

COVER SHEET

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S.E.C. Registration Number

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(Company's Full Name)

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(Business Address: No. Street City / Town / Province)

Rolando G. Alvendia

Contact Person

8461-5800 local 5100

Company Telephone Number

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Month Day
Fiscal Year

SEC FORM 17-A

FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, if Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2019**
2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **005-469-606**
4. Exact name of issuer as specified in its charter **Philippine Business Bank, Inc.**
5. **Caloocan** 6.  (SEC Use Only)
Province, Country or other jurisdiction of incorporation or organization Industry Classification Code:
7. **350 Rizal Avenue corner 8th Avenue Grace Park, Caloocan City** **1400**
Address of principal office Postal Code
8. **(02) 8363-33-33**
Issuer's telephone number, including area code
9. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	643,750,094

11. Are any or all of these securities listed on a Stock Exchange.

Yes [☒] No [☐]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common shares of stock

12. Check whether the issuer:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes ☒]

No ☐]

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☐]

No ☒]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

**APPLICABLE ONLY TO ISSUERS INVOLVED IN
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes ☐]

No ☐] NOT APPLICABLE

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Overview

PBB was incorporated as a Philippine corporation and registered with the SEC on January 28, 1997 as “Total Savings Bank” and was granted the authority to operate as a thrift bank under the MB Resolution No. 29 dated January 8, 1997. The BSP issued a Certificate of Authority on February 6, 1997. On December 16, 1997, the SEC approved the change of corporate name of the Bank to “Philippine Business Bank, Inc. (A Savings Bank)” which the shareholders believe better reflects the Bank’s business thrust and focus.

The Bank’s focus is to become the bank of choice of the SME market segment. The BSP defines small and medium enterprises to be any business concern with assets between ₱3.0 million to ₱100.0 million, excluding the land value on which the entity’s office, plant and equipment are situated.

This focus on the SME market is driven by the size and potential of this particular market. According to recent data from the Department of Trade and Industry, SMEs account for 99.6 percent of total registered enterprises. The Bank believes that the SME segment is the major source of entrepreneurship and economic dynamism which provide trade, manufacturing and outsourcing and services and help contribute to community and local development. Lastly, the Bank believes that the SME segment is underserved with most financial institutions focusing on the banking requirements of large corporations.

To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centres of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank’s network grew from two (2) branches in 1997 to 159 branches as of December 31, 2019 with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City. PBB has also aggressively expanded its branch network in highly urbanized areas outside Mega Manila such as Davao, General Santos, Bacolod, and Cebu. PBB believes that client proximity, understanding its targets’ banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are the key growth factors in the banking business.

PBB attributes its strong growth and attractive financial performance to the following competitive strengths:

1. Strong presence, reputation, and attention to its SME customers

The Bank believes that its deliberate focus on serving the banking needs of the SME market segment is a key factor for its successful growth over its history. Aside from potential size of this market segment, the Bank also believes that the SME segment is largely underserved by most financial institutions with their focus on large companies and the consumer market.

PBB's focus on the SME segment is manifested in its branch strategy, the recruitment of its officers, its business operations, and even its corporate culture.

Majority of PBB's branches are located outside of typical commercial and business districts where most banks congregate and are situated in areas with significant SME concentration such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized areas outside Mega Manila such as Davao, General Santos, Bacolod, and Cebu. Aside from targeting such areas, PBB has also significantly increased the number of its branches over the past years.

The Bank believes the success of this branch strategy is shown in its increased business volume. PBB's branches have increased over the past five (5) years from 116 in 2014 to 159 as of December 31, 2019. As a result, PBB's deposit base grew from ₱46.6 billion in 2014 to ₱95.3 billion in 2019. Net loans and other receivables also increased from ₱40.1 billion in 2014 to ₱87.3 billion as of December 31, 2019, a 16.84% CAGR.

Of equal importance to PBB's current and prospective growth is the staffing of these branches. The Bank aggressively recruits branch managers and account officers who have established good relationships and solid reputation within each branch's catchment area. Through this recruitment strategy, PBB has been able to accelerate its client acquisition.

In line with its view that most SME clients have unique banking requirements with respect to bank transactions that require specific attention, PBB has also deliberately focused on providing its banking services through its branch officers and staff. This contrasts significantly with the trend to automate banking transactions. PBB believes that customer interaction and service will remain key ingredients for its growth.

2. Effective capital utilization

Aside from interest income from its loan products, PBB is opportunistic with respect to earnings generation from its treasury operations especially during periods of weak loan demand or excess liquidity. PBB's Treasury Services Group, in coordination with the Bank's Asset and Liability Committee, ensures the Bank's liquidity, manages liquidity risk, manages the Bank's trading portfolio of domestic treasury debt, corporate bonds, foreign currency denominated bonds, and other financial instruments.

In 2014, PBB's trading portfolio amounted to ₱1.9 billion, ₱3.2 billion in 2015, ₱7.1 billion in 2016, ₱2.4 billion in 2017, and ₱4.1 billion in 2018. As of December 31, 2019, the portfolio of the Bank was at ₱13.9 billion.

3. Solid lending policies and practices

Despite the growth of PBB's loans and receivables, the Bank has successfully managed credit risk through its internal credit risk rating system, loan evaluation and approval practices, and other formal credit risk mitigating processes. Supplementing these formal processes is PBB's relationship and community based approach to lending, which takes advantage of branch and account officers' position in their respective communities to analyze prospective borrowers' reputation, business performance and risks, and other credit evaluation factors.

The Bank believes that the advantages brought about by these processes have equal weight to its formal credit evaluation efforts, especially for prospective SME clients.

Over the past three (3) years, PBB's NPL ratio was at 2.54% in 2016, 2.12% in 2017, 1.75% in 2018, and 2.33% in 2019.

4. Sound balance sheet well positioned for growth

PBB has consistently maintained a sound balance sheet which positions the Bank for future growth. Liquidity, as measured by the ratio of loans to deposit, in 2014, 2015, 2016, 2017, 2018, and 2019 was at 86.04%, 75.86%, 87.32%, 95.96%, 97.77%, and 91.66% respectively.

5. Strong base capital is the foundation to PBB's increasing size

In %	2014	2015	2016	2017	2018	2019
Equity, in bn	8.0	8.5	9.6	10.2	11.4	12.9
Tier 1 CAR	19.86	16.96	16.17	13.09	14.01	12.80
CAR	20.77	17.70	16.99	14.00	14.99	13.70

PBB's CAR and Tier 1 CAR are consistently above the BSP thresholds of 10.0% and 7.5%, respectively. The Bank continues to monitor its capital levels relative to its business needs and requirements.

6. Highly competent and experienced management team

PBB is managed and run by officers who have extensive experience in banking operations from leading universal and commercial banks in the country. With the experience and track record of officers, from the head office and throughout its branch network, the Bank is assured that it possesses extensive knowledge of all aspects of the banking industry, strong relationships with other banks and financial institutions, and familiarity with the Bank's target clients and their banking needs.

Financial Summary / Financial Highlights

in millions, except per share data	2018	2019	% growth
Profitability			
Net interest income	3,777	4,551	20.5
Non-interest income	358	797	122.9
Non-interest expenses	2,599	3,094	19.0
Pre-provision profit	1,536	2,254	46.7
Allowance for credit losses	295	561	90.4
Net income	858	1,256	46.4
Selected balance sheet data			
Liquid assets	16,549	23,966	44.8
Gross loans	74,441	85,620	15.0
Assets	94,729	114,092	20.4
Deposits	77,251	95,268	23.3
Equity	11,359	12,868	13.3
Per common share data			
Net income per share:			
Basic	1.33	1.64	23.4
Diluted	1.33	1.64	23.4
Book value	16.68	19.03	14.0
Others			
Headcount	1,511	1,705	12.8
Officers	617	714	15.7
Staff	894	991	10.9
Selected Ratios			
Return on equity	7.95%	10.37%	
Return on assets	0.94%	1.20%	
Net Tier 1 CAR	14.01%	12.80%	
Capital adequacy ratio	14.99%	13.70%	

Vision

By making things happen today, PBB will help build strong business communities where people can achieve their dreams.

Mission

The basis for Philippine Business Bank's growth shall be its commitment for higher standards every day, in everything we do in providing competitive products and services and through enthusiastic execution and teamwork in producing satisfaction – for our customers, our shareholders, our associates, and our communities.

Principal Business Activities

PBB provides close to a full range of banking services and products, including cash management, retail and corporate lending, deposit products, international trade finance, treasury and trust products.

Commercial Banking Group

The Commercial Banking Group services the SME and mid-market segments which are PBB's key clientele. The Bank's ability to tap into SMEs lies in the DNA built by its founder, Alfredo M. Yao, being a business owners / entrepreneur himself. The group then grew its presence in the countryside where SMEs run their operations and has currently allowed PBB to benefit from the current infrastructure and development boom in such areas.

The group is divided into eight (8) business units geographically located from north to south of the Philippines. PBB believes that client proximity, understanding its targets' banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are among the key factors which have driven and will continue to drive its growth.

Commbank will continue to develop a strong sales culture to attract the SME market as well as their network of suppliers and clients as part of its push for organic expansion. The group is also working on improving its turnaround times to address the requirements of the market.

Corporate Banking Group

The Corporate Banking Group markets and lends wholesale bank products to medium to large corporate accounts. These clients are basically the clients above the SME/commercial banking market and most of which are the major conglomerates of listed companies in the Philippines.

Corbank continues to ensure that its portfolio remains excellently managed in terms of accurate and complete documentation, favorable financial returns, professional and quality customer service, healthy composition of sustainable enterprises and appropriate positioning as benchmarked with growing competition.

Consumer Banking Group

The Consumer Banking Group offers traditional and program based consumer loan products that target market niches with high volume opportunities, e.g. unserved and underserved retail market segments. Following the merger of PBB and ISB, the Bank expanded its product line adding second-hand car loans, personal and salary loans, teacher loans, truck and home equity loans, and microfinance loans.

To reach the retail market segments, the group expanded its network through the establishment of nine (9) consumer lending offices in the following areas: (1) National Capital Region, (2) Cebu, (3) Davao, (4) Batangas, (5) Baguio, (6) Cagayan de Oro, (7) Bacolod, (8) Legazpi, and (9) Iloilo. Consumer finance desks in the Viz-Min region are housed in PBB branches in Bacolod, Cebu, and Iloilo.

The Consumer Banking Group will continue to focus on products with high potential for growth, increase its market presence, and enhance existing provincial distribution and processing outlets.

Retail Banking Group

The Retail Banking Group is engaged in the Bank's core business such as deposit and loan generation. The group is responsible for providing marketing support to branches via lead referrals, cash incentive programs, and cross-sell initiatives. It utilizes a decentralized sales strategy, allowing for tailor-fit tactical outreach initiatives within each locality.

The Bank offers a comprehensive range of deposit products consisting of the following:

1. Checking account
2. Savings account
3. Automatic transfer account
4. Payroll account
5. SSS pensioners account
6. Peso time deposit
7. Hi-5 time deposit
8. Dollar time deposit
9. Hi-Green deposit
10. Dollar savings
11. Chinese Yuan/Renminbi savings
12. Campus Savers
13. E-banking/Business Connect

The group is composed of: (1) Branch Banking Group which grows deposit levels, generates and services loan referrals, and sells Trust and Treasury products; (2) Retail Sales Group which supplements the marketing and sales efforts of BBG; and (3) Branch Operations and Control Group which ensures the day-to-day operations in the branches are in order.

Branches are encouraged to transact foreign exchange trades particularly the USD and RMB currencies. PBB is one of the 14 banks authorized by the Bank of China (BOC) to trade Renminbi directly to Philippine peso. More importantly, the branches' focus will revolve around building personal and professional ties in the community and fostering true business partnership relationships with the Bank's clients. PBB's total network ended at 159 branches, inclusive of the 10 ISB branches.

Treasury Services Group

Treasury Services Group's main responsibility is to manage and balance the daily cash flow and liquidity of funds of the Bank. The group also handles the bank's investments in securities and foreign exchange.

The general mission of TSG is to manage the liquidity of the Bank. This means that all current and projected cash inflows and outflows must be monitored to ensure that there is sufficient cash to fund company operations, as well as to ensure that the excess cash is properly managed and invested. TSG is divided into four sub-units namely:

1. Assets & Liabilities Management: manages the Bank's resources and identifies opportunities in the interest differential business;
2. Fixed Income Desk: monitors the daily movements of corporate bonds and US treasuries for investments and handles the trading of government securities and sovereign bonds;
3. Foreign Exchange Management Desk: oversees all foreign exchange transactions of PBB such as over-the-counter market for trading securities and interbank dealings; and,
4. Financial Market Sales and Distribution Unit: markets government securities and fixed income instruments to clients.

The group offers the following products and services:

- Philippine Domestic Dollar Transfer System – local transfer for US dollar;
- FX forward – hedging tools;
- Renminbi Transfer System - local transfer for Chinese yuan;
- Auto FX services – against USD;
- Telegraphic transfer - international cable transfer;
- Renminbi / CNY deposits;
- All other foreign exchanges, trade or non-trade related, and over-the-counter (OTC) whether against USD or PHP; and,
- Euro deposit (currently in the pipeline).

As the Bank continues to grow its balance sheet, available liquid capital, as well as its customer base, Treasury continues to be opportunistic in contributing to the Bank's profitability. This will be achieved through a combination of client flows as well as proprietary trading using the Bank's available liquidity.

Trust and Investment Center

PBB's Trust and Investment Center carries out trust and other fiduciary business and serves as an additional revenue center for the Bank. TIC provides the bank's clientele with a product suite of investment solutions ultimately helping its clients achieve their personal and financial goals.

It offers a wide array of products and services including escrows, insurance and pre-need trusts, unit investment trust funds. TIC likewise endeavors to help its corporate clients recognize the value of establishing their own employee benefit trusts as a tool for employee retention, a solution they could access via TIC's retirement fund management service.

TIC continues to build on its solid gains during the past year and aims to further grow its assets under management by designing even more trust products to meet its clientele's growing investment needs.

Products and Services Offered

PBB is a thrift bank that offers a range of commercial and consumer or retail banking products, trust services, and other related financial services such as mail and telegraphic transfers, safety deposit facilities, payment services, among others.

Commercial banking services include term loans, working capital credit lines, bills purchase and discounting lines. PBB is the first thrift bank to be allowed by the BSP to issue foreign currency denominated letters of credit. The Bank also offers specialized loans for agriculture and programs of the Development Bank of the Philippines, the Social Security System, and other agencies.

Consumer banking loans include brand new and second-hand auto financing, home financing, and group salary or personal loans.

As part of its commercial and consumer banking activities, PBB offers various deposit products to both its commercial and individual clients. These products include Peso denominated current and savings accounts, foreign currency denominated savings accounts and both Peso and foreign currency time deposits.

The Bank's treasury manages the liquidity of PBB and is a key component in revenue and income generation through its investment and trading activities.

Products and services offered by PBB's trust operations include PBB's "Diamond Fund", a unit investment trust fund, investment management arrangements for both individual and commercial clients, escrow agency, security, safekeeping and depository arrangements, a funds management of employee benefit and pre-need plans, among other standard trust products and services.

Reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

In April 2008, the Bank entered into a purchase agreement with the shareholders of Kabalikat Rural Bank, Inc. ("KRBI") under which the Bank purchased 100 per cent of the stock, assets, and goodwill of KRBI. Through this transaction, PBB acquired the five (5) existing branches of KRBI and converted these into thrift bank branches. As an incentive, the BSP granted PBB the right to establish three (3) branches in Restricted Areas and 10 branches in non-restricted areas of the country. In October 2008 and March 2010, the BSP and the SEC respectively approved the merger.

In June 2015, the Bank entered into a purchase agreement with the shareholders of Insular Savers Bank, Inc. (A Rural Bank) ("ISB") under which the Bank will purchase 100 percent of the stock, assets, and goodwill of ISB. This will help PBB establish a foothold in consumer loans and accelerate the Bank's strategy of expanding client coverage. The BSP approved the merger of PBB and ISB on December 2018, with PBB as the surviving bank and by the Securities and Exchange Commission on June 2019. PBB and ISB commenced operations as a merged entity in July 2019.

In July 2015, the Bank entered into a purchase agreement with the shareholders of Bataan Savings and Loan Bank ("BSLB") wherein the Bank purchased all of recorded properties, assets, and goodwill of BSLB. In October 2017, PBB consolidated its three (3) existing branches.

Distribution methods of the products or services

The Bank utilizes branches for the distribution of its deposit and loan products. The Bank has also divided its lending units to Corporate Banking Group, Commercial Banking Group, and Consumer Banking Group, working in partnership with the Branch Banking Group, to service the banking needs of its clients. In 2016, the Bank also established the Business Development Group, later renamed as Retail Sales Group, to supplement and complement the marketing and sales efforts of BBG. The Bank's trust products are handled by its Trust and Investment Center while Treasury products are marketed by its Treasury Marketing and Sales Department of the Treasury Services Group.

Factors Affecting the Bank's Results of Operations

Set out below are the most significant factors which have affected the Bank's operating results in the past and which are expected to affect the Bank's results in the future. Factors other than those set forth below may also have a significant impact on the Bank's results of operations and financial condition in the future.

Interest Rates

Fluctuations in the interest rates in the market can have a material impact on the Bank by affecting its interest income, cost of funding as well as the general performance of the Bank's loan portfolio and other assets. The profitability of the Bank depends on its ability to manage its assets and liabilities particularly during periods when interest rates are volatile. An increase in interest rates may adversely affect earnings as it results in a higher cost of funds for the Bank and portfolio value of its assets.

Regulatory Environment

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Competition

The Philippine banking sector is highly competitive and the Bank is subject to significant levels of competition from domestic and foreign banks. These banks may have more capital and other larger financial resources, bigger branch network or stronger brand recognition, among others, than the Bank. Some financial institutions may be able to offer more products and services, have higher lending limits, offer lower lending rates or possess stronger balance sheets. Competition has affected and will continue to affect the Bank's funding costs as well as the ability of the Bank to market its products and services and implement its business plans and adversely impact PBB's results of operations and financial condition.

In May 2012, Republic Act No. 10574 amended the existing Rural Bank Act of 1992 to allow foreign entities to own up to 60% of the equity in rural banks. Also as a result of this Act, it became possible for foreign nationals without Philippine citizenship to be elected to rural banks' boards of directors. These amendments to rural banking regulations were aimed at attracting foreign capital to the rural banking segment of the banking sector.

The BSP welcomes more foreign players into the local banking system, as the Philippines' financial industry remains a prime destination for international banks. Since the full liberalization of the local banking sector to foreign players in July 2014, foreign banks, particularly those coming from the region, have been coming to the country either to set up branches and/or other distribution channels or as investors in existing local banks.

Philippine and global economic environment

The Bank's business, operations and assets are based in the Philippines and hence, the results of operations and performance and quality and growth of PBB's assets depend, to a large extent, on the performance of the Philippine economy. The Philippine economy, in turn, has also been adversely affected by the downturn in the global financial markets as well as the slowdown in the U.S. economy brought about by the coronavirus disease 2019 pandemic. Monetary policies worldwide formulated in response to the financial crisis resulted in a decline in interest rates. The volatility of the global and domestic market may also affect the Bank's income and margins.

Sources and availability of raw materials and the names of principal suppliers

This is not relevant to the operations of the Bank.

Customer concentration

The Bank has a diversified customer base and there is no concentration of business in major client group. The Bank is not dependent on any single customer whose loss would have a material adverse effect on the Bank.

Transactions with and/or dependence on related parties

Although the Bank deals with related parties subject to existing rules on related party transactions, there is no dependency on any of its related parties.

Patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held

The Bank has registered with the Intellectual Property Office of the Department of Trade and Industry its New Bank Logo and Business Connect. The Bank has not been involved in any disputes with respect intellectual property rights of other parties.

Government approval of principal products or services

The Bank has no outstanding application subject to government approval.

Effect of existing or probable governmental regulations on the business

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Costs and effects of compliance with environmental laws

Not applicable.

Employees

As of December 31, 2019, the Bank has a total of 1,705 employees broken down into the following categories:

Executives	98
Managers – Operations and Support	358
Managers – Branch / Marketing	258
Staff	991
Total	1,705

For the ensuing twelve (12) months, the Bank anticipates to hire an additional 280 employees broken down as follows:

Senior Officers	6
Junior Officers	125
Staff	149
Total	280

There is no collective bargaining agreement between the Bank and any of its employees. None of the Bank's employees are affiliated with any labor union.

Financial Risk Management Objectives and Policies

PBB, as a financial institution, is in the business of taking risks. Its activities expose the Bank to various risks. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders. The Bank continually advances on its risk management techniques and integrate this into the overall strategic business objectives to support the growth objectives of the Bank.

Objective: To achieve a corporate risk culture, processes, and structures that are directed towards the effective management of potential opportunities and adverse effects to the Bank's business as well as optimization of capital in terms of risk-taking activities.

Risk management fundamentals:

1. Portfolio management by designated and accountable risk personnel
2. Allocation of capital based on associated risks for each business unit
3. Denotation of processes and output into quantifiable measurements
4. Transparency and meritocracy

Enterprise Risk Management Framework

The Bank's Enterprise Risk Management (ERM) Framework is an integrated approach to the identification, measurement, control, and disclosure of risks. Capital allocation and preservation through prudent limits and stringent controls which are integral part of the governance structure. PBB's Board of Directors formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee, which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework encompasses corporate governance and covers the risk spectrum of strategic, compliance, reputational, operational, market, liquidity, and credit. The ERM process flow is integrated in all stakeholders of the organization and deploying three (3) stages of defense to ensure that the risk management objectives are achieved.

Risk Management Process

The Bank envisions to achieve risk and return consciousness among employees, anchored on streamline processes, reliable Management Information System, conversant, competent and accountable risk takers/constituents and good internal control, monitoring and escalation system as well as reward system to meritocracy. ERMG is tasked to institutionalize an effective risk management framework that will encompass the foregoing risk management process.

1. Identify – key risk exposures
2. Assess – measure extent of exposure and impact to earnings, capital, and liquidity; prioritize risk exposures
3. Control – implement the risk appetite of the Board through risk policies
4. Monitor and report – monitor effectiveness of controls

The Risk Oversight Committee, supported by ERMG and in constant coordination with executive and other board-level committees, oversees the risk profile and risk management framework/processes of PBB. This ensures that risks arising from the Bank's business activities are properly managed, integrated into and used as basis for overall governance, strategy and planning, decision making and accountability purposes at all relevant levels of the organization.

ERMG, headed by the Chief Risk Officer, develops and reviews risk policies, and raises to management the various aspects of risk facing PBB. In addition, it also performs an oversight and monitors the performance of the different Business Units.

The Bank's philosophy is that responsibility for risk management resides at all levels in the organization. The Bank's corporate governance aims to achieve corporate culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects. ERMG shall continue to improve the framework in support of the Bank's strategic plans in order to achieve its mission, vision and objectives.

Every organization's optimal efficiency depends heavily on the effectiveness of its risk management processes, thus, PBB's day-to-day activities are undertaken under the integrated risk management approach.

Further, the Bank incorporates the essential components of Model Risk Management framework as an integral process in risk management.

1st Line of Defense - Model Ownership (Modeler / User)	2nd Line of Defense - Model Control (Model Reviewer / Checker)	3rd Line of Defense - Model Validation (Model Validator)
The role lies with the end-user which is primarily responsible for ensuring that the model is properly used as well as for reporting any errors and inconsistencies. Role specifically includes: • More rigorous model testing during implementation phase. • Ongoing monitoring of model performance • Post implementation and testing. • Introducing an IT infrastructure allowing for model user feedback.	Conducts thorough inspection of model's quality by capturing potential operational errors and lapses. Adverse results should be coordinated with the modeler for correction and improvement or to the model validator for a more extensive review.	Function that oversees compliance with policies by the other two roles. The role is usually conducted by Compliance or Internal Audit Center. Role is: • More focused on process and controls rather than model-level content. • Focused on assessment of the process for establishing and monitoring limits on model use. • Should conduct clear documentation of findings noted and reported to senior management and Board.

Risk Management Policies and Objectives

Credit Risk Management

Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures.

The Bank's Credit Risk Management Framework seek to fundamentally strengthen credit risk management practices and provide minimum set of operating standards that are consistent with BSP regulations and the Basel standards. PBB is committed to adopt sound policies and practices and institutionalize these within the organization:

- Establish an appropriate credit risk environment
- Operate under a sound credit granting process
- Maintain an appropriate credit administration, measurement and monitoring process
- Maintain an appropriate control process

The Bank has instituted improvements on its credit policies, which includes large exposure and credit concentration. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

The initial recognition of credit risk by individual or group of related counterparties is done via its internal credit risk rating system (ICRRS). The ICRRS is tailored to consider various categories of counterparty. The rating system is further supplemented with external data such as credit rating agencies' scoring information on individual borrowers.

The ICRRS is established by the Bank in congruence with and with reference to the credit risk rating methodology used by an established rating agency in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between risk ratings). Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans and the loan loss provision of which are based on the loss given default.

Management considers additional information for each type of loan portfolio held by the Bank:

(i) Retail or Consumer Loans

Subsequent to initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. At the initial adoption of PFRS 9, the ECL parameters were carried on collective basis on shared credit risk characteristics of the borrowers and the repayment scheme of the products.

(ii) Corporate and Commercial Loans

For corporate and commercial loans, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information or credit assessments into the credit review system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as publicly available financial statements. This will determine the internal credit rating and the PD.

(iii) Debt Securities at Amortized Cost and at FVOCI

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as S&P) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

In the process of applying the Bank's ICRRS in determining indications of impairment on individually significant items of financial assets at amortized cost and debt securities at FVOCI, the Bank analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
Excellent	Borrowers have very strong debt service capacity and have conservative balance sheet leverage
Strong	Borrower normally has a comfortable degree of stability, substance and diversity
Good	Borrowers have low probability of going into default and bear characteristics of some degree of stability and substance though susceptible to cyclical changes and higher degree of concentration of business risk either by product or by market
Satisfactory	Borrowers where clear risk elements exist and the probability of default is somewhat greater
Acceptable	Borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within acceptable period can be expected
Watch list	Borrowers for which unfavorable industry or company-specific risk factors represent a concern.

Classified accounts or accounts already in default as defined are further mapped into BSP classification of non-performing accounts as follows:

Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan
Substandard	Have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable
Loss	Loans considered absolutely uncollectible or worthless

Credit exposures shall be regularly assessed and loan loss provision be recognized in a timely manner to ensure that capital is adequate to support such risk exposure. To ensure that this is rationally implemented, the Bank developed and adopted an internal loan loss methodology described herein.

Loan Loss Methodology (LLM)

This is a methodology for calculating expected credit loss of each exposure. The internal LLM consists broadly of three (3) major components of which one emanates from the ICCRS and the other is based on historical recovery rate on credit facilities while the last is the credit exposure at any given time. The probability of default (PD) depends on the risk rating of the borrower while the other components are the loss given default on facilities and the exposure at default. There are three stages of impairment recognition pursuant to IFRS 9/PFRS 9 as follows:

- Stage 1 – at the origination stage
- Stage 2 – performing but there is occurrence of loss event
- Stage 3 – financial assets considered credit impaired.

Under Stage 2, the lifetime probability of default is used instead of the regular PD.

For Stage 3 accounts the Bank has a supplementary policy for Remedial and Timeline Recovery Program. Accounts beyond recovery period will merit 100% loan loss provisioning

For purposes of Expected Credit Loss (ECL), forward-looking information mainly economic indicators such as unemployment rate, inflation, interest rate, GDP and other macro-economic variables from BSP are incorporated into both assessments of whether the credit risk of loan exposure has increased significantly since its initial recognition and its measurement. Due to

the limitation in which the models may not be able to capture relevant information, an overlay in the form of weights assigned to worst, likely and best are used in the final ECL factor.

Market and Liquidity Risk Management

Market risks are risk to earnings and capital arising from market-making, dealing, and position taking in interest rate and foreign exchange markets (both for on and off-balance sheet). Liquidity risk on the other hand, is the inability of the Bank to fund increases in assets, or liquidate assets and meet obligations as they fall due (funding liquidity risk and market liquidity risk).

To measure market and liquidity risk exposure, the PBB utilizes the following metrics:

<i>Metrics</i>	<i>Risk Area</i>	<i>Description</i>
VaR	Market risk	Expected loss on a position from an adverse movement in identified market risk parameter(s) with a specified probability over a nominated period of time.
Earnings-at-Risk	IRBB	Measures the amount of potential loss to net interest income as a result of projected change in interest rates over the next 12 months. This involves balance sheet items that are classified according to their repricing characteristic/behavior as bucketed in the Interest Rate Gap report
Economic Value of Equity (EVE)	IRBB	The EVE measure gauges the potential impact of change in interest rate on the Fair value of the Bank's asset and liabilities
Maximum Cumulative Outflow	Liquidity risk	The Maximum Cumulative Outflow (MCO) measures the amount of prospective funding that the Bank would require at assumed future movements of on and off-balance sheet assets and liabilities taking into consideration the behavior of accounts as to roll-over, pre-termination, as well as the core deposits. This shall be prepared separately for the Peso, Dollar, and Consolidated Books.
Stress testing	All risk areas	To measure the impact of abnormal and extreme events on the Bank's market risk exposures. Also includes statutory requirements for Universal Banks in terms of liquidity (i.e. LCR, NSFR)

Starting January 1, 2018, PBB has adapted PFRS 9 (as replacement for PAS 39). Pursuant to PFRS 9 in managing financial assets, the Bank adopts the following business model:

Of the total funds allotted to Treasury, the following would be the distribution:

- a. Resources for its trading activities will be allocated and classified as Financial Assets measured at Fair Value through Profit and Loss (FVPL).
- b. Resources for interest income generating activity that will include interbank call loans and reserve eligible financial instruments will be allocated and classified as Financial Assets measured at Amortized Cost (HTC).
- c. While the primary purpose of FVOCI securities is for interest accrual, securities under this category will also be used in case of liquidity needs.

Business Model	Key Features	Measurement Category
Hold to Collect (HTC)	The objective of the business model is to hold the assets to collect contractual cash flows	Amortized Cost
Fair Value Through Other Comprehensive Income (FVOCI)	The objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and The asset's contractual cash flows represent Strictly Payment of Principal plus interest (SPPI)	Fair Value with Unrealized Gain/Loss as Other Comprehensive Income (Capital Account)
Fair Value through Profit and Loss (FVPL)	This is the residual category. Financial assets should be classified as FVPL if they do not meet the criteria of FVOCI or amortized cost (HTC)	Fair Value

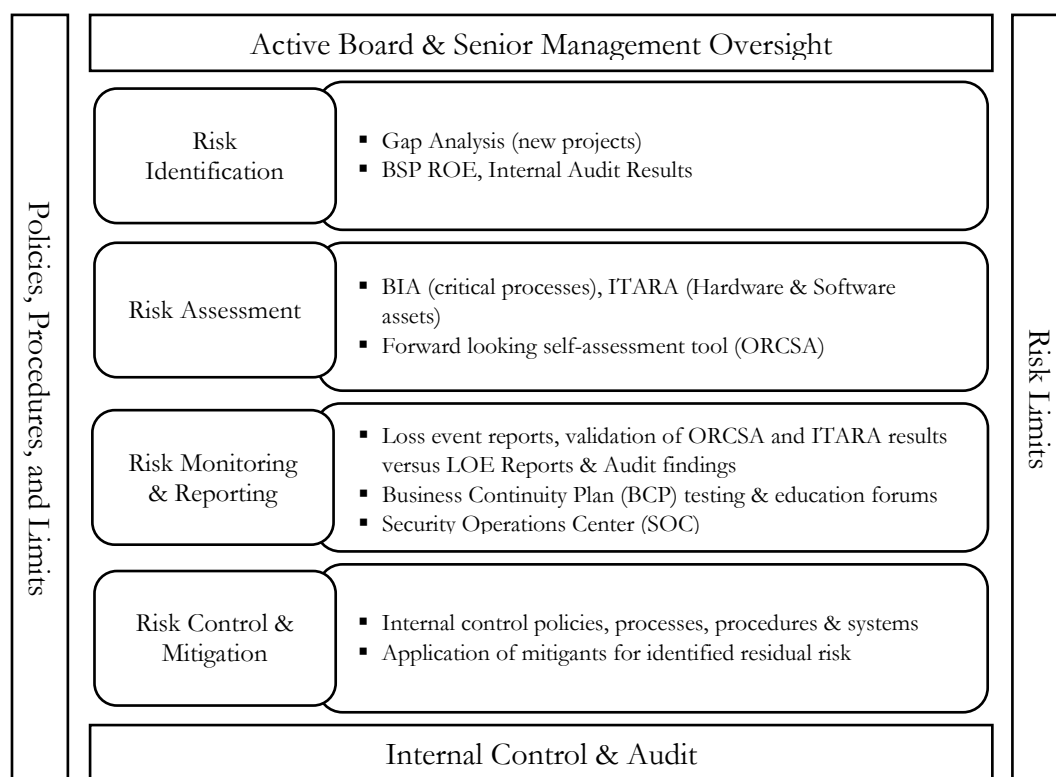
Operational Risk Management

Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events

The Bank has partially automated the front-office, back office, and middle office operations as part of streamlining operations procedures to mitigate operational risks. For treasury operations, this includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover risk exposures.

In strengthening the risk assessment and implementation of controls in the operations of Philippine Business Bank, the following were implemented:

Enhanced IT and Operational Risk Management Framework



In terms of IT Enabled solutions, an enterprise-wide *Operations Gap Analysis* was conducted to identify the solutions that can narrow the gaps that expose the bank operations to risks. The end result is a Risk-Based Roadmap that enables a strategic and deliberate development and implementation of automated solutions for the operating units of the bank.

The institutionalized *Operational Risk and Control Self-Assessment (ORCSA)* was enhanced in alignment with the objectives of achieving a more reliable and representative assessment results.

To appropriately support the *Business Continuity Plan (BCP)* of the bank, a *Business Impact Analysis (BIA)* methodology was developed and implemented to accurately identify critical processes and logistical requirements to manage business disruptions. More importantly, the BIA exercise aims to revisit the critical activities' *Recovery Point Objective (RPO)* that will dictate the data recovery strategy of the bank.

Finally, the automated *Loss Event Reporting* was expanded to cover other critical groups.

For *Information Security Risk Management*, baseline information security policies were developed and implemented in the areas of User Access Management and monitoring.

As support to understanding deeper the necessity of Information Security Risk Management, the bank joined a collaborative project with five (5) other Financial Institutions to explore the setting up of *Shared Security Operations Center (SOC)* with the goal of establishing a much sought-after cyber security management system not to mention compliance to regulatory requirements.

A working IT Steering Committee is dedicated to oversee the automation program of the Bank to ensure that operating environment becomes competitive, advanced and up to the global standards and ready to digital communication challenges.

Capital Adequacy Management

The Bank's ability to sustain operations and engage in various risk-taking activities within the capital adequacy framework is the foremost risk management objective. PBB aims to sustain capital adequacy beyond what's prescribed by the BSP and the Basel standards. Towards this goal, capital charge allocation is part of the risk and reward metrics. The risk weighted assets must be supported by ample risk capital at all times.

Item 2. Properties

The Bank owns the land and building on which its head office is located. The head office is a four-story building located on a 1,300 square meter property along Rizal Avenue, Grace Park, and Caloocan City. The Bank also owns the land and premises on which eight (8) of its branches are located, specifically, PBB's branches in Paso de Blas in Valenzuela, Imus and Kawit in Cavite, Muzon in San Jose del Monte Bulacan, Limay in Bataan, Subic in Zambales, General Tinio in Nueva Ecija, and the main office branch in Caloocan City.

The land and premises where PBB's other branches are located are leased from various property owners. Such lease agreements are typically long term in nature, with durations of five (5) years or more. The Bank has entered into lease agreements with the following parties:

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Caloocan Region				
1.	Main Office	Bank's Property			
2.	Grace Park	SMI Development Corporation	August 17, 2023	124,267.28	5% on 3 rd yr. & every yr thereafter
3.	A. Mabini C-3	Marea Ventures Corp.	May 31, 2024	85,000.00	5% annually
4.	Camarin	Luwel Realty & Development Corporation	May 31, 2020	58,526.63	5% annually
5.	Edsa-Kalookan	Solmac Marketing Inc.	March 31, 2027	59,047.43	7% on 3 rd , 5 th , 7 th , & 9 th
6.	Edsa-Monumento	New MBS Marketing Corporation	December 31, 2020	67,000.00	Extension of lease
7.	Kaybiga	Guilmar Marble Corporation	October 20, 2020	51,516.08	5% annually
8.	Samson Road	Oscar F. Tirona	September 30, 2024	61,257.00	10% annually
	Manila Region				
1.	Binondo Corporate Center	Philippine-Chinese Charitable Association, Inc.	September 30, 2024	124,009.27	10% every other 2 yrs
2.	Carmen Planas	Zaldra Realty Development Corporation	December 31, 2024	79,007.91	5% on 3 rd year & every yr thereafter
3.	Elcano	Nena Lumbao Hung	August 31, 2022	97,484.21	5% annually
4.	Jose Abad Santos	Virgilio Ting Uy	December 15, 2023	75,000.00	5% on 3 rd year & every yr thereafter
5.	Quintin Paredes	Downtown Realty Investment Corporation	July 24, 2020	214,838.37	7.5% every other year
6.	Adriatico-Malate	Evangeline T. Lim	3-Feb-22	142,214.24	5% on 3 rd year & every year thereafter

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
7.	Pasay	Mayson Realty Corporation	August 14, 2023	55,000.00	5% every 2 years
8.	Pasay-Malibay	M. Ainsley Realty Corporation	December 31, 2023	79,000.00	5% on 3 rd year & every year thereafter
9.	Paterno-Quiapo	Edilberto Pontillas	June 30, 2023	114,865.34	5% annually
10.	Pedro Gil-Paco	David, Luther, Grace all surnamed TIU	July 27, 2022	102,102.53	5% annually
	Northern Metro Manila Region				
1.	Malinta	Cesar L. Flores & Marciana M. Flores	July 15, 2021	50,000.00	5% on 3 rd year & every year thereafter
2.	Malabon	J2NS Property Development, Inc.	July 31, 2023	92,055.83	8% on 3 rd year & every year thereafter
3.	Malabon-Rizal Avenue	Flaviano G. Felizardo III	August 18, 2026	40,000.00	None
4.	Navotas	Megarite Development Corporation	December 31, 2024	47,761.01	10% 1st year/ 7% 2nd & 3 rd / 5% 4 th & 5 th
5.	Paso de Blas	Bank's Property			
6.	Valenzuela	PSL Prime Realty Corporation	July 31, 2023	110,986.44	5% annually
7.	Baliuag	Danilo S. Santos	December 31, 2022	63,319.53	5% annually
8.	Bocaue	Joel G. Castillo and Cynthia G. Castillo	December 31, 2023	46,305.00	5% on 3 rd yr. & every yr thereafter
9.	Malolos	DJ Paradise Resort Inc.	December 31, 2024	37,866.23	5% annually
10.	Meycauayan	I.S. Properties, Inc.	January 1, 2021	69,457.50	5% on 3 rd yr. & every yr thereafter
11.	Muzon	Bank's Property			
12.	Sta. Maria	Angelika Halili Cruz	September 30, 2022	44,948.42	5% on 3 rd yr. & every yr thereafter
13.	Angeles	AJV Investment Holdings, Inc.	June 30, 2028	94,979.27	5% on 3 rd yr. & every yr thereafter
14.	Cabanatuan	Angel S. Pascual	January 15, 2024	64,771.88	5% on 3 rd year & every yr thereafter
15.	Gapan	Veronica, Albino, Digna, Gregorio, Elizabeth(all surnamed Del Fonso)	November 1, 2023	49,101.16	beg.2 nd yr 5% up 5 th 6.5%-6th-10th 8%-11th-15 th
16.	Gen. Tinio	Bank's Property			

