and,
(d) other regulatory deductions.

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

Effective January 1, 2014, the Bank complied with BSP Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards.

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

The Bank's capital-to-risk assets ratio (CAR) of the Bank as of December 31, 2019 and 2018 based on the Basel 3 risk-based capital adequacy framework are shown in the table below (amounts in thousands):

	2019	2018
Common Equity Tier 1 Capital	**₱8,921,986**	₱5,681,614
Tier 1 capital	**₱8,921,986**	₱5,681,614
Tier 2 capital	**588,008**	379,728
Total qualifying capital	**₱9,509,994**	₱6,061,342
Risk-weighted assets	**₱71,684,358**	₱68,097,537
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**13.27%**	8.90%
Total tier 1 capital expressed as a percentage of total risk weighted assets	**12.45%**	8.34%
Common equity tier 1 capital expressed as a percentage of total risk weighted assets	**12.45%**	8.34%

As discussed in Note 11, the BSP provided a temporary relief to the Bank from compliance with the minimum CAR of 10% from June 2018 to the effectivity of merger, provided that the Bank shall not fall below 7%. As of December 31, 2018, the Bank was in compliance on the CAR requirement in view of the temporary relief.

The above CARs as of December 31, 2019 and 2018 are based on balances after certain audit adjustments and also reflect the capital adjustments from the recent BSP examination; hence, they are not the same with the amounts previously reported to the BSP.

	2019	2018
Capital requirements		
Credit risk	**₱58,800,846**	₱55,380,518
Market risk	–	–
Operational risk	**12,883,512**	12,717,019
Total capital requirements	**₱71,684,358**	₱68,097,537

In 2014, the BSP, in line with their aim to further strengthen the banking system, increased the minimum capital requirement for all bank categories. For thrift banks, both the location of the head office and size of the physical network are considered in tiering the minimum capital requirements. The revised minimum capital requirement of the Bank is set at ₱800.00 million.

Basel III Leverage Ratio (BLR)
BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The details of the BLR as of December 31, 2019 and 2018 is as follows (amounts in thousands, except percentages). The BLRs below as of December 31, 2019 and 2018 are based on audited balances and are not the same with the amounts and percentages reported to the BSP.

	2019	2018
Tier 1 Capital	**₱8,921,986**	₱5,750,957
Exposure Measure	**75,583,787**	75,393,640
BLR	**11.80%**	7.63%

Under the framework, BLR is defined as the capital measure divided by the exposure measure. Capital measure is Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items.

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
BSP Circular No. 905 provides the implementing guidelines on LCR and disclosure standards that are consistent with Basel III framework. The LCR is calculated as the ratio of stock of high-quality liquid assets (HQLA) over the total net cash outflows over the next 30 calendar days, which should not be lower than 100%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR). The NSFR is aimed to promote long-term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100 percent (100%) at all times. The implementation of the minimum NSFR shall be phased in to help ensure that covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. An observation period was set from July 1 to December 31, 2018. Effective, January 1, 2019, banks shall comply with the prescribed minimum ratio of 100%.

However, on February 21, 2019, under BSP Circular Nos. 1034 and 1035, the MB approved the extension of the observation period for the Basel III LCR and Net Stable Funding Ratio (NSFR) requirement for subsidiary banks and quasi-banks (QBs) of universal and commercial banks to December 31, 2019 and adoption of 70% floors on LCR and NSFR for subsidiary banks and QBs during this observation period. Effective January 1, 2020, the subsidiary banks and QBs are required to comply with the minimum LCR and NSFR of 100%

During the observation periods, the Bank's LCR as of December 31, 2019, as reported to the BSP, follows (amounts in thousands, except percentage):

	2019	2018
Total HQLA	**₱12,679,784**	₱12,612,114
Total net cash outflows	**12,200,366**	14,902,157
LCR Ratio	**103.93%**	84.62%

As of December 31, 2019 and 2018, the Bank reported NSFR of 89% and 153%, respectively.

Subsequent to December 31, 2019, the Bank availed of new short-term bills payable from local banks as additional funding to comply with the regulatory liquidity requirements.