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
17.	Olongapo City	Sps. Wilson W. Chieng and Betty Chieng	July 31, 2022	84,000.00	5% annually
18.	San Fernando	JTG Sears Realty Corporation	April 30, 2022	60,500.00	10% annually
19.	Balanga	Melencio A. Unciano, Jr.	October 31, 2024	72,930.38	5% annually
20.	SBMA-Subic	Subic Creative Center, Inc.	May 31, 2020	82,953.86	5% on 3 rd yr. & every yr thereafter
21.	Limay	Bank's Property			
22.	Subic-Zambales	Bank's Property			
23.	Dinalupihan	Julieta Lintag Reyes (Attorney-In-Fact)	September 30, 2023	30,000.00	5% annually
24.	San Fernando-San Agustin	Purificacion T. Tanglao	December 31, 2020	52,745.15	5% annually
25.	Baliuag- B.S. Aquino	Sps. Cesar C. Cabreros & Elenita S. Cabreros	<i>Under negotiation</i>		
26.	Navotas-M.Naval	Roberto S. Sylanteng/Caesar S. Sylanteng/Clarita S. Tang/ Gloria S. Lim	March 31, 2021	34,500.00	Indefinite percentage
	Eastern Metro Manila Region				
1.	Greenhills	LGI Group Corporation	May 31, 2022	106,590.00	None, straight 5 years
2.	Mandaluyong	Antonio H. Yap	December 31, 2022	107,142.86	3.27% from previous
3.	Ortigas	CW Marketing and Development Corporation	June 14, 2020	75,361.39	5% on 2 nd yr & every year thereafter
4.	Pasig Blvd.-Kapitolyo	Dhondup Holdings Inc.	April 14, 2020	64,869.57	5% annually
5.	Antipolo	Megathon Properties, Inc.	August 14, 2023	77,419.80	3% annually
6.	Cainta	Molks Realty Development Corp.	September 14, 2023	75,361.39	5% on 3 rd year & every yr thereafter
7.	Marikina	Heirs of Amelia M. Diguanco	September 30, 2021	89,250.00	5% on 3 rd year & every yr thereafter
8.	Concepcion-Marikina	Mark William Pua Uy	August 14, 2023	66,150.00	5% every 2 years
9.	Antipolo-Masinag	Rikland Property Leasing	December 20, 2021	65,611.09	5% annually
10.	Taytay	Estelita M. Felix	October 31, 2024	76,993.64	5% annually

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
11.	Ortigas Ave. Ext.-Cainta	Decoro General Construction and Trading Corporation	January 31, 2022	55,775.00	5% annually
12.	Gil Fernando Ave.- Marikina	UPA WRC development Company	October 15, 2024	75,600.00	5% annually
	Central Metro Manila Region				
1.	Commonwealth- Fairview	Frederick C. Ibay	December 1, 2021	80,405.75	5% annually
2.	Cubao	RSAG Building Management Services	August 15, 2020	69,457.50	5% annually
3.	Novaliches	Luwell Realty & Development Corporation	September 30, 2024	100,835.35	5% annually
4.	Timog-Rotonda	A.A. Tanco, Inc.	November 30, 2023	97,240.50	5% annually
5.	Banawe	Solmac Marketing Inc.	April 30, 2020	143,789.40	7.5% on 3 rd yr. & every yr thereafter
6.	Banawe-Kaliraya	Mary Ty Tan	June 14, 2018 (with letter to extend lease)	92,610.00	5% on 3 rd yr. & every yr thereafter
7.	Congressional Avenue-Quezon City	Hedelita Cleofas Diaz, Herminio Cleofas, Jhoana Lyn Cleofas, Joisa Fatima Cleofas, Benancia Cleofas AKA Melicia Cleofas	December 31, 2021	121,000.00	10% on the 1 st ; 8% on 2 nd and 3 rd
8.	Del Monte	Cheung's Development Corporation	<i>Under negotiation</i>		
9.	Retiro	Doña Ignacia Development Corporation	May 21, 2023	65,539.80	5% annually
10.	Roosevelt	Henry Tan Villasi	November 14, 2020	36,273.33	Yearly renewal
11.	West Avenue	Fiorino Development Corporation	June 23, 2023	57,157.73	5% on 3 rd yr. & every yr thereafter
12.	Kamias-Anonas	Citi Property Management and Realty Corporation	August 15, 2020	87,318.00	5% on 3 rd yr. & every yr thereafter
13.	Quezon Avenue	Comworks, Inc.	November 18, 2024	175,478.78	4% on the 3 rd year & every year after

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Southern Metro Manila Region				
1.	Legaspi Village-Makati	Andrea L.Dulalia	January 14, 2022	102,117.51	5% annually
2.	Makati	AMY Leasing Company	January 1, 2024	162,889.47	5% on 2 nd yr & every year thereafter
3.	Salcedo Village-Makati	Lacelli International Corporation	July 31, 2022	138,567.71	5% on 3 rd year & every yr thereafter
4.	Sucat-Parañaque	Jaka Investments Corporation	February 14, 2022	98,310.96	None
5.	The Fort	Megaworld Corporation/Bonifacio West Dev't Corp.	April 30, 2020	318,450.00	10% p.a.
6.	Dasmariñas-Cavite	Jica Land Developers Inc.	September 30, 2023	57,000.00	5% on 3 rd yr and every yr thereafter
7.	Imus	Bank's Property			
8.	Las Piñas	Omni Investment Bldg	February 26, 2024	75,361.39	5% on 3 rd year & every yr thereafter
9.	Madrigal Business Park	Solid Gold Realty Corporation	August 25, 2021	73,705.25	5% annually
10.	Muntinlupa	Sps. Sturnino L. Baccay & Katherine C. Baccay	October 1, 2020	73,469.39	5% annually
11.	Molino-Bacoar	SolaGrande Realty Corporation	June 30, 2024	65,237.50	5% on 3 rd yr and every yr thereafter
12.	Trece Martires-Cavite	Virginia P. De Guzman	July 15, 2020	38,587.50	5% on 3 rd yr and every yr thereafter
13.	Carmona-Cavite	Jupan C. Lim	October 31, 2020	34,815.80	5% on 3 rd yr and every yr thereafter
14.	Kawit	Bank's Property			
15.	Binakayan	Philippine National Railways	December 31, 2019	13,346.25	Month to month payment
16.	Better Living-Parañaque	Lauan Commercial Corporation	December 31, 2020	66,150.00	5% on 3 rd yr and every yr thereafter
17.	Bonifacio Global City	MC Home Depot (Fort Bonifacio), Inc.	December 31, 2023	116,335.78	5% annually
18.	Aseana City-Paranaque	Ri-Rance Realty Corporation	May 14, 2023	132,768.28	5% on the 3 rd year
19.	Bonifacio Global City- Net Plaza	14-678 Property Holdings, Inc.	March 14, 2022	190,507.58	7% annually
20.	Makati- Aguirre	St. Francis Square Development Corporation	Under negotiation		

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Northern Luzon Region				
1.	Cauayan	Jolilyn A. Guy	March 31, 2023	80,000.00	5% annually
2.	Laoag City	Laoag Allied Realty and Development	September 30, 2021	89,250.00	5% on 3 rd year & every yr thereafter
3.	Tuguegarao	Lorita C. Corral	September 15, 2023	75,671.34	5% annually
4.	Santiago	Sps. Manuel Salvador N. De Vera and Bonaeth M. De Vera	June 30, 2024	75,000.00	5% annually
5.	Vigan	Juvencio L. Pe Benito	June 30, 2024	55,000.00	10% on 3 rd yr. Only
6.	Baguio	Atty. Ernesto Ll. De los Santos	August 26, 2024	93,000.00	5% on 2 nd year & every 2 yrs thereafter
7.	Dagupan	Wilson Dy	April 14, 2022	92,523.36	1 st 3yrs at 50k 5% succeeding
8.	La Union	Virginia Rondaris Mendoza	August 15, 2024	70,000.00	5% annually
9.	Tarlac	Edward Allan H. Que	July 31, 2022	60,000.00	5% on 3 rd yr. & every yr thereafter
10.	Urdaneta	Gold and Chimes Realty Corporation	February 1, 2022	77,550.05	5% every 2 years
11.	Tarlac-Paniqui	Green Field Miracle Realty Development Corporation	January 15, 2025	47,358.56	5% on 3 rd yr. & every yr thereafter
12.	Benguet-La Trinidad	Sps. Fernando S. Tiong and Rosemarie G. Tiong	February 15, 2021	77,000.00	One year extension
13.	Pangasinan-Lingayen	Carmen E. Dyliacco, Piedad E. Dyliacco & Montserrat S. Escano	October 31, 2020	58,433.00	5% on 3 rd yr. & every yr thereafter
14.	Candon-Ilocos Sur	Bienvenido Gabayan	October 31, 2020	63,157.89	Fixed for 5 years
15.	Solano	Ramon Uy Lim	May 31, 2023	50,000.00	5% annually
16.	Calasiao-Pangasinan	Bonbryan D. Velasco	March 31, 2024	45,000.00	5% on 3 rd year & every yr thereafter
	Southern Luzon Region				
1.	Batangas	Sps. Jose Q. and Helen S. Cifra	July 31, 2022	79,860.00	10% on 3 rd year & every year thereafter
2.	Lipa City	Reynato D. Goce	August 15, 2022	85,113.46	5% annually
3.	Tanauan	RNT Enterprises	August 15, 2023	83,349.00	5% annually

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
4.	Calapan	Mila S. Tolentino, Amado S. Tolentino Jr. and Lita S. Tolentino	May 22, 2024	48,620.25	5% from 1 st to 4 th year and 8 th on the 5 th
5.	Calamba	Nelson Lu & Josie T. Lu	December 31, 2020	84,426.04	5% annually
6.	Lucena City	Amalia Garana-Italia	November 2, 2022	55,000.00	5% on 3 rd yr and every yr thereafter
7.	San Pablo	Albrighton Corporation	October 15, 2023	75,708.68	5% on 4 th yr and every yr thereafter
8.	Sta. Rosa	Philippine Seven Corporation (Sub Lessor)	February 28, 2023	107,008.67	7.5% on the 2 nd yr & every yr thereafter
9.	San Pedro	Lily Tsang Ngo	March 31, 2021	99,488.00	5% annually
10.	Legazpi City	Natividad M. Sison	August 15, 2022	57,881.25	5% on 3 rd year & every yr thereafter
11.	Naga	Peterson Resources and Holding Inc.	<i>Under negotiation</i>		
12.	Sorsogon	Sorsogon Chang Kai Shek School	September 30, 2023	70,036.31	5% on 3 rd yr and every yr thereafter
13.	Puerto Princesa Palawan	Sps. Allan and Dawn Carlos	June 30, 2023	81,000.00	5% annually
14.	Iriga-Camarines Sur	Arnel H. Tan	March 31, 2020	60,637.50	5% on 3 rd yr and every yr thereafter
15.	Biñan-Laguna	Abbie Lane M. Perez and Sunshine M. Perez	May 30, 2020	52,500.00	5% on 3 rd yr and every yr thereafter
16.	Calamba Crossing	Marcelita Realty Corporation	November 30, 2020	91,461.54	Extension of lease
17.	Legazpi-Rizal	Costa Verde Development Corporation	April 30, 2022	39,517.50	10% on the third year
18.	Balayan	Mafel Cayabyab Alvez	June 30, 2024	94,736.84	Fixed for 5 years
	Visayas Region				
1.	Bacolod	T.U. Realty & Development Co., Inc.	June 30, 2024	100,980.00	5% on 3 rd yr and every yr thereafter
2.	Iloilo	Muzon San luis Property, Inc.	January 31, 2024	60,000.00	5% on 3 rd year
3.	Iloilo- Donato Pison	Greenzone Realty and Development Corporation	November 30, 2023	94,199.00	5% on 3 rd yr and every yr thereafter
4.	Kalibo	Lawrence Ti Lu	September 5, 2023	79,860.00	7% annually

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
5.	Downtown-Cebu	Lianting Development Corporation	May 14, 2024	81,023.32	7.5% on the 3 rd yr & every yr thereafter
6.	Lapu-Lapu City	Antonio Amistad	<i>Under negotiation</i>		
7.	Mandaue	Lester & Lesley To Chip	March 31, 2024	73,872.77	5% on 3 rd year
8.	Tacloban	Tacloban Buddhist Temple, Inc.	May 30, 2023	70,000.00	5% on 3 rd yr and every yr thereafter
9.	Tagbilaran	EB Gallares Properties Associates, Inc.	October 31, 2022	93,654.82	5% on 3 rd yr and every yr thereafter
10.	Consolacion-Cebu	1028 Realty Corporation	November 30, 2024	71,003.80	5% annually
11.	Cebu-Talisay	Dynasty Management and Development Corporation	September 30, 2025	55,126.94	5% on 3 rd yr and every yr thereafter
12.	Cebu-Escario	Nicris Dev., Corp.	June 18, 2020	74,753.64	5% annually
13.	Cebu-Banilad	SmartGlobal Holdings Inc.	June 30, 2020	83,255.29	5% on 3 rd yr and every yr thereafter
14.	Roxas City	Susan A. Jugo	November 15, 2020	61,188.75	5% on 3 rd yr and every yr thereafter
15.	Boracay	Sps. Larry & Annie Barbasa	February 28, 2021	98,000.00	Fixed for 5 years
16.	Ormoc	Raquel Codilla Abucay and Lydia Codilla Abastillas represent as the Trustees of Narcisa Codilla Enterprises Inc.,	June 1, 2023	60,000.00	10% every other 2 yrs
17.	Catbalogan	Ramon L. Rosales	July 30, 2023	52,000.00	Fixed for 5 years
18.	Iloilo-Jaro	Rosman Iloilo, Inc.	September 15, 2021	59,535.00	5% on 3 rd yr and every yr thereafter
	Mindanao Region				
1.	Bajada, Davao	Davao City Chamber of Commerce & Industry Inc.	<i>For relocation</i>		
2.	Davao-Sales	JM Agro Industrial Trading Corporation	March 2021	100,000.00	Fixed
3.	General Santos	Firenzo Property Dev't/GSC Suncity Suites	September 16, 2020	76,230.00	5% on 3 rd year and 5 th year
4.	Davao-Lanang	Binansel Inc.	May 31, 2024	70,000.00	Additional P5,000 on the 3 rd yr and every year after

	REGION	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
5.	Davao-Toril	Far East Noble House, Inc.	<i>Under negotiation</i>		
6.	Tagum City-Davao	Albert L. Ng	December 15, 2024	65,000.00	Fixed for 5 years
7.	General Santos-Santiago Blvd.	Asaje Realty Corporation	December 15, 2024	74,768.93	5% 1st, 2nd & 3rd; 7.5% 4th & 5th
8.	Butuan	FG Ever, Inc.	December 25, 2021	73,113.15	5% annually
9.	Cagayan de Oro	Leo Boyd Casiño and Bernard M. Casiño	May 31, 2024	50,000.00	5% annually
10.	Cagayan de Oro- Cogon	Alice LL. Andrada, Inc.	December 31, 2023	63,000.00	5% on 3 rd yr and every yr thereafter
11.	Iligan City	Sps. Glen and Marissa Doromal	March 31, 2024	45,000.00	5% annually
12.	Zamboanga	Wee Agro Industrial, Inc.	September 5, 2023	80,405.75	5% on 3 rd yr and every yr thereafter
13.	Ozamis	The Insular Life Assurance Company, LTD	July 15, 2024	68,010.47	5% annually
14.	Dipolog	Johnny A. Lim	September 30, 2024	90,000.00	Fixed
15.	Dumaguete	Maximo P. Tan, Jr.	December 15, 2024	72,000.00	5% annually
16.	Davao-Panabo	Asaje Realty Corporation	<i>Under negotiation</i>		
17.	Surigao City	Engr. Leonel A. Santos	July 31, 2020	50,600.00	10% on 3 rd yr and every yr thereafter
18.	Davao-C.M. Recto	JR Lacuesta Properties Development Corp.	August 31, 2020	65,405.81	5% on 3 rd yr and every yr thereafter

Based on prevailing costs, the Bank estimates that the development of a new branch costs approximately between ₱5 million to ₱10 million for leasehold improvements, IT infrastructure, and miscellaneous supplies. Leasehold improvements of a branch are typically amortized over the term of the lease while IT investments are amortized over a period of five (5) years.

The Bank believes all its facilities and properties are currently in good condition.

Item 3. Legal Proceedings

The Bank has no proceedings that involves a claim for damages that exceed 10% of the current assets of the Bank.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to vote security holders, through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The Bank is listed on the Philippine Stock Exchange (the “PSE”) with a market capitalization of ₱5.32 billion as of April 21, 2020. The high and low prices of the Registrant’s shares as of April 21, 2020 were at ₱8.26 and ₱8.24 and closed at ₱8.26. The high and low sales prices for each quarter within the last two fiscal years are as follows:

	2018		2019		2020	
	Low	High	Low	High		
1Q	11.72	13.70	11.98	15.00	7.81	13.30
2Q	11.80	12.78	12.90	14.00		
3Q	11.10	12.18	12.00	13.26		
4Q	10.50	12.50	12.02	13.18		

Holders

As of December 31, 2019, the following are the holders of record of the Bank’s common shares as set forth in the table:

Name	Holdings	Rank
Alfredo M. Yao	239,838,309	37.26%
PCD Nominee Corporation - Filipino	219,025,660	34.02%
Zest-O Corporation	162,052,923	25.17%
PCD Nominee Corporation - Non Filipino	8,849,424	1.37%
Armando M. Yao	1,620,537	0.25%
Erlinda M. Yao	1,620,536	0.25%
Jeffrey S. Yao	1,620,536	0.25%
Leticia M. Yao	1,620,536	0.25%
Mary Grace S. Yao	1,620,535	0.25%
Carolyn S. Yao	1,620,535	0.25%
Roberto L. Obiedo	506,250	0.08%
James G. Dy	468,750	0.07%
Roberto Lee Obiedo	375,000	0.06%
Peter Y. See	375,000	0.06%
Siot Keng Go Dy	375,000	0.06%
Johnny Chan	187,500	0.03%
Jimmy Wai Piu Ng	187,500	0.03%
Eusebio S. Go	187,500	0.03%
Reynato Keh Lim &/Or Susana Dy Lim	187,500	0.03%
Antonio D. Tan &/Or Caridad Tan	187,500	0.03%
Others	1,223,063	0.19%
Total	643,750,094	100.00%

On November 16, 2012, the SEC approved PBB’s application for the amendment of its articles of SEC Form 17-A
Philippine Business Bank

incorporation to increase its authorized capital stock from ₱3.0 billion to ₱10.0 billion and for a decrease in par value from ₱100 to ₱10.00.