24. Other Income

This consists of

	2019	2018
Loan related fees and penalties	**₱185,397,609**	₱169,976,964
Recovery of written off accounts	**132,204,139**	105,634,550
ATM fees	**8,846,161**	5,109,514
Deposit-related fees	**3,236,105**	3,902,401
Rental income (Notes 13 and 27)	**1,770,261**	2,007,231
Gain (loss) on disposal of:		
Premises, Furniture, Fixtures and Equipment	**8,847,108**	119,569
Investment Properties	**(418,774)**	–
Other repossessed assets	**(18,335,467)**	–
Others	**6,047,440**	8,872,959
	₱327,594,582	₱295,623,188

25. Other Expenses

Other expenses consist of BSP supervision fees, representation and entertainment, IT-related expenses, donations and charitable contributions, litigation and other miscellaneous expenses.

26. Compensation and Employee Benefits

Details of compensation and employee benefits are presented below.

	2019	2018
Short-term employee benefits	**₱1,010,105,697**	₱759,361,792
Post-employment benefits	**81,241,523**	51,376,596
	₱1,091,347,220	₱810,738,388

Retirement Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee that is legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 or completion of 30 years of service whichever is earlier. The service of any employee, however, may be extended from year to year beyond the normal retirement date, provided such an extension of service is with the consent of the employee concerned and the express approval of the Bank. The plan also provides for an early retirement after completion of at least 10 years of service. Normal retirement benefit is an amount equivalent to 100% of the employees' final basic monthly salary multiplied by the number of years of service prior to January 1, 2008 and 150% of the final basic monthly salary for services rendered starting January 1, 2008. In 2019, with the merger of PR Savings Bank, the Bank amended the existing retirement plan of PR Savings Bank to conform with the Bank's plan provisions. Accordingly, in 2019, the Bank recorded past service costs amounting to ₱29.08 million reflecting these plan amendments.

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

	2019	2018
Discount rates	**5.01%**	7.41%
Expected rate of salary increases	**5.00%**	6.00%
Turnover rate	**A scale ranging from 5% at age 18 to 0% at age 60**	A scale ranging from 5% at age 18 to 0% at age 60
Average remaining working lives	**16**	16

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

	2019	2018
Present value of the obligation	**₱433,760,773**	₱280,104,143
Fair value of plan assets	**(373,650,915)**	(267,858,064)
Net pension liability	**₱60,109,858**	₱12,246,079

Changes in the present value of the defined benefit obligation follow:

	2019	2018
Balance at beginning of year	**₱280,104,143**	₱295,224,730
Current service cost	**52,029,083**	47,998,028
Past service cost	**29,083,569**	–
Interest expense	**25,100,196**	15,499,298
Remeasurements - actuarial losses (gains) arising from:		
Changes in demographical assumptions	**13,257,502**	–
Experience adjustments	**(36,098,703)**	1,653,519
Changes in financial assumptions	**62,380,300**	(77,653,177)
Assumed obligation from merger	**60,121,684**	–
Benefits paid	**(52,217,001)**	(2,618,255)
Balance at end of year	**₱433,760,773**	₱280,104,143

Changes in the fair value of plan assets follow:

	2019	2018
Balance at beginning of year	**₱267,858,064**	₱230,871,051
Contributions to the plan	**53,381,539**	46,160,232
Benefits paid	**(52,217,001)**	(2,618,255)
Interest income	**24,971,325**	12,120,730
Return on plan assets (excluding amounts included in net interest)	**(6,294,590)**	(18,675,694)
Acquired assets from merger	**85,951,578**	–
Balance at end of year	**₱373,650,915**	₱267,858,064

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

	2019	2018
Assets		
Cash and cash equivalents	**₱177,104,010**	₱127,727,610
Investment in unit investment trust funds	**136,891,201**	60,282,085
Investment in government securities (treasury bills)	–	16,699,297
Debt instruments		
Real estate	**11,005,853**	10,264,657
Energy and power	**10,707,655**	9,807,700
Equity instruments		
Holding	**20,322,913**	12,332,329
Real estate	**8,449,369**	11,303,230
Financial institutions	**8,318,378**	9,219,416
Energy and power	**19,742**	9,326,088
Mining	**51,752**	56,507
Telecommunications	–	11,250
Accrued interest and other receivables	**896,626**	895,760
	373,767,499	₱267,925,929
Liabilities		
Accrued trust fee payable	**(116,584)**	(67,865)
	₱373,650,915	₱267,858,064