On January 24, 2019, the Board of Directors approved the increase of PBB's authorized capital stock to ₱20.0 billion from ₱10.0 billion, subject to the approval of BSP and SEC. PBB is increasing its authorized capital stock in preparation for an enlarged shareholders' equity base. This will greatly expand the Bank's capability to develop more businesses and harness opportunities in the financial services space. The increase will enable PBB to meet the growing demands of the banking business.

Dividends

PBB is authorized under Philippine laws to declare dividends, subject to certain requirements. The Board is authorized to declare dividends only from its unrestricted retained earnings and these dividends may be payable in cash, shares or property, or a combination thereof as may be determined by the Board. A cash dividend declaration does not require any further approval from shareholders. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of PBB's outstanding capital stock. The Board may not declare dividends which will impair its capital.

Pursuant to Republic Act 8791 and as provided for in the Manual of Regulations Banks, PBB cannot declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. PBB cannot likewise declare dividends, if at the time of its declaration it has not complied with the following:

- a) Its clearing account with BSP is not overdrawn;
- b) BSP's liquidity floor requirement for government funds;
- c) BSP's minimum capitalization requirement and risk-based capital ratio;
- d) Prescribed EFCDU/FCDU cover consisting of 30 per cent liquidity cover and 100 percent asset cover
- e) Statutory and liquidity reserves requirement;
- f) It has no past due loans or accommodation with BSP or any institutions;
- g) It has no net losses from operations in any one or two fiscal years immediately preceding the date of dividend declaration;
- h) It has not committed any of the major violations enumerated in the Manual.

The Manual provides that banks whose shares are listed in the Philippine Stock Exchange may give immediate notice of such dividend declaration to SEC and PSE; provided that no record date shall be fixed for such dividend declaration pending verification by the appropriate department of the BSP.

As of this date the Bank has not adopted a specific dividend policy which defines a minimum percentage of net earnings to be distributed to its common shareholders.

On July 16, 2012, the Bank's shareholders and Board of Directors approved the declaration of stock dividends amounting to ₱2.0 billion from its unrestricted retained earnings. In the same meeting, the Board also approved the payment of cash dividends to the preferred shareholders in the total amount of ₱100.35 million. Payment of these dividends were approved by BSP and SEC. On November 16, 2012, the Bank obtained approval for the issuance of 200,000,000 new common shares each at a par value of ₱10.00, in relation to this stock dividend declaration and the payment of cash dividends to the preferred stockholders.

On May 5, 2014, the BOD approved the declaration of cash dividends amounting to ₱62.3 million for all issued and outstanding preferred shares and stock dividends totaling ₱85.8 million common shares amounting to ₱858.3 million for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2013. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 30, 2014 and June 26, 2014, respectively.

On August 19, 2015, the BOD approved the declaration of stock dividends amounting to ₱1.1 billion for all issued and outstanding common shares totaling 107.3 million common shares to stockholders on record for the year ended December 31, 2014. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 29, 2015 and August 4, 2015, respectively.

On March 15, 2017, the BOD approved the declaration of 20% stock dividends amounting to ₱1.1 billion for the Bank's 536.5 million common shares.

There has been no Stock Options offered by the Bank.

Item 6. Management's Discussion and Analysis or Plan of Operation

A. Financial Performance

For the calendar year ended December 31, 2019 and 2018:

	For the calendar period ended				
	12/31/2019		12/31/2018	Variance	%
Interest income	₱ 7,094,201,314	₱	5,509,559,450	₱ 1,584,641,864	28.8
Interest expense	(2,543,220,573)	(	1,732,261,448)	(810,959,125)	46.8
Net interest income	₱ 4,550,980,741	₱	3,777,298,002	₱ 773,682,739	20.5

Overall interest income posted a 28.8% growth YoY from ₱5,509.6 million in 2018 to ₱7,094.2 million in 2019. The growth is mainly driven by the increases in loan volume and interest rate, as well as the build-up of the Bank's trading portfolio which resulted in the expansion of interest income on loans and other receivables to ₱6,623.7 million and interest income on trading securities to ₱438.3 million.

The 46.8% increase in interest expense is due to the increases in deposit volume and time deposit interest rate as well as the Bank's issuance of the fixed-rate corporate notes due in 2022. Interest expense on deposit liabilities reached ₱2,336.6 million from ₱1,619.9 million last year while interest expense on corporate notes totaled ₱71.7 million in 2019.

As a result, net interest income stood at ₱4,551.0 million in 2019 from ₱3,777.3 million in 2018, up 20.5%.

	For the calendar period ended				
	12/31/2019		12/31/2018	Variance	%
Core income					
Net interest income	₱ 4,550,980,741	₱	3,777,298,002	₱ 773,682,739	20.5
Service charges, fees and commissions	348,810,364		284,823,000	63,987,364	22.5
Miscellaneous	155,562,175		103,286,349	52,275,826	50.6
	5,055,353,280		4,165,407,351	889,945,929	21.4
Non-interest expenses	(3,093,751,111)	(	2,598,760,224)	(494,990,887)	19.0
Core income	₱ 1,961,602,169	₱	1,566,647,127	₱ 394,955,042	25.2

Other income recorded a 30.0% growth from ₱388.1 million to ₱504.4 million YoY which includes the ₱101.1 million negative goodwill recognized from the merger of PBB and ISB. Recurring other income, which includes service charges and miscellaneous fees, would have been 3.9% higher than 2018's ₱388.1 million.

Operating expense in 2019 was at ₱3,093.8 million, up 19.0% from ₱2,598.8 million in 2018. Aside from the Bank's normal operations, the increase is partly due to the merger of PBB and ISB following SEC's approval last June 10, 2019 and the strategic initiatives of PBB. Salaries and other employee benefits, the largest share of operating expense in 2019, grew by ₱170.1 million or 20.8% growth as headcount increased by 12.8% YoY. Taxes and licenses increased to ₱636.9 million in 2019 from ₱552.3 million in 2018 as income expanded. Operating expense, excluding non-recurring expenses in 2019, would have been ₱3,065.8 million, up 18.0%.

These changes brought the Bank's core income to ₱1,961.6 million in year-end 2019, up 25.2%.

	For the calendar period ended					% p
	12/31/2019	12/31/2018	Variance			
Core income	₱ 1,961,602,169	₱ 1,566,647,127	₱ 394,955,042			25.2
Trading gains (losses)	292,699,496	(30,493,963)	323,193,459			p
Pre-tax pre-provision profit	₱ 2,254,301,665	₱ 1,536,153,164	₱ 718,148,501			46.7
Loan loss provision	(561,174,001)	(294,731,906)	(266,442,095)			90.4
Profit before tax	1,693,127,664	1,241,421,258	451,706,406			36.4
Taxes	(436,754,221)	(383,423,004)	(53,331,217)			13.9
Net income	₱ 1,256,373,443	₱ 857,998,254	₱ 398,375,189			46.4

The Bank recorded a total of ₱292.7 million trading gains in 2019 from a trading loss of ₱30.5 million in 2018. This resulted in the 46.7% increase of pre-tax pre-provision profit from ₱1,536.2 million in 2018 to ₱2,254.3 million in 2019.

Stripping out all one-time income and expenses in 2019, core income and pre-tax pre-provision profit would have reached ₱1,919.0 million and ₱2,211.7 million.

PBB set aside ₱561.2 million loan loss provision for the year 2019 to cover potential loan losses.

As a result, net income recorded a 46.4% increase from ₱858.0 million in 2018 to ₱1,256.4 million in 2019.

For the calendar year ended December 31, 2018 and 2017:

	For the calendar period ended					% p
	12/31/2018	12/31/2017	Variance			
Interest income	₱ 5,509,559,450	₱ 3,881,469,895	₱ 1,628,089,555			41.9
Interest expense	(1,732,261,448)	(841,831,345)	(890,430,103)			105.8
Net interest income	₱ 3,777,298,002	₱ 3,039,638,550	₱ 737,659,452			24.3

Interest income on loans and other receivables expanded by ₱1,638.7 million, or 44.6%, from ₱3,672.4 million in 2017 to ₱5,311.1 million in 2018 due to the growth of both the loan volumes and interest rates. This brought the overall growth of interest income to a 41.9% increase from ₱3,881.5 million to ₱5,509.6 million YoY.

Overall interest expense more than doubled this year from ₱841.8 million in 2017 to ₱1,732.3 million in 2018. The interest rate hikes in 2018 caused interest expense on deposits to grow by 95.9% ending 2018 at ₱1,619.9 million. The 91.2% volume growth of bills payable also factored in the overall interest expense, contributing a total of ₱112.4 million in 2018.

As a result, net interest income for the year 2018 ended at ₱3,777.3 million, up 24.3% against last year's ₱3,039.6 million figure.

	For the calendar period ended					% p
	12/31/2018	12/31/2017	Variance			
Core income						
Net interest income	₱ 3,777,298,002	₱ 3,039,638,550	₱ 737,659,452			24.3
Service charges, fees and commissions	284,823,000	200,841,789	83,981,211			41.8
Miscellaneous	103,286,349	47,147,687	56,138,662			119.1
	4,165,407,351	3,287,628,026	877,779,325			26.7
Non-interest expenses	(2,598,760,224)	(2,252,864,319)	(345,895,905)			15.4
Core income	₱ 1,566,647,127	₱ 1,034,763,707	₱ 531,883,420			51.4

Other income ended at ₱388.1 million in 2018 from ₱248.0 million in 2017, up 56.5%. This growth is mainly driven by the 41.8% increase in service charges, fees, and commissions and the 119.1% growth of miscellaneous income in 2018 due to the gain on reversal of impairment losses.

Non-interest expenses grew from ₱2,252.9 million in 2017 to ₱2,598.8 million in 2018, up 15.4%. Taxes and licenses expense grew 44.4% owing to the expansion of gross receipt tax.

As a result, core income expanded by 51.4%, or ₱531.9 million, from ₱1,034.8 million in 2017 to ₱1,566.6 million in 2018.

	For the calendar period ended				
	12/31/2018		12/31/2017	Variance	%
Core income	₱ 1,566,647,127	₱	1,034,763,707	₱ 531,883,420	51.4
Trading gains (losses)	(30,493,963)		139,089,396	(169,583,359)	(121.9)
Pre-tax pre-provision profit	₱ 1,536,153,164	₱	1,173,853,103	₱ 362,300,061	30.9
Loan loss provision	(294,731,906)	(	260,519,609)	(34,212,297)	13.1
Profit before tax	1,241,421,258		913,333,494	328,087,764	35.9
Taxes	(383,423,004)	(	273,247,394)	(110,175,610)	40.3
Net income	₱ 857,998,254	₱	640,086,100	₱ 217,912,154	34.0

Trading loss was at ₱30.5 million for 2018. The Bank set aside additional ₱34.2 million from 2017's ₱260.5 million to ₱294.7 million loan loss provision to account for the growth of its loan portfolio.

Pre-tax pre-provision profit was 30.9% higher at ₱1,536.2 million. As a result, net income for the year 2018 ended at ₱858.0 million, 34.0% higher versus 2017's figure of ₱640.1 million.

For the calendar year ended December 31, 2017 and 2016:

	For the calendar period ended				
	12/31/2017		12/31/2016	Variance	%
Interest income	₱ 3,881,469,895	₱	3,207,154,576	₱ 674,315,319	21.0
Interest expense	(841,831,345)	(	734,732,780)	(107,098,565)	14.6
Net interest income	₱ 3,039,638,550	₱	2,472,421,796	₱ 567,216,754	22.9

Interest income on loans and other receivables strengthened by 33.4% to ₱3.7 billion as of year-end 2017 as a result of the 37.2% increase in the Bank's loan volume and loan yields. Overall interest income ended at ₱3.9 billion, a 21.0% increase versus 2016's ₱3.2 billion.

Interest expense also increased by 14.6% from ₱734.7 million in 2016 to ₱841.8 million in 2017 due to the 12.6% expansion of interest expense on deposit liabilities as the need to raise funds arises to support the rapid growth of PBB's loan portfolio.

As a result, net interest income as of December 2017 stood at ₱3.0 billion, a 22.9% increase.

	For the calendar period ended			
	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>Variance</u>	<u>%</u>
Core income				
Net interest income	₱ 3,039,638,550	₱ 2,472,421,796	₱ 567,216,754	22.9
Service charges, fees and commissions	200,841,789	151,446,102	49,395,687	32.6
Miscellaneous	47,147,687	84,734,375	(37,586,688)	(44.4)
	3,287,628,026	2,708,602,273	579,025,753	21.4
Non-interest expenses	(2,252,864,319)	(2,012,479,487)	(240,384,832)	11.9
Core income	₱ 1,034,763,707	₱ 696,122,786	₱ 338,640,921	48.6

Service charges, fees, and commissions grew by 32.6% due to the increased lending transactions while miscellaneous income incurred a 44.4% drop as foreign exchange gains, rental of safe / night deposit box, and penalties on loans were lower in 2017. Non-interest expenses also expanded from ₱2.0 billion in 2016 to ₱2.3 billion in 2017 owing to the ₱100.3 million increase in salaries and other employee benefit expenses in line with the Bank's continuous expansion.

As a result, PBB's core income reached ₱1.0 billion in 2017, a 48.6% increase from 2016's ₱696.1 million.

	For the calendar period ended			
	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>Variance</u>	<u>%</u>
Core income	₱ 1,034,763,707	₱ 696,122,786	₱ 338,640,921	48.6
Trading gains (losses)	139,089,396	335,383,026	(196,293,630)	(58.5)
Pre-tax pre-provision profit	₱ 1,173,853,103	₱ 1,031,505,812	₱ 142,347,291	13.8
Loan loss provision	(260,519,609)	(157,043,157)	(103,476,452)	65.9
Taxes	(273,247,394)	(205,838,450)	(67,408,944)	32.7
Net income	₱ 640,086,100	₱ 668,624,205	(₱ 28,538,105)	(4.3)

Due to the continued global market volatility, trading opportunities were limited in 2017. Trading gains as of year-end stood at ₱139.1 million trading gains, down by 58.5% from 2016's ₱335.4 million. Due in part to the Bank's transition from the previous loan loss regime to its own loan loss model predicated on BSP Circular 855, loan loss provisioning was higher by ₱103.5 million from ₱157.0 million in 2016 to ₱260.5 million in 2017.

The Bank also incurred one-time expenses in 2017 amounting to ₱60.0 million for the agri-agra penalties and the celebration of PBB's 20th anniversary. Profit before tax, excluding the non-recurring expenses, should be 11.3% higher from ₱874.5 million last year to ₱973.3 million this year.

B. Financial position

December 31, 2019 vs December 31, 2018

Balance sheet of PBB as of December 2019 amounted to ₱114.1 billion due to the increases in cash and other cash items, trading securities, loans and other receivables, bank premises, furniture, fixtures, and equipment, and investment properties.

Cash and other cash items were higher in 2019 by 18.5% from ₱1.0 billion to ₱1.2 billion.

Due from BSP was down to ₱5.2 billion primarily owing to the reduction in reserve requirement implemented during the year.

Due from other banks declined from ₱4.5 billion in 2018 to ₱2.8 billion in 2019 as placements to local and foreign banks decreased this year.

Trading portfolio reached ₱14.8 billion in 2019 from ₱4.9 billion in 2018 as the Bank took advantage of trading opportunities.

Net loans and other receivables expanded to ₱87.3 billion this year, up 15.6% due to the increased lending activities of the Bank.

Bank premises, furniture, fixtures, and equipment stood at ₱753.4 million, up 58.5% as the Bank recognized right-of-use assets from its leases. Investment properties were 15.2% higher than 2018's figure of ₱429.3 million.

Other resources declined by 11.0% from ₱1.7 billion to ₱1.6 billion in 2019 following the merger of PBB and ISB.

The Bank generated a total of ₱95.3 billion deposit liabilities from ₱77.3 billion in 2018 on account of the 41.2% and 11.4% increases in CASA and time deposits, respectively.

Bills payable decreased to ₱612.5 million from ₱3.7 billion in 2018 as some borrowings matured as of December 2019. Accrued expenses and other liabilities were also 2.5% lower due to the decreases in accounts payable and manager's checks.

On July 31, 2019, PBB issued a fixed-rate corporate notes amounting to ₱3.0 billion due 2022 as part of the ₱10.0 billion debt program of the Bank. The funds were used to finance loan requirements and capitalize attractive lending opportunities.

Equity stood at ₱12.9 billion in 2019, 13.3% higher than the same period last year of ₱11.4 billion as net income expanded by 46.4%. This is equivalent to a book value per share of ₱19.03 net of preferred shares versus ₱16.68 in 2018.

December 31, 2018 vs December 31, 2017

PBB's balance sheet reached ₱94.7 billion total assets for 2018 owing to the increases in trading and other investment securities, loans and other receivables, and net investment properties.

Cash and other cash items dipped by 1.4% due to the increased cash related transactions such as settlement of bills payable, increase in loans and other receivables, and the buildup of trading and investment securities portfolio in 2018.

Due from BSP also declined by 6.2% as other than mandatory reserves were down to ₱200.0 million from ₱1,100.0 million in 2017, ending 2018 at ₱6.2 billion. On the other hand, due from other banks increased by 12.9% from ₱4.0 billion to ₱4.5 billion as a result of increased placements with counterparty banks.

PBB invested in trading and other investment securities as the Bank continued to be cautious in trading activities. Total trading portfolio ended at ₱4.9 billion from ₱2.4 billion in 2017, up 99.6%.

PBB deliberately tempered the growth of its loan portfolio in 2018 as overall funding costs continued to increase. Net loans and other receivables ended at ₱75.5 billion from ₱70.6 billion in 2017, up 7.1% YoY.

Bank premises, furniture, fixtures, and equipment stood at ₱475.3 million, down 2.3% versus year-end 2017, while investment properties increased by 1.4%.

Other resources was 1.5% lower versus 2017's ₱1.8 billion to ₱1.7 billion in 2018 largely due to the decrease in deferred tax assets.

Deposit liabilities reached ₱77.3 billion in 2018 from ₱73.5 billion in 2017, up 5.1% on account of the 11.5%, 10.2%, and 1.9% increases in demand, savings, and time deposits.

Bills payable also grew to ₱3.7 billion from ₱1.9 billion in 2017 to support the loan and trading portfolio build up plan of the Bank. Accrued expenses and other liabilities also increased to ₱2.4 billion in 2018 on account of the ₱1.1 billion increase in accounts payable.

Shareholder's equity recorded an 11.1% growth from ₱10.2 billion in 2017 to ₱11.4 billion in 2018. Net of preferred book value per share stood at ₱16.68, up 11.8%.

December 31, 2017 vs December 31, 2016

PBB's total resources as of December 2017 expanded by 24.2% from ₱70.3 billion to ₱87.3 billion, a ₱17.0 billion increase, on account of increases in due from BSP, due from other banks, and loans and other receivables.

Cash and other cash items decreased by ₱96.4 million in 2017 as loan funding requirements increased. Due from BSP grew by 5.6% due to the 28.4% increase in mandatory reserves. Due from other banks stood at ₱4.0 billion from ₱1.6 billion in 2016 as a result of the increased levels of placements and balances with counterparty banks.

Trading securities decreased by 65.6% to ₱2.4 billion in 2017 as PBB felt it was prudent to limit trading activities this year as a result of the rising interest rate environment. The Bank also shifted its focus on earning assets from trading portfolio to loans as loan demand was very strong and trading opportunities were limited in 2017.

Due to the increase in lending activity, loans and other receivables expanded by 37.2%, ending 2017 at ₱70.6 billion against 2016 figure of ₱51.4 billion.

Bank premises, furniture, fixtures, and equipment and investment properties dropped by 9.2% and 5.6% as additions were lower and disposals amounted to ₱73.6 million in 2017. Other resources also dipped by 1.6% ending the year with ₱1.8 billion.