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

Cash and cash equivalents include cash in savings deposit and time deposit accounts. Unit investment trust funds (UITFs) are open-ended pooled trust funds denominated in peso, operated and administered by a trust entity and made available by participation. The investments of the retirement fund in UITFs consist of various bond and equity funds. Equity instruments consist of shares traded in the local stock exchange, which include equity securities of the Parent Bank amounting to ₱8.32 million and ₱9.22 million as at December 31, 2019 and December 31, 2018, respectively (see Note 29).

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets. The remaining plan assets are carried at their carrying amounts since the carrying amounts approximate the fair values.

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

	2019	2018
Current service costs	**₱52,029,083**	₱47,998,028
Past service cost	**29,083,569**	–
Net interest expense	**128,871**	3,378,568
	₱81,241,523	₱51,376,596

The movements in 'Remeasurement losses on net retirement liability' follow:

	2019	2018
Balance at beginning of period	**(₱9,660,741)**	(₱49,787,516)
Actuarial gains (losses) arising on defined benefit obligation	**(39,539,099)**	75,999,658
Actuarial losses on return on plan assets	**(6,294,590)**	(18,675,694)
Remeasurement gains (losses), before tax	**(45,833,689)**	57,323,964
Income tax effect	**13,750,106**	(17,197,189)
Remeasurement gains (losses), net of tax	**(32,083,583)**	40,126,775
Share in net remeasurement gain on retirement obligation of a subsidiary	**947,674**	–
Balance at end of period	**(₱40,796,650)**	(₱9,660,741)

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

	Impact of Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2019			
Discount rate	**+/-1.0%**	**(₱48,422,080)**	**₱57,868,812**
Salary growth rate	**+/-1.0%**	**59,524,210**	**(50,613,425)**
December 31, 2018			
Discount rate	+/-1.0%	(₱27,435,675)	₱32,418,822
Salary growth rate	+/-1.0%	34,302,148	(29,449,075)

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

	2019	2018
Within 1 year	**₱32,670,750**	₱47,481,233
More than 1 year to 5 years	**97,121,392**	46,197,331
More than 5 years to 10 years	**168,049,916**	165,139,735
More than 10 years to 15 years	**342,540,485**	264,590,130
More than 15 years to 20 years	**649,748,218**	603,805,081
More than 20 years	**1,893,673,295**	1,669,988,802
	₱3,183,804,056	₱2,797,202,312

The Bank expects to contribute ₱49.03 million to the fund in 2020 based on the funding valuation in 2019.

The weighted average duration of the defined benefit obligation in 2019 and 2018 is 19.66 years and 19.89 years, respectively.

27. Leases

Lease Commitments - Bank as Lessee

The Bank has operating lease contracts covering its offices occupied by some branches, ranging from one (1) to twenty-five (25) years. The lease contracts provide for escalation in rental rate ranging from 5.00% to 10.00% in both 2019 and 2018 and are renewable upon mutual agreement of both parties.

Leases beginning January 1, 2019

The rollforward analysis of lease liabilities follows in 2019:

Transition adjustment as of January 1, 2019	**₱169,742,347**
Lease liabilities assumed upon merger	**44,293,835**
Executed new contracts in 2019	**94,901,828**
Interest expense	**17,421,648**
Lease payments	**(97,850,282)**
Balance at December 31, 2019	**₱228,509,376**

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

1 year or less	**₱91,404,667**
more than 1 years to 2 years	**68,430,581**
more than 2 years to 3 years	**57,610,806**
more than 3 years to 4 years	**41,359,586**
more than 5 years	**542,212**

The following are the amounts recognized in profit or loss in 2019:

Amortization expense of ROU assets (Note 12)	**₱87,115,606**
Interest expense on lease liabilities	**17,421,648**
Expenses relating to short term-leases	**57,049,523**
Total amount recognized in profit or loss	**₱161,586,777**

Leases prior to January 1, 2019

As of December 31, 2018, the future minimum rentals payable under the operating leases follow:

Within one year	₱89,355,553
After one year but not more than five years	204,200,494
More than five years	2,717,683
	₱296,273,730

In 2018, the Bank recognized rent expense amounting to ₱104.46 million.