Both low cost and high cost deposits increased by 15.5% and 31.3%, respectively, to cover the expansion of the Bank's loan book. As a result, total deposit liabilities ended at ₱73.5 billion, a 24.8% increase versus 2016's ₱58.9 billion.

In 2017, the Bank obtained bills payable amounting to ₱1.9 billion to support its loan book growth, while accrued expenses and other liabilities declined by 11.5% from ₱1.8 billion as of December 31, 2016 to ₱1.6 billion as of December 31, 2017. Overall liabilities as of 2017 ended at ₱77.0 billion, 26.9% higher than last year's figure of ₱60.7 billion.

Shareholder's equity stood at ₱10.2 billion in 2017, up by 6.9%. Book value per share net of preferred shares was at ₱14.9 as of December 2017 versus December 2016's ₱13.9, both adjusted after the 20% stock dividend declaration this year.

Key Performance Indicators

CAR: Capital Adequacy Ratio was at 13.70%, higher than BSP's minimum requirement of 10.0%.

Asset Quality: The Bank's non-performing loans ratio reached 2.33% this year.

Profitability: Return on Average Equity (ROAE) increased from 7.95% in 2018 to 10.37% as of December 2019.

Liquidity: The Bank's loans-to-deposits ratio (BSP formula) as of December 31, 2019 was 91.66%.

Asset efficiency: Return on Average Assets (ROAA) increased by 26 bps to 1.20% in December 2019.

Book value per share as of December 31, 2019 was at ₱19.03 from ₱16.68 in December 31, 2018.

The following table shows the key performance indicators for the past three (3) calendar years ending December 31, 2019 (in %):

Performance Indicator, in Php mn	2017	2018	2019
Return on average assets (%)	0.81	0.94	1.20
Net income	640	858	1,256
Average assets	78,765	90,997	104,411
Return on average equity (%)	6.47	7.95	10.37
Net income	640	858	1,256
Average equity	9,898	10,793	12,113
Capital adequacy ratio (%)	14.00	14.99	13.70
Total qualifying capital	10,487	11,903	12,839
Risk weighted assets	74,920	79,417	93,728
Loans-to-deposit ratio (%)	95.96	97.77	91.66
Loans and other receivables – net	70,553	75,530	87,324
Deposit liabilities	73,522	77,251	95,268
NPL ratio (%)	2.12	1.75	2.33
Non-performing loans	1,505	1,306	1,992
Gross loans	70,938	74,441	85,620
Book value per share	14.92	16.68	19.03
Equity – net of preferred shares	9,606	10,739	12,248
Number of shares	644	644	644

Critical Accounting Policies

For information on the Bank's significant accounting judgments and estimates, please refer to Notes 2 and 3 of the Bank's financial statements included as attachment of SEC 17-A.

Description of Comprehensive Statement of Income

Revenues

Interest Income. Interest income is interest generated from PBB's loans and receivables. The Bank also generates interest income from amounts due from other banks, investment securities and securities purchased under resale agreements.

Interest Expense. Interest expense refers to interest paid or accrued on deposits, bills payable and other fund borrowings.

Net Interest Income. Net interest income is equal to interest income after deducting interest expense.

Impairment Losses. Impairment losses refer to estimated losses in the Bank's loan portfolio, investment securities, investment properties and other risk assets.

Other Income

Trading gains – net. This line item comprises results arising from trading activities which include gains and losses from changes in fair value of financial assets held for trading as well as gains from the sale of trading and investment securities.

Services charges, fees and commissions. The Bank earns service charges, fees and commissions from various financial services it provides to its customers. These fees include investment fund fees, custodian fees, commission income, credit related fees, asset management fees, portfolio and advisory fees.

Miscellaneous Income. Miscellaneous income also comprises foreign exchange gain, gain on asset foreclosures and dacion transactions, trust fees, gain on sale of assets and miscellaneous items.

Other Expenses

Other expenses are the Bank's general and administrative expenses composed primarily of salaries and employee benefits, taxes and licenses, rent and fees, depreciation and amortization and other operating costs.

Tax Expense

Tax expense relates mainly to the corporate income tax payable by the Bank which is composed of a two per cent (2%) minimum corporate income tax and a regular income tax of 30 per cent. The Bank is also subject to final taxes of 7.5 per cent (on the Bank's FCDU deposits with other institutions), 10 per cent (on onshore income from FCDU transactions), and 20 per cent (final withholding tax on tax-paid income).

C. Discussions on Key Variable and Other Qualitative and Quantitative Factors

Vertical and Horizontal Analysis

Financial Condition as of December 2019 vs December 2018:

Total assets recorded a 20.4% growth from ₱94.7 billion in 2018 to ₱114.1 billion in 2019. Significant changes (more than 5%) in assets were registered in the following accounts:

- Cash and other cash items were 18.5% higher YoY
- Due from BSP was down by 15.1% as the BSP cut reserve rates during the year
- Due from other banks declined by 38.0% on account of the lower placements to local and foreign banks
- Trading and other investment securities grew by 203.1% as the Bank took advantage of the trading opportunities during the year
- Net loans and other receivables expanded by 15.6% due to the increase in lending activities of PBB
- Bank premises, furniture, fixtures, and equipment increased by 58.5% owing to the increase in right-of-use assets
- Investment properties was 15.2% higher than the same period in 2018 due to the transfer arising from the merger of PBB and ISB
- Other resources were down by 11.0% as other investment account was nil following the merger

PBB's liabilities ended at ₱101.2 billion in 2019, 21.4% higher than ₱83.4 billion last year. Significant changes in liabilities were registered in the following accounts:

- The growth of deposit liabilities by 23.3% due to the increases in low-cost and high-cost deposits
- The Bank issued a fixed-rate corporate notes due in 2022 amounting to ₱3.0 billion on July 31, 2019
- Bills payable was down by 83.4% as borrowings have matured by year-end 2019
- Accrued expenses and other liabilities were 2.5% lower YoY

The Bank's capital as of December 2019 was at ₱12.9 billion from ₱11.4 billion in 2018, up 13.3%. Book value per share, net of preferred shares, was at ₱19.03 as of year-end 2019. Earnings per share ended at ₱1.64 in December 2019, higher than the ₱1.33 figure in the same period last year.

Financial Condition as of December 2018 vs December 2017:

As of December 2018, total assets stood at ₱94.7 billion, up 8.6% against ₱87.3 billion figure in 2017. Significant changes (more than 5%) in assets were registered in the following accounts:

- Due from BSP was down by 6.2% as other than mandatory reserves went down to ₱200.0 million from ₱1,100.0 million in 2017
- Due from other banks was 12.9% higher as placements to other banks increased
- Trading and other investment securities recorded a 99.6% growth as the Bank continued to build up its trading portfolio
- Loans and other receivables – net was up by 7.1% from ₱70.6 billion in 2017 to ₱75.5 billion in 2018

The Bank's total liabilities amounted to ₱83.4 billion as of December 2018. This is ₱6.3 billion or 8.2% higher as compared to the December 2017 level of ₱77.0 billion. Significant changes in liabilities were registered in the following accounts:

- Low-cost deposit liabilities grew by 10.3% on account of the 11.5% and 10.2% increases in demand and savings deposits
- Bills payable grew 1.9 times from ₱1.9 billion to ₱3.7 billion
- Accrued expenses and other liabilities was 53.2% higher than last year's ₱1.6 billion level to ₱2.4 billion in 2018 due to the expansion of accounts payable

Shareholder's equity stood at ₱11.4 billion as of year-end 2018, up 11.1% from December 2017 figure of ₱10.2 billion. As a result, book value per share increased to ₱16.68 from ₱14.92 as of 2017.

Financial Condition as of December 2017 vs December 2016:

Total resources as of December 2017 ended at ₱87.3 billion, a 24.2% increase versus last year's ₱70.3 billion. Significant changes (more than 5%) in assets were registered in the following accounts:

- Cash and other cash items declined by 8.8% due to the higher volume of transactions this year
- Due from BSP grew by 5.6% owing to the 28.4% increase in mandatory reserves
- Due from other banks strengthened by 145.7% as a result of the increased placements with other banks
- Trading and investment securities were 65.6% lower due to the limited trading opportunities in 2017
- Loans and other receivables expanded by 37.2% on account of the increase in lending activities
- Bank premises, furniture, fixtures, and equipment dropped by 9.2% as additions were lower in 2017
- Investment properties were down by 5.6% on account of the ₱73.6 million disposal during the year

PBB's total liabilities ended at ₱77.0 billion against 2016's ₱60.7 billion, up by 26.9%.

- Current deposits increased to ₱1.2 billion from ₱1.1 billion in 2016
- Savings deposit as of December 2017 reached ₱26.8 billion, a 15.8% increase
- Time deposits expanded by 31.3% in 2017
- Bills payable stood at ₱1.9 billion as of year-end 2017
- Accrued expenses and other liabilities declined by 11.5% as bills purchased dropped by 54.7% this year

Total equity ended at ₱10.2 billion in 2017, a 6.9% increase over the ₱9.6 billion figure in 2016. Book value per share net of preferred shares increased by 100 basis points from ₱13.90 in 2016 to ₱14.92 in 2017.

Results of Operations

For the year ended December 31, 2019 vs. December 31, 2018

- Interest income for the calendar period ended December 31, 2019 stood at ₱7,094.2 million, up 28.8% against the ₱5,509.6 million figure last year as loan volume, trading portfolio, and interest rates expanded.
- Interest expense expanded by 46.8% from ₱1,732.3 million in 2018 to ₱2,543.2 million in 2019 on account of the increases in interest expense on deposit liabilities and corporate notes.
- Recurring non-interest income, comprises of service charges, fees, and commissions and miscellaneous income, grew to ₱403.3 million as service charges grew by ₱64.0 million. Including the one-time gain of ₱101.1 million from the consolidation of ISB, non-interest income grew by 30.0% to ₱504.4 million
- Non-interest expense rose to ₱3,093.8 million in 2019 from ₱2,598.8 million in 2018 on account of the increases in salary expense, management and other professional fees, taxes and licenses, and representation and entertainment.
- PBB recorded a total of ₱1,961.6 million core income this year, up 25.2% compared to last year's ₱1,566.6 million figure
- Trading gains expanded to ₱292.7 million in 2018 from a trading loss in 2018
- The Bank set aside a total of ₱561.2 million loan loss provision this year versus ₱294.7 million in 2018, a 90.4% increase
- PBB recorded a ₱1,256.4 million net income in 2019, up 46.4% YoY

For the year ended December 31, 2018 vs. December 31, 2017

- Overall interest income as of year-end 2018 ended at ₱5,509.6 million on account of the ₱1,638.7 million increase in interest income on loans and other receivables.
- Interest expense more than doubled from ₱841.8 million to ₱1,732.3 million as interest expenses on deposit liabilities and bills payable both expanded by 95.9% and 657.3% YoY.
- Non-interest income, composed of service charges, fees, and commissions and miscellaneous income, stood at ₱388.1 million for the year 2018, up 56.5%. Non-interest expense was also 15.4% higher than 2017 figure of ₱2,252.9 million to ₱2,598.8 million in 2018.
- Core income reached ₱1,566.6 million in 2018 was 51.4% higher versus ₱1,034.8 million in 2017.
- PBB was able to limit its trading loss of ₱30.5 million for the year 2018 as PBB correctly timed its trading position.

- Loan loss provisions ended at ₱294.7 million in 2018 from ₱260.5 million in 2017, or 13.1% higher, in line with the growth of PBB's loan portfolio.
- Net income for the year 2018 recorded a 34.0% growth from ₱640.1 million in 2017 to ₱858.0 million.

For the year ended December 31, 2017 vs. December 31, 2016

- Interest income as of 2017 stood at ₱3.9 billion owing to the 33.4% increase in interest income on loans and other receivables.
- Interest expense totaled ₱841.8 million in 2017 from ₱734.7 million in 2016. The 14.6% increase is primarily due to the increase in interest expense from deposit liabilities as the Bank's deposit portfolio grew by 24.8% and the ₱14.8 million interest expense in bills payable.
- Service charges, fees, and commissions expanded by 32.6% as a result of the increase in lending transactions. Miscellaneous income, on the other hand, declined by 44.4% owing to the ₱43.0 million drop in fees as transactions were lower this year versus 2016.
- Operating expenses in 2017 recorded an 11.9% growth primarily due to the increase in salaries and other employee benefits to complement the growing manpower requirements of PBB.
- Core income reached ₱1.0 billion as of December 2017, a ₱338.6 million increase YoY.
- Trading gains dropped to ₱139.1 million due to the limited trading opportunities during the year.
- Loan loss reserves expanded by 65.9% from ₱157.0 million last year to ₱260.5 million this year resulting in the 4.3% decline in its year-end net income.

Cash Flows

The following table sets forth selected information from PBB's statements of cash flows for the periods indicated:

	For period ended December 31		
	2017	2018	2019
Cash and cash equivalents, beginning of the year	9,362.20	12,476.25	13,238.47
Net cash provided by (used in) operating activities	(303.51)	364.95	5,371.01
Net cash provided by (used in) investing activities	1,563.04	(1,365.51)	(6,747.79)
Net cash provided by (used in) financing activities	1,854.52	1,762.78	(412.20)
Net increase (decrease) in cash and cash equivalents	3,114.05	762.22	(1,788.97)
Cash and cash equivalents, end of the year	12,476.25	13,238.47	11,815.26

Net Cash Flow Provided By (Used In) Operating Activities

Net cash flow provided by operating activities is composed of deposits generated, loans and receivables, and interest income. As of December 31, 2019, net cash used in operating activities amounted to ₱5,371.0 million. During this time, the Bank expanded its loans and other receivables by ₱9,450.8 million while deposits grew by ₱16,061.1 million. Impairment losses for the year also expanded by 90.4% to ₱561.2 million. As of the years ended December 31, 2018 and 2017, cash flow from (used in) operating activities was ₱365.0 million and negative ₱303.5 million respectively.

Net Cash Flow Provided By (Used In) Investing Activities

Net cash flow provided by or used in investing activities involves the acquisition of investment securities at FVOCI, business combination, bank premises, furniture and fixtures, and software licenses. As of December 31, 2019, net cash used in investing activities amounted to a negative ₱6,747.8 million. Net cash used in investing activities for 2017 and 2018 were negative ₱1,365.5 million and ₱1,563.0 million, respectively.

Net Cash Flow Provided By (Used In) Financing Activities

Net cash flow provided by financing activities is composed of the availments and settlement of bills payable, corporate notes, cash dividends, and payment of lease liabilities. As of December 31, 2019, PBB recorded a use of cash flow from financing activities of negative ₱412.2 million from ₱1,762.8 million in 2018.

Capital Resources

The Bank is required to comply with the capital adequacy requirements based on the requirements for stand-alone thrift banks under BSP's Circular No. 688 issued in May 26, 2010.

The following table sets out details of the Bank's capital resources and capital adequacy ratios (as reported to the BSP).

As of the years ended December 31			
₱ millions	2017	2018	2019
Net Tier 1 capital	9,809	11,124	11,997
Tier 2 capital	678	779	842
Total qualifying capital	10,487	11,903	12,839
Risk weighted assets	74,920	79,417	93,728
Tier 1 capital ratio	13.09%	14.99%	13.70%
Total capital ratio	14.00%	14.01%	12.80%

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the period ended December 31, 2018 and 2019 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank's financial position and results of operations.

Commitments and Contingent Liabilities

The following is a summary of the Banks commitments and contingent accounts as of December 31, 2019:

In ₱ millions	2018	2019
Outstanding letters of credit	3,134,027,226	1,006,844,837
Trust and other fiduciary accounts	825,233,891	1,365,210,790
Investment management accounts	2,565,027,140	5,877,437,798
Late payment/deposits received	3,432,354	2,289,419
Items held for safekeeping	106,563	220,453
Items held as collateral	11,487	12,188
Outward bills for collection	2,631,626	7,536,554
Unit investment trust fund	29,090,261	59,865,121
Other contingent accounts	635,759,087	655,609,976

Among the Bank's contingent accounts are the following trust arrangements:

1. Investment Management Arrangement (IMA). An agency arrangement that involves the prudent investment of funds on behalf of the clients;
2. Trust and Other Fiduciary Accounts (TOFA) include: Living trust, a trust created during the trustors' lifetime and involves the transfer of funds and other assets to a trustee for management and eventual distribution to intended beneficiaries; employee benefit trust, a trust established by a company for the benefit of its employees in addition to salaries or wages; escrow, a three party arrangement whereby the escrow agent is appointed as a disinterested or neutral party to protect the interest of the two parties to the contract; and other fiduciary arrangements;
3. Unit Investment Trust Fund (UITF). A pooled fund created to offer investment opportunities to small investors.

The Bank has ₱9.0 billion in contingent liabilities of which, ₱7.3 billion or 81.4% are in trust arrangements which include investment management accounts, trust and other fiduciary accounts, and unit investment trust fund.

Selected information disclosed in the Audited Financial Statements

Classifying Financial Assets at HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

In 2008, the BSP and the SEC allowed the reclassification of certain financial assets that were previously classified under FVTPL and AFS categories, due to the tainting in 2006, back to HTM investments or loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS securities to HTM investments amounting to ₱18.8 million and ₱2,130.8 million, respectively, representing the fair value of the reclassified investments on September 11, 2008, the effective date of reclassification, as allowed under FRSP for banks.

On September 14, 2009, however, the Bank reclassified its remaining HTM investments to AFS securities with carrying value of ₱2,621.7 million. As such, the Bank was not allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011. Starting 2012, the tainting of the Bank had been lifted.

Management of Liquidity Risks through MCO Limits

Liquidity risk is the risk to income and capital as a result of the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. The Bank manages its liquidity risk through the monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets on the basis of the term to final maturity or cash flow dates, including contingent commitments. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis, incorporating certain behavioral and hypothetical assumptions. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency, the assumptions of which are reviewed by the Risk Oversight Committee (ROC) prior to the confirmation by the BOD.

DOSRI Loans under Related Party Transactions

Total outstanding DOSRI loans as of December 31, 2018 and 2019 pertain to loan transactions with its officers and employees and related parties amounting to ₱927.6 million and ₱1,012.2 million.

Earnings per Share

The Bank's earnings per share (EPS) as of December 31, 2019, 2018, and 2017 were at ₱1.64, ₱1.33, and ₱0.99, respectively. This is computed by dividing the net income net of dividends of ₱1,058.4 million, ₱858.0 million, and ₱640.1 million, by the weighted average number of outstanding common shares.

Item 7. Financial Statements

The audited financial statements of the bank are filed as part of this for SEC 17-A as "ANNEX A".

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Punongbayan & Araullo (P&A), a member firm of Grant Thornton International Limited, has been the bank's independent accountant for the last ten years and is again recommended for appointment at the scheduled stockholders meeting.

In compliance with SEC Memorandum Circular No. 8, Series of 2003, and Amendments to the SRC Rule 68 on the rotation of external auditors or signing partners of a firm every after five (5) years of engagement, Mr. Christopher M. Ferareza was assigned in 2017 as an independent reviewer and partner in charge for the bank replacing Mr. Leonardo D. Cuaresma, Jr. Representatives of P&A are expected to be present at the meeting to respond to matters relating to the Auditor's report on the 2019 financial statements of the bank that maybe pertinently raised during the meeting. Their representatives will be given opportunity to make a statement if they so desire.