28. Income Taxes

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

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

Current tax regulation provides that the RCIT rate shall be 30.00%. Interest expense allowed as deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax. The regulations also provide for MCIT of 2.00% of modified gross income and allow a NOLCO benefit. Both the MCIT and NOLCO may be applied against regular tax liability and taxable income, respectively, over three years from the year of inception.

Provision for (benefit from) income tax consists of:

	2019	2018
Current		
RCIT	**₱607,115,067**	₱427,097,001
Final	**63,777,763**	75,101,902
	670,892,830	502,198,903
Deferred	**(98,897,357)**	386,648,317
	₱571,995,473	₱888,847,220

Provision for (benefit from) deferred income tax recognized directly against OCI for the years ended December 31, 2019 and 2018 amounted to (₱13.75 million) and ₱17.20 million, respectively.

The components of the net deferred tax assets follow:

	December 31	
	2019	2018
Deferred tax assets on:		
Allowance for impairment	**₱457,642,602**	₱252,308,698
Deferred service fees	**423,605,226**	406,593,854
Accumulated depreciation on investment properties and other repossessed assets	**34,827,266**	–
Retirement obligation	**28,594,738**	3,673,824
Loss on foreclosure of other repossessed assets	**13,432,217**	–
Right-of-use asset, net of lease liabilities	**5,391,968**	–
Others	**2,953,214**	5,269,533
	966,447,231	667,845,909
Deferred tax liabilities on:		
Interest accretion on purchase price allocation of loans acquired from PR Savings Bank	**71,433,372**	–
Unamortized bond issue costs	**16,299,339**	20,322,646
	87,732,711	20,322,646
	₱878,714,520	₱647,523,263

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

	2019	2018
Net income at statutory income tax rate	**₱542,227,617**	₱819,292,358
Tax effects of:		
Income subjected to final tax	**(33,619,752)**	(39,527,661)
Nondeductible expenses	**66,573,516**	75,535,476
Nontaxable income	**(1,133,749)**	–
Special deduction and others	**(2,052,159)**	33,547,047
Effective income tax	**₱571,995,473**	₱888,847,220

29. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries, associates of subsidiaries, affiliates or other related parties.

The Bank has several business relationships with related parties, which include its Parent Bank, major stockholder of Parent Bank, entities under common control, its directors, officers, stockholders and related interests (DOSRI), its key management personnel. Under the Bank's policies, transactions with related parties are made substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks.

Related party transactions of the Bank by category of related party are presented below.

	Amount of Transactions		Outstanding Balances	
Related Party Category	**2019**	2018	**2019**	2018
Parent Bank				
UBP				
Purchase of services	**₱33,562,837**	₱67,158,842	**₱71,570,834**	₱52,473,347
Rental payments	**20,997,324**	9,817,485	**48,846,157**	–
Deposits	**–**	–	**720,460,317**	497,374,302
Interest income on deposits	**5,752,521**	2,876,263	–	–
Interbank call loans	**492,750,000,000**	172,533,000,000	–	–
Interest income on IBCL	**112,260,829**	29,629,037	–	–
Major Stockholder of Parent Bank				
AEVI				
Purchase of services	**1,309,956**	1,183,416	**286,374**	360,030
Bills payable	**5,337,463,226**	19,862,247,980	**–**	2,550,000,000
Interest expense on borrowings	**25,389,478**	67,631,818	**11,723,443**	14,243,750
Entities under common control				
Purchase of services	**228,310,226**	188,890,618	**19,134,419**	2,008,192
Bills payable	**26,535,241,091**	24,589,306,667	**1,077,076,908**	5,970,000,000
Interest expense on borrowings	**112,300,631**	204,834,698	**49,647,676**	46,698,000
Deposit liabilities	**19,268,293,345**	49,672,714,390	**15,258,353,073**	1,146,911,403
Interest expense on deposits	**46,701,080**	50,511,493	**13,034,285**	2,176,638
Key management personnel				
Compensation	**205,869,142**	190,891,809	**–**	–

Purchases of Services
Services are presented as part of 'Operating Expenses' in the statements of income. The related outstanding payables for services obtained in 2019 and 2018 are presented as part of 'Accounts Payable and Accrued Expenses account in the statements of financial position (see Note 20). Such payables are noninterest-bearing, unsecured and settled in cash within three months.