The Bank has paid the following fees to P&A relative to the regular and special engagements rendered by the latter that are reasonably related to the performance of the audit review of the Bank's financial statement:

Audit Fees For	In ₱
December 31, 2011	721,412.31
June 30, 2012	752,640.00
September 30, 2012	978,432.00
December 31, 2012	824,320.00
December 31, 2013	2,609,152.00
December 31, 2014	2,475,405.61
December 31, 2015	2,324,278.38
December 31, 2016	2,599,735.16
December 31, 2017	2,864,643.60
December 31, 2018	5,124,565.44
December 31, 2019	6,851,630.40

In September 2018, P&A provided professional services to PBB in connection with the Bank's proposed issuance of Long Term Negotiable Certificates of Time Deposit (LTNCDs). Aside from this, no other services were rendered by P&A that were not related to the audit and review of the Bank's financial statements.

There were no disagreements with P&A on accounting and financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

Directors and Executive Officers

The following are the names of the incumbent Directors of the Bank:

Incumbent	Age	Nationality	Position with the Bank	Year of election
Alfredo M. Yao	76	Filipino	Chairman Emeritus	2010
Jeffrey S. Yao	51	Filipino	Chairman	2019
Rolando R. Avante	61	Filipino	Vice Chairman and President / CEO	2019
Honorio O. Reyes- Lao	75	Filipino	Director	2010
Danilo A. Alcosoba	68	Filipino	Director	2016
Roberto A. Atendido	72	Filipino	Director	2012
Leticia M. Yao	66	Filipino	Director	2009
Paterno H. Dizon	81	Filipino	Independent Director	2006
Benjamin R. Sta. Catalina, Jr.	72	Filipino	Independent Director	2012
Narciso D.L. Eraña	66	Filipino	Independent Director	2018
Atty. Roberto C. Uyquiengco	71	Filipino	Independent Director	2018

BUSINESS EXPERIENCE

The following is a brief description of the business experience of each of the Directors of the Bank:

Alfredo M. Yao (Filipino, 76 years old)

Mr. Alfredo M. Yao is the Chairman Emeritus of PBB. He is concurrently the Chairman of Zest-O Corporation, Semexco Marketing Corp., Macay Holdings Inc., and Asiawide Refreshments Corp. He is the President of Solmac Marketing Inc., Harman Foods (Phil.) Inc., and Amchem Marketing, Inc. Mr. Yao has participated in the following seminars: Corporate Governance; AML and Risk Management, all conducted by the Pacific Management Forum and PBB; CISA for the Credit Bureau; SME Related Issues; and other CTB Related seminars. He has also attended several Philippine Chambers of Commerce & Industry (PCCI) Business Fora given by PCCI, the International Trade Organization, and the Department of Trade and Industry.

Jeffrey S. Yao (Filipino, 51 years old)

Mr. Jeffrey S. Yao was appointed as the Chairman of the Board in November 2019.

He is currently the Chief Executive Officer of Zest-O Corporation, Vice President of Macay Holdings Inc., Corporate Secretary of Mega Asia Bottling Corp, and the President of Bev-Pack Inc. He is also a Director at Zemar Development Inc., Onnea Holdings Inc., Mazy's Capital Inc., ARC Refreshments Corp., AMY Holdings Inc., Semexco Marketing Corp., Asiawide Refreshments Corp., and ARC Holdings Inc. Mr. Yao started his career in the food and beverage industry when he was appointed as Plant Manager at Harman Food Philippines from 1990 to 1995. He has attended the following training programs: Basics of Trust at the Trust Institute of the

Philippines in 2002; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002; Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; Distinguished Corporate Governance Speaker Series on August 24, 2015; AMLA Seminar by BSP and PBB in 2016; IFRS 9 by Punongbayan and Araullo in 2017; Data Privacy Act in 2017; Best Practices Guide to Compliance with the Anti-Money laundering Law and its IRR in 2018; and Corporate Governance Seminar in November 2018.

Mr. Yao graduated from the Ateneo De Manila University with Bachelor of Science in Management Engineering degree.

Committee(s): Audit, Executive, IT Steering, Risk Oversight, and Trust

Rolando R. Avante (Filipino, 61 years old)

Mr. Rolando R. Avante was appointed as Vice Chairman, President, and Chief Executive Officer on November 2019.

His banking career includes stints as Vice President for Local Currency Desk at City Trust Banking Corp. from 1988 to 1994; Senior Vice President & Treasurer at Urban Bank from 1994 to 1995; First Vice President for Domestic Fund Management at Philippine Commercial International Bank from 1995 to 1999; Executive Vice President & Treasurer at China Trust (Philippines) from 1999 to 2009; Executive Vice President & Treasurer at Sterling Bank of Asia from 2009 to 2011. He was elected President and Director at the Money Market Association of the Phil. (MART) in 1999. He was elected the same position at ACI Philippines in 2011.

His training includes Money Market at the Inter Forex Corp. in 1983; Treasury Management in Times of Crisis in 1984, Bourse Game in 1987 both conducted by FINEX; Rate Risk Game in 1989, Investment Banking Fundamental in 1990, Managing People in 1991 at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euro money; Asian Bond Fund II Workshop in 2004 at the Asian Bank; Securitization Law in 2006 at FINEX & SEC; ACI World Congress in 2011 at ACI Phil.; Economic Outlook 2012 in 2012 at the ANZ Private Bank Exclusive; Annual Global Markets Outlook in 2012 at Deutsche Bank; Entrepreneurs Forum in 2012 conducted by Business World; AMLA Seminar in 2012 at the Bangko Sentral ng Pilipinas; CEO Business Forum in 2012 at Punongbayan & Araullo; Cross-Border RMB Business in 2012 at Bank of China; Eco Forum in 2012 at Security Bank; Phil. Business Conference in 2012 at the Philippine Chamber of Commerce & Industry; Annual Investment Outlook 2013 in 2013 at ANZ Private Bank; Philippine Investment Summit 2013 in 2013 at the Investment Banking Group; IPO Annual Asia Pacific in 2013 at CIMB; Corporate Governance Seminar for Board of Directors on December 10, 2015; AMLA for Board of Directors and Senior Officers in 2016; SEC-PSE Corporate Governance Forum in 2016; IFRS 9 in 2017; Seminar on Data Privacy Act in 2017; Best Practices Guide to Compliance with the Anti-Money Laundering Law and Its IRR by Center for Global Best Practices in 2018; and Corporate Governance Seminar for Directors and Senior Officers in 2018.

Mr. Avante graduated from the De La Salle University with the degree of Bachelor of Science in Commerce major in Marketing Management and has taken MBA units from DLSU.

Committee(s): Anti-Money Laundering and FATCA, Asset and Liability Management, Bid, Credit, Executive, Management, Remedial and Special Assets Management, and Trust

Honorio O. Reyes- Lao (Filipino, 75 years old)

Mr. Honorio O. Reyes-Lao was appointed as Director of the Bank in 2010.

A seasoned banker, he has more than 40 years of experience in corporate and investment banking, branch banking, and credit management. Mr. Reyes-Lao started his banking career at China Banking Corporation in 1973 to 2004. He served as Senior Management Consultant from 2005 to 2006 at East West Banking Corporation. He was a consultant at Antel Group of Companies from 2007 to 2009 and was appointed President at Gold Venture Lease and Management Services, Inc. from 2008 to 2009. Currently, he is an independent director at the DMCI Holdings Corporation, DMCI Project Development Inc., Semirara Mining and Power Corporation, Sem-Calaca Power Corporation, and Southwest Luzon Power Generation Corporation and is the Chairman of Space 2 Place Inc. He is also a Member of the Society of Institute of Corporate Directors (ICD) Fellows since 2004.

His background and trainings include Overall Banking Operations by Philippine Institute of Banking in 1971 to 1972; Director Certification Program at the Institute of Corporate Directors (ICD) in 2004; Trust and Governance Rating Systems by BAIPHIL in 2013; AMLA Seminar by BSP and Corporate Governance Seminar by Ateneo de Manila University in 2014; Corporate Governance Forum by SEC in 2016; IFRS 9 by Punongbayan and Araullo in 2017; Data Privacy Act Seminar in 2017; Guide to Compliance with Anti-Money Laundering Law and its IRR by Center for Global Practices and Corporate Governance Seminar by ROAM Inc. in 2018; and ASEAN Corporate Governance Conferences and Awards 2016 and Distinguished Corporate Governance Speaker Series since 2015.

Mr. Lao holds a post-graduate degree, Masters in Business Management, from the Asian Institute of Management and graduated with a double degree in Bachelor of Science in Business Administration major in Economics and Bachelor of Science in Commerce major in Accountancy from the De La Salle University.

Committee(s): Executive, Risk Oversight, and Trust

Roberto A. Atendido (Filipino, 72 years old)

Mr. Roberto A. Atendido was appointed to the Board in 2012 and was last re-elected as Director on May 31, 2019.

He is a seasoned investment banker and a recognized expert in the field with over 40 years of investment banking and consulting experience in the Philippines and in the ASEAN region. Mr. Atendido started his career in consulting with the management services group of Sycip, Gorres & Velayo, the largest accounting and consulting group in the Philippines. He began his investment banking career in Bancom Development Corporation, the leading investment house in the Philippines during the late 60's and 70's. He was later posted as Vice President of Bancom International Ltd in HK from 1980 to 1982. He then moved to PCI Capital Asia, Ltd. (HK) as Vice President from 1982 to 1983. The PCI Group posted him in Indonesia as Managing Director of PT Duta Perkasa Chandra Inti Leasing, a joint venture between the PCI Group of the Philippines and Bank Duta and Gunung Agung Group of Indonesia, from 1983 to 1988. Mr. Atendido moved back to the Philippines in 1988 as President of Asian Oceanic Investment House, Inc., a fully owned subsidiary of the Asian Oceanic Group of HK. The company was later bought by the Insular Life Group and renamed Insular Investment & Trust Corporation. In 1996, Mr. Atendido together with several investors organized Asian Alliance Holdings & Development

Corporation (AAHDC) and later established Asian Alliance Investment Corp. (AAIC) as a wholly owned investment banking subsidiary. He is currently President and Director of AAHDC and Vice Chairman and Director of AAIC.

Currently, Mr. Atendido is a member of the Board of Directors of Paxys Inc., Paper Industries Corp. of the Philippines, Pharmarex, Inc., Macay Holdings Inc., and Gyant Food Corporation. He is also the Vice Chairman and Director of Sinag Energy Philippines, Inc. since 2008, and Chairman and President of Myka Advisory and Consulting Services Inc. since 2010. He has also held directorships in the Philippine Stock Exchange from 2005 to 2009, Securities Clearing Corporation from 2006 to 2010, Marcventures Holdings, Inc. from 2010 to 2013, Carac-An Development Corp. as Chairman from 2010 to 2013, and Beneficial Life Insurance Corp. from 2008 to 2014. Apart from his business activities, Mr. Atendido is also active in the Brotherhood of Christian Businessmen and Professionals, a nationwide Christian community where he served as Chairman from 2009 to 2011.

He has attended trainings in Corporate Governance & Risk Management for the Bank's Board of Directors at the Development Finance Institute in 2003; Basel 2 and Risk Management Course by Export & Industry Bank in 2007. In 2014, he attended the Anti-Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas, Distinguished Corporate Governance Speaker Series in 2015. He also attended AMLA for Board of Directors and Senior Officers by PBB and the 3rd Annual SEC-PSE Corporate Governance Forum in 2016; IFRS 9 by Punongbayan and Araullo in 2017; and Guide to Compliance with the Anti-Money Laundering Law and its IRR by Center for Global Best Practices and Corporate Governance Seminary by ROAM Inc. in 2018.

Mr. Atendido is a graduate of the Asian Institute of Management with a Masters Degree in Business Management in 1973. He completed his Bachelor of Science in Management Engineering from the Ateneo de Manila University.

Committee(s): Audit, Corporate Governance, Related Party Transactions, and Risk Oversight

Leticia M. Yao (Filipino, 66 years old)

Dra. Leticia M. Yao was appointed to the Board in 2009 and last re-elected as Director on May 31, 2019.

A well-respected figure in the healthcare industry, Dra. Yao was appointed at the United Doctors Medical Center (UDMC) and Providence Hospital Inc. as a Consultant at the Department of Medicine since 1991 and 2014. She is currently a Director at Mega Asia Bottling Corporation, Zest-O Corporation, Uni-Ipel Industries Inc., Harman Foods Phils Inc., and Solmac Marketing Inc.

She participated in training sessions for Corporate Governance & Risk Management for Banks' Board of Directors by Development Finance Institute in 2002 and further taken the Risk Awareness Seminar by Pacific Management Forum in 2009. In 2014, she attended the AMLA Seminar by the Bangko Sentral ng Pilipinas and Corporate Governance Seminar by the Ateneo de Manila University. She also attended the Distinguished Corporate Governance Speaker Series and Corporate Governance Seminar for Directors and Senior Officers by ROAM Inc. in 2015; AMLA Seminar by BSP and PBB in 2016; Corporate Governance: Fraud Awareness by Center for Training and Development Inc. in 2016; IFRS 9 by Punongbayan and Araullo in 2017; Data Privacy Act Seminar in 2017; and Guide to Compliance with the Anti-Money Laundering Law and its IRR by Center for Global Best Practices and Corporate Governance Seminary by ROAM Inc. in 2018.

Dra. Yao graduated from the University of Sto. Tomas with a Bachelor of Science degree in Medical Technology then pursued her post graduate degree in Medicine in the same university.

Committee(s): Trust

Danilo A. Alcosoba (Filipino, 68 years old)

Mr. Danilo A. Alcosoba was the former President and CEO of PBB and was appointed to the Board in 2016.

His work experiences include: Branch Head at Bancom Development Bank - Cebu Branch from 1977 to 1979, Assistant Vice President of Traders Royal Bank from 1979 to 1983, First Vice President-Treasury Division of Boston Bank of the Philippines from 1983 to 1998, Head of Treasury at China Banking Corporation from 1989 to 2004, Consultant at SM Investments Corporation from 2005 to 2007, Senior Vice President and Treasurer of SM Prime Holdings in 2007, and was an independent director of Robinsons Bank from 2013 to 2014.

He also had various trainings and seminars in banking related fields such as financial derivatives, fixed income trading, foreign exchange, investment banking, corporate governance, risk management and international trade.

Mr. Alcosoba obtained his Bachelor of Science in Commerce Major in Accountancy degree at the University of San Carlos, a Masters in Business Administration at the University of the Philippines-Diliman, and graduate studies in Industrial Economics at the Center for Research and Communication.

Committee(s): Audit, Corporate Governance, Related Party Transactions, and Risk Oversight

Paterno H. Dizon (Filipino, 81 years old)

Mr. Paterno H. Dizon was appointed as an Independent Director to the Board in 2006 and was last re-elected as Independent Director on May 31, 2019.

He had previously served as President to the following institutions: Science Park of the Philippines Inc., Cebu Light Industrial Park, Inc., and RFM Science Park of the Philippines from 1997 to 2003. Mr. Dizon held directorships at Hermosa Ecozone Development Corp. from 1997 to 2003; EIB Securities from 2004 to 2006; and was the Executive Director of Holy Cross College from 1975 to 2011. He was elected as Chairman of the Phil. Exporters' Confederation Inc. since 1990 up to the present, an independent director at VC Securities Corporation since 2016, and has been the President and CEO of Holy Cross College of Pampanga since 2012.

He has attended training sessions in Money and Banking by the Ateneo de Manila University in 1959; Financial Management by SGV in 1974; Corporate Governance & Risk Management Program for Bank's Board of Directors by Development Finance Institute in 2002; Risk Awareness Seminar by Pacific Management Forum in 2009; Anti Money Laundering Act Seminar by the Bangko Sentral ng Pilipinas and Corporate Governance by Ateneo de Manila University in 2014; ASEAN Corporate Governance Conferences and Awards and Distinguished Corporate Governance Speaker Series in 2015; AMLA by the BSP and 3rd Annual SEC-PSE Corporate Governance and Awards in 2016; IFRS 9 by Punongbayan and Araullo and Data Privacy Act Seminar by PLDT in 2017; and Guide to Compliance with the Anti-Money Laundering Law and

its IRR by Center for Global Best Practices and Corporate Governance Seminar by ROAM Inc. in 2018.

Mr. Dizon holds a Bachelor of Science in Economics from the Ateneo De Manila University and holds a Masters in Business Administration from the University of the Philippines.

Committee(s): Audit, Corporate Governance, Related Party Transactions, and Risk Oversight

Benjamin R. Sta. Catalina, Jr. (Filipino, 72 years old)

Mr. Benjamin R. Sta. Catalina, Jr. was appointed Independent Director to the Board on 2012 and last re-elected as Independent Director on May 31, 2019. He first assumed his independent directorship at PBB from 2003 to 2005.

During his early professional years, Mr. Sta. Catalina was the Senior Vice President of the Asset Based Finance Group of FNCB Finance Co. from 1980 to 1981. He later joined Citibank N.A. from 1981 to 1995 where he has served as Asst. Vice President & Division Head for the Public Sector Division, then became the Vice President and Asst. Director of the Asia Pacific Training Center. He later handled the Middle East Africa Division Training Center as Vice President and Associate Director, and handled the World Corporation Group for Middle East Africa, Division Training Center as Regional Administrator. He was appointed as General Manager from 1988 to 1992 handling the Center for International Banking Studies. In 1993 to 1994, Mr. Sta. Catalina was appointed Vice President and Chief of Staff of the Global Finance Marketing, then rose to Group Head where he handled the Pan Asian Corporate Team in 1994 to 1995.

In the academic sphere, he was the Executive Director of the Center for Banking and Financial Management of the Asian Institute of Management in 1996.

In addition to holding a number of executive positions, he attended training seminars such as the Makati CAD in 1974, Philippine Core Credit in 1976, Intermediate Credit Seminar in 1977, Exceptional Sales Performance in 1978, Bourse Game in 1979, Asset Based Finance Seminar in 1980, Electronic Banking Seminar in 1981, Selling Skills Train the Trainer Program in 1982, Advanced Lending Strategy in 1982, Technology for Senior Management in 1983 from the Asia Pacific Training Center. He attended Multinational Business Course in 1980 at Citibank New York, Face to Face Selling Skills in 1986 by the Boston Consulting Group. In 1987, he attended the MAC Approach Course and Alcar Valuation Seminar at MEAD Training Center in Greece. He attended the Corporate Finance II in 1988 by the Asia Pacific Banking Institute. At MEAD Training Center in London, he attended the Risk Management Seminar and the Risk Management III – Corporate Finance in 1991. From 1993 to 1995, Mr. Sta. Catalina attended the Strengthening Organizational Capabilities, Service Quality Management, Technology Solutions for the Business, Marketing Derivatives Ideas, Standards Workshop, and Marketing Financing Ideas to Issuers at Citibank Training Center.

Most recently, he attended the Corporate Governance & Risk Management for Bank's Board of Directors by the Development Finance Institute in 2003, Anti Money Laundering Act Seminar in 2014, Distinguished Corporate Governance Speaker Series in 2015, Corporate Governance Forum in 2016, IFRS 9 by Punongbayan and Araullo and Data Privacy Act Seminary in 2017, and Guide to Compliance with the Anti-Money Laundering Law and its IRR by Center for Global Best Practices and Corporate Governance Seminar by ROAM Inc. in 2018

Mr. Sta. Catalina is a graduate of the Asian Institute of Management with a post graduate degree of Masters in Business Management. He finished his Bachelor of Science in Management Engineering from the Ateneo De Manila University.

Committee(s): Audit, Corporate Governance, Related Party Transactions, and Risk Oversight

Narciso DL. Eraña (Filipino, 66 years old)

Mr. Narciso DL. Eraña was appointed Independent Director to the Board in 2018.

Mr. Eraña has an extensive career spanning over 30 years, about 23 of which were spent in the Philippine finance industry. This included about 16 years in various banks, and seven (7) years as President of a multinational brokering company. He also spent many years as an entrepreneur in the family business.

He started his career with Bank of America-Manila handling credit and trade finance for the mining industry, pharmaceuticals, and small medium scale businesses. He moved into the bank's Treasury Department and eventually became Bank of America's youngest Country Treasurer, handling the overall Treasury Trading and Management functions. This served as the foundation for the rest of his Finance career which focused on Treasury management in multinational and local institutions, from savings banks and unibanks.

His banking experience involved managing the banks' liquidity in all currencies, and FX and Government Securities trading as well as investments in Structured Products and derivatives.

His last position was President of ICAP Philippines for seven (7) years, a subsidiary of ICAP Plc., a London based FTSE company and the world's largest Interdealer broker, with average volumes in excess of USD 1 trillion daily.

Active in financial market associations, Mr. Eraña was a Director of the Money Market Association of the Philippines for four (4) years and a Director of the ACI Financial Markets Association for another four (4) years. Activities included the formulation of policies and procedures for the operation of the Banking as well as brokering industries. These activities entailed frequent interaction with associations and regulators, including the Bangko Sentral ng Pilipinas, Securities and Exchange Commission, and the Banker's Association of the Philippines. During this time, he was also a member of Financial Executive Institute of the Philippines (FINEX).

Mr. Eraña is a graduate of Business Management at Schiller College in Heidelberg, Germany and obtained his MBA from the Thunderbird School of Global Management in Glendale, Arizona.

Committee(s): Audit, Corporate Governance, Related Party Transactions, and Risk Oversight

Roberto C. Uyquiengco (Filipino, 71 years old)

Mr. Roberto C. Uyquiengco was appointed to the Board as Independent Director in 2018.

He has been in the banking and finance industry for almost 50 years. He started with Sycip Gorres Velayo & Co. (SGV) from 1970 to 1974 and later with North Negros Loggers Corporation until 1976. His stint in the banking industry started with Allied Banking Corporation from 1977 to 1980 and later with State Investment House (Bacolod Branch) from 1980 to 1984. He was last connected with China Banking Corporation as First Vice President and Region Head for North Luzon from 1984 until his retirement in 2011. He took up and passed the 'Trust Officers' Training Program (TOTP) given by the Philippine Trust Institute in 1991. Further, Mr. Uyquiengco attended some international and local conferences related to the banking and finance industry, among of which is the Bankers' of America Institute Conference in November 2007, held in Las Vegas, Nevada, USA and the Asian Bankers Conference in 1996 which was held in Singapore.

Currently, he is affiliated with the following private institutions: (a) Emmanuel Multi-purpose Cooperative, Inc., in Cuenca, Batangas as Director since 2011; (b) Green Leaf Foreign Exchange Corporation as its Chairman and CEO since its incorporation in 2012; and (c) Manulife as a Financial Adviser since 2017.

Mr. Uyquiengco is also a known advocate of education, being a part-time faculty of the College of Business and Accountancy of National University since 2012 and as a part-time training consultant of the Chinabank Academy since 2013.

Mr. Uyquiengco is both a lawyer and a Certified Public Accountant by profession. He obtained his undergraduate degree from La Salle College, Bacolod City in 1970 with a degree in BS in Commerce Major in Accounting (graduating cum laude) and passed the CPA board in the same year. Thereafter, in 1975, he took up his Bachelor of Laws degree from the University of Negros Occidental-Recoletos, Bacolod City, graduating in 1980 and passing the bar examinations also in the same year. He also took up the advance Bank Management Program of the Asian Institute of Management from August to October 1993 and was awarded with the Highest Honor for superior performance among the forty (40) participants from various international banks.

Committee(s): Audit, Corporate Governance, Related Party Transactions, and Risk Oversight

b. Executive Officers

The following are the Executive Officers of the Bank, and their respective age, citizenship and position as of April 22, 2020:

Rolando R. Avante (Filipino, 61 years old)

(Please refer to the previous section for Mr. Avante's professional experience).

Peter N. Yap (Filipino, 72 years old)

Mr. Peter N. Yap was appointed Chief Marketing Officer and Retail Banking Group Head in 2018. He was the former Chief Operating Officer of PBB in 2017 and Vice Chairman from 2010 to 2016.

In the span of his over 40-year banking career, he held various positions from Manager in RCBC in 1977, Senior Manager to Executive Vice President of Allied Banking Corp. from 1978 to 2009. He also held directorships in Bancnet, Inc. from 2003 to 2009 where he was also elected as the Treasurer and in Allied Savings Bank and Allied Leasing and Finance from 2009 to 2010. Mr. Yap was also elected director in Insular Savers Bank, Inc. (A Rural Bank) from 2015 to 2016 and 2017.

He has attended training sessions such as the Officer Development Program in 1977 at RCBC; Management Development Workshop in 1978; Negotiable Instrument Seminar in 1979; Bank Selling Skills Program in 1980; Management Development Program – Kaizen in 1982 at Ancella, Inc.; Orientation Course on Corporate Governance for Bank's Directors by Institute of Corporate Directors in 2002; International Workshop in 2005; AHI Developing Executive Skills in 2005 at the ASEAN Banking Council; Break-Even Analysis Workshop in 2005; AMLA Seminar and Corporate Governance Seminar in 2014; Distinguished Corporate Governance Speaker Series and the ASEAN Corporate Governance Conference and Awards in 2015 conducted by the Institute of Corporate Directors; and IFRS 9 by Punongbayan and Araullo and Data Privacy Act in 2017.

Mr. Yap graduated from the University of San Carlos with the degree of Bachelor of Science in Chemical Engineering and has taken MBA units from the University of the Philippines - Visayas.

Committee(s): Anti-Money Laundering and FATCA, Asset and Liability Management, Credit, IT Steering, Management, and Product and Process

Joseph Edwin S. Cabalde (Filipino, 50 years old)

Mr. Joseph Edwin S. Cabalde is the PBB's Treasurer and Head of the Treasury Services Group with the rank of Executive Vice President. His work experiences include: Accounting Assistant of China Banking Corporation from 1991 to 1994; Treasury Officer of Urban Bank Inc. from 1994 to 1995; Manager and Chief Dealer of Bangkok Bank Manila from 1995 to 2000; Manager at Mondex Philippines Inc. from 2000 to 2001; Manager and Chief Dealer at Bank of Tokyo Mitsubishi from 2001 to 2005; Treasury Head of Oilink International from 2005 to 2007; and Assistant Vice President and Treasurer of EEI Corporation from 2007 to 2008. Mr. Cabalde attended the Corporate Good Governance and AML Seminars sponsored by PBB.

Mr. Cabalde graduated from the University of Sto. Tomas and holds a Bachelor of Science Major in Accountancy degree.

Committee(s): Asset and Liability Management and Management

Arlon B. Reyes (Filipino, 46 years old)

Mr. Reyes is Head of Commercial Banking Group. He has over 20 years of professional experience gained from international and local financial institutions. He is proficient in global capital financing, mergers and acquisitions, loan syndication, structured finance, derivatives and treasury products, trade finance, credit & lending, and traditional commercial banking products. He is adept at financial crime management and anti-money laundering having attended intensive training and workshops on this field in an international bank setting.

His employment background includes a stint as Global Relationship Banker for Global Banking & Markets, with the rank of Senior Vice President with The Hongkong and Shanghai Banking Corporation Limited; Head of Rizal Commercial Banking Corporation's (RCBC) National Corporate Banking Group's Large Corporate Segment. He was the Head for China Desk and Foreign Branches Business Development serving concurrently as Team Leader and Relationship Manager for the Conglomerates Division of the Metropolitan Bank and Trust Co. Aside from banking, Mr. Reyes worked for the Philippine Stock Exchange's Business Development Group where he was instrumental in the creation and establishment of the Small and Medium Enterprise (SME) Capital Market or SME Board.

Mr. Reyes graduated from the University of the Philippines – Diliman in 1994 with a degree in BS Economics. He secured his Masters of Business Administration from the same university in 2001.

Committee(s): Asset and Liability Management and Management

Reynaldo T. Boringot (Filipino, 61 years old)

Mr. Reynaldo T. Boringot joined Philippine Business Bank in 2016. He was appointed as the Head of Luzon and NCR Area of Business Development Group with the rank of Senior Vice President.

He has almost 40 solid years of experience as a banker. He began his career as a New Account under Business Development in Pacific Banking Corporation from 1981 to 1985. He transferred to Metropolitan Bank & Trust Company from 1986 to 2003 as one of the youngest Branch Heads at the age of 30. Moreover, he was able to open a new branch in Tugatog, Malabon. He was later then transferred to EDSA-Caloocan as one of the youngest Center Heads. Finally, he transferred to Asia United Bank, his last employer prior to PBB where he started as Assistant Vice President in 2003 and became a Vice President concurrent as Area Head in Quezon City and north provincial branches until 2016.

Mr. Boringot graduated from the University of the East in 1980 with a degree in Bachelor of Science in Commerce major in Management. He took his MBA units from the Philippine School of Business Administration in 1982 to 1983.

Committee(s): Management

Consuelo V. Dantes (Filipino, 57 years old)

Ms. Consuelo V. Dantes was appointed as the Human Resources Group Head with the rank of Senior Vice-President in 2017. She brings with her over 30 years of expertise in the field of Human Resources Management, Corporate Support Services Group, and Business Unit Management. She was recently employed with EastWest Bank as Human Resources Group Head from 2013 to 2016. Apart from being the Head of HRG, she was also the Chief of Staff from 2012 to 2013 under the Office of the President where she worked with 12 units - Credit, Human Resources, Collection and Asset Recovery, Legal Services, Customer Service, Consumer Lending, Corporate Banking, and Administrative Services.

Prior to her stint with EWB, she was with Planters Development Bank (now China Bank Savings) for 22 years from 1990 to 2012 where she held various lead positions in Human Resources, Corporate Communications, Corporate Planning, and Collection and Asset Recovery. She was an international consultant for Human Resource Management under ShoreCap Exchange, the training arm of ShoreCap International, and worked as consultant with Cambodia Entrepreneur Building Co., Ltd. in Cambodia. She was also a speaker/facilitator in seminar-workshops conducted by ShoreCap Exchange in Chennai, India, and Luxembourg. During her stint with Planters Development Bank, she was also at one point appointed as the President and Chief Operating Officer of PDB-FMO Development Center (PDCenter).

In addition, Ms. Dantes' other banking experience also include stints with the following banks: Boston Bank of the Philippines (now Bank of Commerce - Branch Marketing and Development Group / Manager); Asiatruster Bank - Manager of Market Planning Group; and Security Bank Corporation as Branch Manager of Buendia, Makati Branch.

A Cum Laude graduate from University of the Philippines - Diliman with a degree in Bachelor of Arts in Economics, she took her MBA units with De La Salle University. Ms. Dantes is a Professional Executive Coach certified in the US-based International Coach Federation (ICF) way, by Benchmark Consulting.

Committee(s): Employee Discipline and Management

Rosendo G. Sia (Filipino, 64 years old)

Mr. Rosendo Sia joined Philippine Business Bank in 2016. He is the Senior Vice President/Group Head of the Business Development Group for Visayas and Mindanao.

In 1977, he began his career as an Assistant Chief Accountant of Rizal Securities Corp., then on the same year he joined Guzman, Bocaling & Co., CPAs, an auditing firm as an Auditor and became a Senior Auditor before moving to the Central Bank of the Philippines, now BSP, as a Non-Bank and Bank Examiner from 1981 to 1988. He joined Land Bank of the Philippines as a Branch Manager from 1988 to 1993 where he was assigned in the provincial branches of Tuguegarao City, Cebu City and Dumaguete City, among others, and held various key positions and committee membership in the association of local government controlled and owned corporations, regional development councils and represented the bank in the Board of Danao Development Bank and Rural Bank of Madridejos. He joined Metrobank in 1993 up to 2012 as Branch Head in Metro Manila area where he rose from the ranks from Senior Manager to Senior Vice President and held various key positions and committee memberships in the bank and its subsidiaries. Before joining PBB he was connected with Asia United Bank from 2012 to 2016 as Senior Vice President / Branch Banking Head for Visayas and Mindanao in concurrent capacity

as Branch Lending Group Head and held various key positions and committee memberships.

Mr. Sia is a graduate of the University of the East and is a Certified Public Accountant and Masters in Business Administration from De La Salle Graduate School Academic Courses and Asian Institute of Management.

Committee(s): Management

Liza Jane T. Yao (Filipino, 49 years old)

Ms. Liza Jane Yao is the Bank's General Services Head with a rank of Senior Vice President.

She has attended various trainings/seminars which include: Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), Corporate Governance Seminar, AMLA Seminar for Board of Directors and Senior Officers, Corporate Governance Seminar for Directors and Senior Officers, Credit Analysis and Writing Seminar, Thinking Strategically in Business Game Theory for Managers, Market Reading Seminar, Risk Awareness Seminar, Basic Financial Math Seminar, Loans Packaging and Processing Seminar, and Diploma Program in Banking.

Ms. Yao finished her BS Accountancy degree at De La Salle University.

Committee(s): Asset and Liability Management, Bid, Credit, and Management

Roselle M. Baltazar (Filipino, 45 years old)

Ms. Roselle M. Baltazar is the First Vice President, Assistant Comptroller, and Head of Central Operations Group of PBB. She joined PBB in 1999 and held various managerial and executive positions including: Assistant Manager and Senior Systems Analysts from 1999 to 2000; Manager and Head of Systems and Methods Sector (SMS) from 2000 to 2001; Senior Manager and Head of General Services Center (GSC) from 2001 to 2003; Senior Manager and Head of Branch Operations Control Center (BOCC) from 2001 to 2004; Senior Manager and Head of Central Operations Group from 2004 to 2005; Assistant Vice President & COG Head from 2005 to 2010; and Vice President, COG Head, and Assistant Controller from 2011 to 2014.

She started her banking career at Westmont Bank (now United Overseas Bank) as CASA Bookkeeper and Loans Assistant in 1995, Audit Examiner from 1995 to 1996; and Accountant from 1996 to 1999. She is a Certified Public Accountant and a Civil Service (Professional and Sub-Professional) eligible.

Committee(s): Anti-Money Laundering and FATCA, Employee Discipline, IT Steering, Management, Product and Process, and Remedial and Special Assets Management

Atty. Sergio M. Ceniza (Filipino, 53 years old)

Atty. Serge joined PBB as Chief Compliance Officer with the rank of First Vice President. He has over 30 years of experience from the financial industry where he worked with insurance companies and banks, starting with Great Pacific Life Assurance Corporation, Philam Plans Inc, and then with BDO Universal Bank where he was also seconded to BDO Leasing & Finance Inc. as Head of Legal, Compliance & AML Compliance with the rank of Assistant Vice President.

Atty. Serge moved to First Metro Investment Corporation (part of Metrobank Group) in September 2012 as Deputy Chief Compliance Officer with the rank of Assistant Vice President. In June 2016, he was promoted to Vice President and was designated as Chief Compliance Officer, Chief AML Officer, and Data Privacy Officer. As CCO, he was over-all in-charge of formulating and implementing policies and procedures for the general operations of the company's Compliance Program, including those in subsidiary units. He regularly reported to the Board, through the Corporate Governance Committee, the level of regulatory compliance of the organization and its subsidiaries. He also monitored and coordinated compliance activities of other companies within the group.

Atty. Serge is a Law professor at De La Salle University, Far Eastern University, University of the East, and Manila Law College. He is a regular lecturer in the Mandatory Continuing Legal Education (MCLE) of Chan Robles, Access MCLE and UP Institute of Judicial Administration. He is also a bar reviewer on Commercial Law. He is an active member of Association of Bank Compliance Officers (ABCOM) and is well-regarded in the industry.

He has a Bachelor's degree in Political Science and Bachelor of Laws degree from Far Eastern University. He is a candidate in Master of Laws from San Beda College-Graduate School of Law.

Committee(s): Anti-Money Laundering and FATCA and Management

Felipe V. Friginal (Filipino, 64 years old)

Mr. Felipe V. Friginal was appointed as the Branch Operations and Control Group Head in 2018 holding the rank of First Vice President. He joined PBB in 2004 as Vice President spearheading the Bank's Branch Banking Group until 2017.

He started his officer training in 1983 where he was included in the Management Development Program of UCPB for six months of classroom and on-the-job training. After completing his officer training program, he held his first officer post as a Cashier in three different branches in Laguna and Batangas. Mr. Friginal had various trainings and seminars in supervision, decision-making, crisis management/problem solving, leadership, Allen Management, organizational development, and basic and core credit.

Mr. Friginal is a Bachelor of Science Major in Business Administration – Marketing from Pamantasan Lungsod ng Maynila graduate and took his MBA degree in De La Salle University.

Committee(s): Anti-Money Laundering and FATCA, Asset and Liability Management, Bid, Credit, Employee Discipline; IT Steering, Management, and Product and Process

Rodel P. Geneblazo (Filipino, 48 years old)

Mr. Rodel P. Geneblazo is the First Vice President and Consumer Banking Group Head of PBB. He was appointed to this position in January 2018.

A seasoned banker, he has more than 20 years of experience in consumer finance and credit cycle management. He started his banking career at PCI Bank from 1996 to 2000 as Management Development Program Trainee and rose to Head the Consumer Finance Unit in General Santos City. He joined Chinatrust Bank from 2000 to 2008 and held the positions of Head of Mortgage Loans, Head of Product Development, and Head of Credit Policy & MIS. He went to East West Bank in 2008 to 2010 as Head of Credit Services.

In 2010, Mr. Geneblazo joined Sterling Bank of Asia as Head of Credit Services up to 2012. He then became the Managing Director of Knowledge Transfer Financial Consulting Services where he provided trainings, seminars, and consultancy works in the area of consumer and microfinance loans, credit cycle management, Collections, MIS & Analytics, product development and management, both for the private and public institutions from 2012 to 2014. He went back to the banking industry in 2014 and joined Philippine Veterans Bank as Head of MIS & Analytics, and later, as its Risk Officer.

He joined Philippine Business Bank in 2015 initially as a Consultant and later became the Head of PBB's Acquired Banks. He was appointed as President of Insular Savers Bank, Inc. (A Rural Bank), a rural bank that was acquired by PBB in 2015. He moved back to PBB in the beginning of 2018 and now serves as the Bank's Consumer Banking Group Head.

Mr. Geneblazo is a graduate of the Polytechnic University of the Philippines with a degree in Bachelor of Science in Mechanical Engineering in 1992 where he was also a scholar of the Hasegawa Universal Lab Corporation. He took his Masters in Business Administration degree in 1996 from the University of the Philippines and was a National Economic and Development Authority (NEDA) scholar.

Committee(s): Asset and Liability Management and Management

Eduardo R. Que (Filipino, 58 years old)

Mr. Eduardo Que, First Vice President and Group Head of Corporate Banking, joined PBB in 2012 after 31 years with Allied Banking Corporation. He top-notched his officer training class and was appointed official trainer / lecturer in the Officer Development Program of Allied Bank for subjects International Banking Operations (Foreign/Domestic Trade); Credit Management; Business Development; Account Management; and Loans and Corporate/Merchant Banking. He is the most senior account officer for Corporate Banking Division where he spent about 20 years.

He graduated college at De La Salle University with a Bachelor of Science in Commerce Major in Management of Financial Institutions degree and was a Dean's Lister. Mr. Que pursued his Masters in Business Administration at Ateneo de Manila, Rockwell and was full course Dean's Lister, batch top-notcher, and Gold Medal Awardee in academics.