Rental Payments
The Bank entered into various lease contracts with the Parent Bank where two of its branches and corporate offices are located and are used for bank operations and administration office purposes. The lease arrangements have lease terms of five years and are subject to escalation of 5.00% of the basic rent after one year. under the following noncancelable lease agreements

The total rent paid in 2019 and 2018 amounted to ₱21.0 million and ₱9.8 million, respectively.

Deposits
The deposits with Parent Bank and entities under common control pertain to current or savings accounts with interest rates ranging from nil to 0.90% in 2019 and 2018.

Bills payable
These borrowings are unsecured and are settled in cash upon maturity with interest rates ranging from 3.75% to 6.45% and 3.19% to 6.45% in 2019 and 2018, respectively.

Interbank call loans
These are short-term lending with annual fixed rate ranging from 3.90% to 5.25% both in 2019 and 2018.

Remuneration of Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Committee to constitute key management personnel for purposes of PAS 24.

	2019	2018
Short-term benefits	**₱192,170,550**	₱173,466,723
Post-employment benefits	**8,909,468**	11,683,234
Other long-term benefits	**4,789,124**	5,741,852
	₱205,869,142	₱190,891,809

The short-term, post-employment benefits and other long-term benefits are included as part of 'Compensation and employee benefits' in the statements of income.

Loans
Under the General Banking Act and BSP regulations, the amount of direct credit accommodations to each of the Bank's directors, officers and stockholders, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15.00% of the total loan portfolio of the Bank, whichever is lower.

As at December 31, 2019 and 2018, the Bank has no outstanding DOSRI loans and is in compliance with these regulatory requirements.

On November 23, 2008, the BSP approved the proposed Special Financing Plan (SFP) to the Bank's officers effective November 26, 2008. The objective of the SFP is to provide financial assistance to the Bank's officers as part of their fringe benefits and to meet their housing, transportation, household and personal needs of their officers. The approved SFP is subject to the following conditions, that:

- the Bank shall strictly comply with the provisions of Sec. 83 of RA 337, General Banking Act, as amended, and its implementing regulations on financial assistance;

- the Bank shall strictly comply with guidelines/regulations governing financial plans for bank officers and employees provided under Sec. 2337 of the Manual Regulations for Banks and Other Financial Intermediaries, Book II;

- the aggregate amount of the loans to be granted under the program shall at no time exceed 5.00% of total loan portfolio;

- the Bank's investment in equipment and other chattels under its fringe benefit program for officers and employees shall be included in determining the extent of the investment of the Bank in real estate and equipment for purposes of Sec. 25 of RA 337; and,

- any amendments to the SFP shall be submitted to the Department of Thrift Banks and Non-Bank Financial Institutions for prior approval within 30 calendar days from approval thereof by the Bank's BOD.

As at December 31, 2019 and December 31, 2018, the Bank's outstanding loans under the SFP, amounted to ₱153.85 million and ₱71.08 million, respectively, and are presented as part of 'Loans and Receivables' in the statements of financial position. These unsecured loans are repaid through salary deductions. Interest rates from these loans ranges from 3.84% to 12.00% in 2019 and 3.28% to 12.00% in 2018. Interest income amounted to ₱16.29 million and ₱1.54 million in 2019 and 2018, respectively, and is presented as part of 'Interest Income on Loans and Receivables' in the statements of profit or loss.

Retirement Plan
The Bank's retirement fund for its defined benefit post-employment plan is administered and managed by a trustee duly appointed by the Bank. UBP is currently handling the fund of the Bank. The fair value and the composition of the plan assets as at December 31, 2019 and 2018 are presented in Note 24.

As at December 31, 2019 and December 31, 2018, the Bank's plan assets consist of investments in corporations listed in the PSE, which include investments in shares of stock of the following related parties.

	2019	2018
AEVI	**₱11,269,797**	₱12,035,705
APC	**9,053,116**	9,291,356
UBP	**8,318,378**	9,219,416
	₱28,641,291	₱30,546,477

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restrictions or liens.

Shared Expenses
In 2019, the Bank's employees were temporarily seconded to FAIR Bank to assist in developing and implementing an application tool. As of December 31, 2019, the Bank has an outstanding receivable of ₱7.23 million from FAIR Bank in a form of cost-sharing in the information technology, salaries and travelling expenses incurred for the project which amounted to ₱3.47 million, ₱3.24 million and ₱0.52 million, respectively.

30. Offsetting of Financial Assets and Liabilities

The Bank to discloses information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

December 31, 2019

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Securities purchased under resale agreement	**₱6,326,728,448**	**₱–**	**₱6,326,728,448**	**₱6,326,728,448**	**₱–**	**₱–**

December 31, 2018

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Securities purchased under resale agreement	₱8,882,000,000	₱–	₱8,882,000,000	₱8,882,000,000	₱–	₱–

31. Commitments and Contingencies

In the normal course of the Bank’s operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

As at December 31, 2019 and 2018, the Bank has certain suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Bank’s financial position and results of operations.

As at December 31, 2019 and 2018, the Bank has unused credit lines with various depository banks and related parties amounting to ₱23.2 billion and ₱17.28 billion, respectively.

Management believes that as at December 31, 2019 and December 31, 2018, no additional material losses or liabilities are required to be recognized in the financial statements as a result of the above commitments and contingencies.

32. Notes to Statements of Cash Flows

The following is the summary of noncash investing and financing activities of the Bank:

	2019
Non-cash investing and financing activities	
Execution of new contracts	
Right-of-use assets	**₱94,901,828**
Lease liability	**94,901,828**
Non-cash investing activity	
Foreclosure of respossessed properties	**320,063,239**

The following are the cash flow movements of the Bank's financing liabilities in 2019 and 2018:

2019

	January 1, 2019	Net Cash flows	Non-cash changes: Merger	Non-cash changes: Interest Accretion	Non-cash changes: Amortization of debt issue costs	Non-cash changes: Additions/ Executions	December 31, 2019
Lease liabilities*	₱169,742,347**	(₱97,850,282)***	₱44,293,835	₱17,421,648	₱–	₱94,901,828	228,509,376
Bills and notes payable	22,651,257,850	(13,129,049,225)	3,404,224,205	–	30,171,915	–	12,956,604,745
	₱22,821,000,197	(₱13,226,899,507)	₱3,448,518,040	₱17,421,648	₱30,171,915	₱94,901,828	₱13,185,114,121

*Presented in "Other liabilities".
**Balance represents the lease liabilities upon transition
***Net cash flows related to lease liabilities include the payments of interest portion amounting to ₱17.42 million classified as operating activity. Net cash flows related to principal portion amounting to ₱80,43 million is classified as financing activity.

2018

	January 1, 2018	Net Cash flows	Non-cash changes: Merger	Non-cash changes: Interest Accretion	Non-cash changes: Amortization of debt issue costs	Non-cash changes: Additions/ Executions	December 31, 2019
Bills payable	₱14,060,606,802	₱8,645,811,795	₱–	₱–	(₱55,160,747)	₱–	₱22,651,257,850

33. Events After the End of the Reporting Period

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the island of Luzon effective March 15, 2020.

On March 14, 2020, the Office of the Governor of the province of Cebu implemented similar response through issuance of Executive Order Nos. 5-E, 5-F and 5-G and imposed an enhanced community quarantine throughout the province of Cebu until April 29, 2020, unless earlier lifted or extended. The quarantine period was extended from April 30 to May 15, 2020, May 15 to May 30, 2020, May 31 to June 15, 2020 and further extended from June 15 to 30, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. The Bank through its Health and Safety Committee (HSC) had established precautionary measures for both clients and employees, such as the following: (1) implemented the No-Mask No-Entry policy; (2) observed proper social distancing; (3) adhered to the mandatory use of thermal scanners on each branch; (4) required the wearing of gloves of cashiers; (5) shortened the banking hours and (6); use of sanitizer and disinfectants. The Bank also adheres to the Inter-Agency Task Force (IATF) guidelines on 50:50 ratio on dividing the skeletal workforce in the offices and those who are required to work from home.

The Bank considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Bank cannot determine at this time the impact to its financial position, performance and cash flows. In order to transition its operations to the new normal, the Bank has determined the following strategies in the next 90 days, which will focus on four (4) major initiatives, namely: (1) implement enhanced credit underwriting criteria for re-loans and new loans for a better portfolio quality; (2) provide repayment options, extension of the grace period or loan restructuring in concurrence to Republic Act No. 11469 or Bayanihan to Heal as One Act; (3) focus on cost control through the use of internet functionalities and; (4) adheres to safety precaution measures.

34. Supplementary Information Required Under BSP Circular 1074

Presented below is the supplementary information required by the BSP under BSP Circular 1074.

Basic quantitative indicators of financial performance

The following are the Bank's basic indicators of financial performance as of and for the years ended December 31, 2019 and 2018:

	2019	2018 (As restated – Note 11)
Return on average equity*	**8.15%**	13.21%
Return on average asset**	**1.62%**	2.39%
Net interest margin	**8.23%**	7.32%

*Net loss divided by average total equity.
**Net loss divided by average total assets
***Net interest income divided by average earning assets.
The ratios are based on the respective statements of income accounts divided by average balance which is equal to the sum of beginning and ending balances of the respective statements of financial statement accounts as of the end of the period divided by two.

Capital instruments issued

The Bank's capital instruments consist of capital stock. As of December 31, 2019 and 2018, the Bank has outstanding capital stock shown below:

	Shares		**Amount**	
	2019	2018	**2019**	2018
Common - 1,000 par value				
Authorized - 300,000 shares				
Issued and outstanding				
Balances at beginning and end of year	**258,256**	258,256	**258,256,000**	258,256,000

Concentration of credit exposures

An analysis of concentrations of credit risk for loans and other receivables (gross of any allowance for credit losses and net of deferred credits and unearned discounts) of the Bank by industry and by geographic location as of December 31, 2019 and 2018 is shown below:

	2019		2018	
	Amount	**%**	Amount	%
Concentration by industry				
Financial and insurance activities	**₱–**	**–**	₱–	–
Agricultural, forestry and fishing	**1,153,216,940**	**2.20%**	249,486,415	0.51%
Activities of households as employers and undifferentiated goods and services	**–**	**–**	–	–
Real estate activities	**16,021,031**	**0.10%**	25,906,980	0.50%
Other service activities	**49,238,490,390**	**96.10%**	49,710,532,171	99.45%
Other community, social and personal activities	**–**	**–**	–	–
Manufacturing	**1,725,257**	**0.00%**	1,240,165	0.00%
Wholesale and Retail, Trade, Repair of Motor, Vehicles, Motorcycle	**476,876,228**	**0.90%**	168,996	0.00%
Accommodation and Food Service Activities	**2,744,641**	**0.00%**	–	–
Transportation and Storage	**314,791,179**	**0.60%**	30,105	0.00%
Administrative and Support Service Activities	**11,188,707**	**0.00%**	–	–
Education	**45,727,996**	**0.10%**	–	–
	₱51,260,782,369	**100.00%**	₱49,987,364,833	100.00%

Breakdown of total loans as to security and status

The analysis of loans as to the security and status of accounts are presented in the succeeding tables.

As to security

The breakdown of total loans and other receivables (gross of any allowance and net of deferred credits and unearned discounts) as to secured, with corresponding collateral types, and unsecured loans follows:

	2019	2018
Secured:		
Real estate mortgage	**₱667,433,820**	₱9,488,942
Deposit hold-out	**50,137,856**	18,100
	717,571,676	9,507,042
Unsecured	**50,543,210,692**	49,977,857,790
	₱51,260,782,368	₱49,987,364,832

As to status

The breakdown of loans (gross of any allowance for impairment and deferred credits and unearned discounts) as to status follows:

	2019	2018
Performing loans - Current	**₱49,352,723,093**	₱47,861,926,676
Non-performing loans (NPLs):		
Past-due	**3,429,502,360**	2,125,221,140
Items in litigation	**139,500**	217,016
	3,429,641,860	2,125,438,156
	₱52,782,364,953	₱49,987,364,832

Non-performing loans (NPLs) of the Bank as of December 31, 2019 and 2018 are presented below, net of specific allowance for credit losses, unearned discounts and other deferred credits in compliance with BSP Circular 855, respectively.

	2019	2018
Gross NPLs	**₱3,429,641,860**	₱2,125,438,156
Specific allowance for credit losses on NPLs	**1,070,476,721**	780,641,016
	₱2,359,165,139	₱1,344,797,140

The above NPLs as of December 31, 2019 and 2018 are based on balances after audit adjustments and for prudential reporting purposes, reflect adjustment arising from the recent BSP examination; hence, they are not the same with the amounts previously reported to the BSP.

Under BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-performing Loans*, effective January 1, 2018, the outstanding balance of loans, investments, receivables, or any financial asset, including restructure loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date.

Furthermore, they are considered non-performing, even without any missed contractual payments, when it is considered impaired under PFRS 9, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other financial assets, 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.

Information on related party loans

As required by BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular, and new DOSRI loans, other credit accommodations granted under said circular:

	2019
Total outstanding DOSRI accounts	**₱816,642**
% of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	–
% of DOSRI accounts granted after under BSP Circular No. 423 to total loans	**0.02%**
% of DOSRI accounts to total loans	**0.02%**
% of unsecured DOSRI accounts total DOSR loans	–
% of past due DOSRI loans to total DOSRI loans	–
% of nonperforming DOSRI loans to total DOSRI loans	–

Secured liabilities and assets pledged as security

As of December 31, 2019 and 2018, bills and notes payables amounting to ₱2.00 billion and ₱1.14 billion are collateralized by the assignment/pledge of loans of ₱2.35 billion and ₱1.40 billion million, respectively.

Contingencies and commitments
As of December 31, 2019 and 2018, the Bank has unused credit lines with various depository banks and related parties amounting to ₱23.2 billion and ₱17.28 billion, respectively. Other than this, the Bank has no amounts of contingencies and commitments arising from off-balance sheet items, transaction-related contingencies, sale and repurchase agreements not recognized in the statement of financial position, interest and foreign exchange related items and other commitments.

35. Supplementary Information Required by the Bureau of Internal Revenue

Presented below is the supplementary information which is required by the BIR under its existing Revenue Regulations No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information year is not a required disclosure under PFRS.

Gross Receipts Tax
In lieu of the value-added tax (VAT), the Bank is subject to GRT which is imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code.

In 2019, the Bank reported total GRT amounting to ₱451.38 million and is presented under 'Taxes and licenses' in the statements of income. Total GRT payable as at December 31, 2019 amounted to ₱41.75 million, which is included as part of 'Accrued other taxes and licenses', ₱14.08 million of which pertains to creditable percentage taxes withheld as at December 31, 2019.

Documentary Stamp Tax
For the year ended December 31, 2019, DST purchased and affixed through the electronic DST amounted to ₱590.00 million and ₱655.11 million, respectively. The Bank passes on the DST of loans to its teacher-borrowers; hence, DST charged to profit and loss under 'Taxes and licenses' amounted to ₱255.28 million only.

Taxes on Importation
The Bank has no taxes on importation as there were no importations made in 2019.

Withholding Taxes
Details of total withholding taxes for the year ended December 31, 2019 are shown below:

Final withholding taxes	₱340,350,225
Tax on compensation and benefits	104,908,816
Expanded withholding taxes	64,395,160
	₱509,654,201

Taxes and Licenses
Details of taxes and licenses of the Bank for the year ended December 31, 2019 are as follows:

GRT	₱451,377,241
DST	255,279,795
Business permits	40,495,273
Real property tax	4,912,858
BIR registration fees	57,700
Miscellaneous	3,625,454
	₱755,748,321

Taxes and licenses are presented under ‘Operating Expenses’ in the statements of income.

The Bank also incurred fringe benefits tax amounting to ₱5.72 million which is presented under “Compensation and employee benefits” in the statements of income.

Excise Tax

The Bank does not have excise taxes accrued or paid since it does not have any transactions subject to excise tax in 2019.

Deficiency Tax Assessments and Tax Cases

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