Committee(s): Asset and Liability Management and Management

John David D. Sison (Filipino, 35 years old)

Mr. Dave Sison joined Philippine Business Bank in 2014. He leads the Bank's Corporate Planning and Investor Relations Group, which plays a key role in the bank's strategic management, investor relations functions, and M&A initiatives. He is also part of the MIS unit that leads the profit planning performance analysis of the Bank which assists senior management in the process of decision-making and tracks performance of the Bank's business units.

Prior to PBB, he was a private equity analyst with KGL Investment Company Asia from 2008 to 2013. Before joining KGL, Dave was an investment banking associate with PNB Capital & Investment Corporation, a boutique investment bank offering financial advisory, debt syndications, and corporate finance services. He began his career in finance as an investor relations analyst with ABS-CBN Corporation.

He graduated in 2006 with a Bachelor of Science degree in Management Engineering (an Honors Program) from the Ateneo de Manila University where he received training in traditional management disciplines (marketing, finance, operations management, organizational behavior, and strategic management), economics, and the social sciences in combination with skills development in qualitative and quantitative analysis, mathematics, statistics, and operations research. Mr. Sison completed the Value Investing Program at Columbia Business School in New York City.

Committee(s): Asset and Liability Management and Management

Miami V. Torres (Filipino, 57 years old)

Ms. Miami V. Torres is the Head of the Credit Management Group and holds the rank of First Vice President.

She has with her over 35 years of banking experience which started at United Coconut Planters Bank where she worked through all areas of branch operations from staff position, Branch Operations Officer, Branch Marketing Officer to Branch Head. Ms. Torres joined PBB in June 2002 as a Branch Head and was later on tasked to create and set up the Remedial and Special Assets Management Group. In 2010, she was assigned to head the Credit Services Group where she introduced significant changes in the credit processes. In 2016, her area of responsibility was expanded to include seven (7) different divisions namely: Credit Services, Credit Underwriting, Portfolio Management, Credit Administration, Remedial & Special Assets Management, Credit Policy & Technical Support, and the Insurance Desk. In her almost 18-year stay with the Bank, she had consistently introduced quite a number of very relevant changes and innovations, the benefits of which ran across the entire Bank.

She is a double-degree holder – AB Behavioral Science and BSC Accounting from the University of Santo Tomas and is a Certified Public Accountant.

Committee(s): Credit, Management, and Remedial and Special Assets Management

Maria Lourdes G. Trinidad (Filipino, 52 years old)

Ms. Malou was appointed as Chief Risk Officer and Head of Enterprise Risk Management Group with the rank of First Vice President.

She has her 30 years of banking experience handling various functions such as Credit Review, Treasury Trading and Liquidity and Reserve Management, Correspondent Banking, Corporate Planning, Investor Relations, and Special Projects under Strategic Planning. She started her banking career with RCBC Unibank and was seconded to RCBC Savings as CRO in September 2007 up to 2019 when the merger of the savings and unibank happened. Her last post is as Head of Special Initiatives under the unibank's ERMG.

As the CRO, and together with the bank's Risk Oversight Committee of the Board, she built RCBC Savings' risk and control infrastructure. She was the overall lead in identifying and measuring risks inherent in the bank's portfolio, and made sure that provisioning is kept to a minimum level by proactively working on the portfolio credit review, credit scoring and other initiatives to manage the bank's portfolio quality. She defined and disseminated the bank's risk philosophy and policies, and assisted risk-taking business and operating units in understanding, measuring and mitigating risk points. She put in place the bank's Risk Management Framework and Manual, Treasury Manual, Liquidity Contingency Funding Plan, and various risk operating policies and procedures. She also developed the strategic and operational framework for Business Continuity, including the enterprise Business Continuity Plan, Business Impact Analysis, Crisis Communication Plan, Pandemic Plan, Call Tree Testing, Table Top Discussion, and Disaster Recovery Plan testing.

Ms. Malou has a Bachelor of Science degree in Mathematics from University of the Philippines – Diliman in 1988. She also earned academic credits for a Master of Science degree in Mathematics from the same school.

Committee(s): Management

Jose Maria P. Valdes (Filipino, 63 years old)

Mr. Jose Maria P. Valdes was appointed Information Technology Group Head in 2017 with the rank of First Vice President.

A prominent figure in the field of IT, Mr. Valdes started his career with Carlos J. Valdes & Co. CPAs as a Senior Consultant from 1979 to 1988; City Trust Banking Corp. as IT Manager from 1988 to 1992; and he became the IT Director for Dart Philippines from 1992 to 1997.

He came back to the banking industry as Chief Information Officer at ChinaTrust Bank from 1997 to 2002; and CIO again at Export and Industry Bank from 2002 to 2008. Prior to joining PBB, he was IT Director at Encash, Inc. from 2008 to 2017.

Mr. Valdes graduated from the De La Salle University with a double degree in Bachelor of Science in Commerce major in Management of Financial Institutions and Bachelor of Arts in Behavioral Sciences.

Committee(s): IT Steering and Management

Rolando G. Alvendia (Filipino, 55 years old)

Mr. Rolando Alvendia is PBB's Chief Accountant and Head of General Accounting Center.

In his over 30 years of banking experience, he started his banking career at United Coconut Planters Bank as an Accounting Supervisor from 1986 to 1995 and was an Administrative Assistant at International Exchange Bank from 1995 to 1998. He started his career at PBB's General Accounting Center in 1998, where he rose from Assistant Manager to Vice President.

Mr. Alvendia is a graduate of Bachelor of Accountancy from the Polytechnic University of the Philippines and is a Certified Public Accountant.

Committee(s): Management

Angelo Miguel M. Calabio (Filipino, 30 years old)

Mr. Angelo Calabio is PBB's Trust Officer and leads the Trust and Investment Center.

Prior to joining PBB, he was connected with Security Bank Corporation as Assistant Vice President and Head of Institutional and Personal Trust under Trust and Asset Management Group. He headed a team of six (6) account officers, providing coverage to the group's institutional and personal trust accounts which include employee benefit plans, corporate and personal investment management accounts, personal management trusts, pre-need trusts and other fiduciary arrangements. He also managed and administered a specific set of assigned trust and fiduciary accounts, i.e. retirement funds, corporate IMAs, personal management trust, pre-need trust.

He started his banking career with RCBC as a Management Trainee under the Officers' Development Program (ODP) where he successfully completed a rigorous one-year training program covering all aspects of banking. After passing the ODP, he was assigned with Trust and Investment Group as Assistant Portfolio Manager. It was during this stint that he grew his knowledge in Trust and fiduciary accounts. He has experience in retirement funds, corporate IMAs, living trust accounts, etc. He also performed diverse trustee roles in project finance deals i.e. facility agency, security trusteeship, paying agency, and mortgage trust indenture, mainly focused on loan syndication for top-tier power projects such as coal, geothermal, wind, solar.

After his six-year stint with RCBC, he had a short stint with Maybank Philippines as Trust Investment Officer under Global Banking Group. He was the line manager for the investment activities of the group's Trust/Asset Management Department. He also performed credit and financial analysis of the group's corporate borrowers and/or debt issuers.

Gelo graduated with honors (Cum Laude) from the University of the Philippines – Diliman, with a Bachelor of Science in Economics degree. He is a Certified Treasury Professional and a Chartered Financial Analyst (CFA) Levels 1 and II passer. He is an active member of the Trust Officers Association of the Philippines (TOAP).

Committee(s): Management and Trust

Emma K. Lee (Filipino, 61 years old)

Ms. Emma Lee was appointed Head of Systems and Methods Center with a rank of Assistant Vice President. She started her banking career as a Client Servicing Clerk/New Account Clerk, Current Account Bookkeeper, Management Trainee, Service Head, and Branch Operations Officer in different savings and commercial banks. Ms. Lee has been with Philippine Business Bank for more than eleven (11) years where she was initially assigned to the AML Unit of the Compliance Office as an AML Compliance Officer for more than eight years and was later assigned to head the Systems and Methods Center in June 2017 up to the present.

Ms. Lee is a Bachelor of Science Major in Accounting graduate from the University of Sto. Tomas.

Committee(s): Management

Laurence R. Rapanut (Filipino, 57 years old)

Ms. Laurence R. Rapanut is the Assistant Vice President and Internal Auditor of PBB. Her work experiences include: Junior Audit Examiner of Far East Bank and Trust Company from June 1983 to January 1988; Junior Audit Examiner to Branch Controller of First Philippine International Bank from September 1988 to January 1995; Branch Accountant – Assistant Manager to Senior Assistant Manager of Westmont Bank from April 1996 to December 2000; and Senior Assistant Manager to Manager of United Overseas Bank from January 2001 to January 2006. She joined PBB in March 2006 as Supervising Audit Examiner - Manager of Internal Audit Center.

Committee(s): Management

Atty. Roberto S. Santos (Filipino, 70 years old)

Atty. Roberto S. Santos is the Corporate Secretary and Head of the Legal Services Group and holds the position of Vice President.

In his over 35 years of experience in banking and finance, he was a Manager at Traders Royal Bank since 1980, held various executive positions with Security Bank from 1982 to 1999, General Manager of Security Finance Corporation from 1997 to 2001, and was the Head of the Legal Department of Metrobank Card Corporation from 2002 to 2004. Atty. Santos later joined PBB as Assistant Vice-President in 2008. He attended various seminars on Anti-Money Laundering, Corporate Governance, update on relevant tax laws, corporate rehabilitation, PSE and SEC regulations, Letters of Credit transactions, credit and collections, and other pertinent banking laws and regulations.

Atty. Santos received his law degree from the University of the East and is a graduate of Bachelor of Arts from the same university.

Committee(s): Anti-Money Laundering and FATCA, Management, Product and Process, and Remedial and Special Assets Management

Enrico T. Teodoro (Filipino, 46 years old)

Mr. Enrico Teodoro is the System Support and Application Development Center Head and OIC of Project Management Group of PBB.

He joined PBB in 1997 after his stints as Data Encoder at Ace Promotion and Marketing Corporation from 1994 to 1995 and a System Analyst and Programmer at Premier Development Bank from 1995 to 1997. He started his PBB career as an Administrative Assistant in 1997 and was the Officer-In-Charge of the Bank's Information Technology Group from 2015 to 2017.

He is a graduate from the Baguio Colleges Foundation with a Bachelor of Science in Information and Computer Course degree.

Committee(s): Management

Ma. Joyce G. Zarate (Filipino, 56 years old)

Ms. Joyce Zarate brings with her over 25 years of expertise and experience in corporate communications, branding, and product development gained from thrift, commercial and universal banks. In coordination with the Information Technology Group (ITG) and the business units, she spearheads the Bank's bid to position its brand and product offerings in the digital banking space through the development of digital channels that will further enhance service delivery and customer experience.

She had stints in East West Bank as Head of Marketing Communications, AIG Philam Bank as Head of Marketing Services, United Overseas Bank and PNB in the fields of product development and management, and public relations. Prior to joining PBB in 2018, she was head of Marketing Communications and Customer Experience at China Bank Savings.

She is a graduate of Bachelor of Arts in Economics with minor studies in Mathematics from the University of the Philippines – Diliman. She completed masteral units in Economics at Ateneo de Manila University. Also, she took a non-degree course at De La Salle College of Saint Benilde's School of Professional & Continuing Education for Product Development and Management.

Committee(s): Management and Product and Process

Identify Significant Employees

Although PBB has relied on and will continue to rely on the individual and collective contributions of each of its executive officers, senior operational personnel and non-executive employees, PBB believes that it does not depend on the services of a particular employee and that there is no employee that the resignation or loss of whom would have a material adverse impact on its business.

Family Relationships

Ambassador Alfredo M. Yao and Leticia M. Yao are siblings.

Jeffrey S. Yao is the son of Ambassador Alfredo M. Yao.

Liza Jane T. Yao and Jeffrey S. Yao are spouses.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among directors, executive officers, and nominees for election as directors.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Bank have been involved in any legal proceedings during the past five (5) years, including without limitation being the subject of any:

1. Bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;
2. Conviction by a final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
3. Order, judgment or decree not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities commodities or banking activities; and
4. Order or judgment of a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization finding him/her to have violated a securities or commodities law or regulation.

Item 10. Executive Compensation

The following table sets forth the aggregate compensation received by its key management officers:

In ₱ millions		Aggregate Compensation Paid as a Group		
NAME	POSITION	2017	2018	2019
CEO and the four (4) most highly compensated officers of the Bank namely:		27.93	38.66	45.67
Rolando R. Avante	President & CEO			
Peter N. Yap	Chief Marketing Officer			
Rosendo G. Sia	Business Development Executive			
Joseph Edwin S. Cabalde	Treasurer			
Arlon B. Reyes	Commercial Banking Group Head			

Total Aggregate Compensation of Directors and Officers of the Bank as a group:	Salary	Other Compensation	Bonus	Total
2017	291.87	21.23	68.76	381.86
2018	368.29	32.19	87.44	487.92
2019	430.69	30.90	102.73	564.32

Compensation of Directors

Each director of the Bank receives a per diem allowance of ₱20,000.00 determined by the Board of Directors for attendance in a Board meeting and a ₱5,000.00 allowance for attendance in a committee meeting. The Directors are also entitled to a monthly gasoline allowance of ₱5,000.00. Except as disclosed above, none of these Directors receive any additional compensation for any special assignments.

Except for each of the individual Directors' participation in the Board, no Director of the Bank enjoys other arrangements such as consulting contracts or similar arrangements.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

PBB has executed pro-forma employment contracts with its Staff and Officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Bank in the event of a change in control of the Bank.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The following persons own at least five per cent (5%) of the Bank's outstanding common shares:

Title of Class	Name, Address of Record Owners and relationship with the issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	No. of shares held	Per cent of class
Common	Alfredo M. Yao 84 Dapitan St. corner Banawe St. Sta. Mesa Heights, Quezon City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	239,838,309	37.26%
Common	Zest-O Corporation 574 EDSA Caloocan City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	162,052,923	25.17%
Total Common Shares				401,891,232	62.43%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from ₱3.0 billion to ₱10.0 billion and for a decrease in par value from ₱100.0 to ₱10.0.

On January 24, 2019, the Board of Directors approved the increase of PBB's authorized capital stock to ₱20.0 billion from ₱10.0 billion, subject to the approval of BSP and SEC. PBB is increasing its authorized capital stock in preparation for an enlarged shareholders' equity base. This will greatly expand the Bank's capability to develop more businesses and harness opportunities in the financial services space. The increase will enable PBB to meet the growing demands of the banking business.

Security Ownership of Management

The following directors and executive officers of the Company directly own approximately 0.79% percent of the Company's issued and outstanding common stock as of December 31, 2019 as follows:

Name of Director	Nationality	Present Position	No. of Shares	Class
Jeffrey S. Yao	Filipino	Chairman	1,620,535	Common
Rolando R. Avante	Filipino	Vice Chairman and President / CEO	1,203,022	Common
Honorio O. Reyes-Lao	Filipino	Director	254,998	Common
Leticia M. Yao	Filipino	Director	1,680,535	Common
Roberto A. Atendido	Filipino	Director	108,750	Common
Danilo A. Alcoseba	Filipino	Director	120	Common
Paterno H. Dizon	Filipino	Independent Director	132,558	Common
Benjamin R. Sta. Catalina	Filipino	Independent Director	56,358	Common
Narciso D.L. Eraña	Filipino	Independent Director	100	Common
Atty. Roberto C. Uyquiengco	Filipino	Independent Director	1,000	Common
Joseph Edwin S. Cabalde	Filipino	Treasurer	14	Common
Atty. Roberto Santos	Filipino	Corporate Secretary	15,000	Common

The aggregate shareholdings of the Bank's Directors and Officers as a group is 0.79% with a total of 5,072,990 number of shares.

Voting Trust Holders of 5% Or More

The Bank is unaware of any person holding more than five per cent (5%) of shares under a voting trust or similar agreement.

Changes in Control

There have been no arrangements that have resulted in a change of control of the Bank during the period covered by this report.

Item 12. Certain Relationships and Related Transactions

The Bank's related parties include entities under common ownership, key management and others as described below.

	2018		2019	
	Transaction	Balance	Transaction	Balance
Entities Under Common Ownership				
Deposit Liabilities	(2,305,623,210)	5,080,503,897	241,545,091	5,322,048,988
Interest Expense	101,498,910	-	142,148,698	-
Loans	257,708,642	927,636,924	1,522,701,948	1,108,061,790
Interest Income	37,866,916	1,081,314	71,429,038	2,467,162
Retirement Fund				
Contribution	34,039,326	-	37,144,819	-
Plan Assets	6,858,486	209,762,625	22,243,814	232,006,439
Key Management Compensation				
	158,028,243	-	169,435,231	-

i. DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2018 and 2019.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 24).

ii. DOSRI Loans

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

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

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	December 31, 2018	December 31, 2019
Total outstanding DOSRI loans	₱ 927,637	₱ 1,012,228
% of loans to total loan portfolio	1.2%	1.2%
% of unsecured loans to total DOSRI/related party loans	3.7%	3.7%
% of past due loans to total DOSRI/related party loans	0.0%	0.0%
% of non-performing loans to total DOSRI/related party loans	0.0%	0.0%

The details of total outstanding DOSRI Loans for the year ended December 31, 2018 and 2019 are shown below:

	<u>2018</u>	<u>2019</u>
Commercial loans	P 888,066	P 967,374
Consumer loans	<u>39,571</u>	<u>44,854</u>
	<u>P 927,637</u>	<u>P 1,012,228</u>

The Bank leases the following properties from affiliated parties:

Property	Owner
Grace Park	SMI Development Corporation
Edsa-Kalookan	Solmac Marketing Inc.
Quintin Paredes	Downtown Realty Investment Corporation
Banawe	Solmac Marketing Inc.
Makati	AMY Leasing Company
OBO- Taguig	SMI Development Corporation
Z-Square Mall (Del Monte Branch ATM Off-site)	SMI Development Corporation
Head Office Annex- Z-Square	SMI Development Corporation

iii. Transactions with Retirement Fund

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

iv. Key Management Personnel Compensation

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

	2017	2018	2019
Short-term benefits	₱ 104,997,794	₱ 124,500,369	₱ 154,170,851
Post-employment benefits	8,533,196	33,527,874	15,264,380
Total	₱ 113,530,990	₱ 158,028,243	₱ 169,435,231

The composition of the Bank's short-term benefits are as follows:

	2017	2018	2019
Salaries and wages	₱ 81,600,760	₱ 96,765,374	₱ 119,612,861
Bonuses	20,562,459	24,276,370	30,079,925
Social security costs	1,550,625	1,524,668	2,033,845
Other short-term benefits	1,283,950	1,933,957	2,444,220
Total	₱ 104,997,794	₱ 124,500,369	₱ 154,170,851

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Board of Directors, management, staff, and shareholders of Philippine Business Bank believe that corporate governance is an indispensable component of what constitutes sound strategic business management and commits to the best practices contained in the board approved Corporate Governance Manual that institutionalize the principles of good corporate governance in the entire organization.

PBB is committed to conform to the highest standards of ethics and corporate governance and to comply with all governing laws, rules, and regulations and with established corporate policies and procedures, thereby maintaining excellence in all aspects of its operations.

The Bank, as a publicly listed institution, is being regulated and supervised by the Bangko Sentral ng Pilipinas and Securities and Exchange Commission. Hence, activities of the Bank are subject to the following relevant laws and regulations such as but not limited to: General Banking Law of 2000 (RA No.8791), Manual of Regulations for Banks, Revised Corporation Code of the Philippines, and anti-money laundering rules and regulations.

Responsibilities of the Bank's Board of Directors:

- Define the Bank's corporate culture and values
- Responsible for approving the Bank's objectives and strategies and in overseeing management's implementation thereof
- Responsible for the appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel
- Responsible for approving and overseeing implementation of the Bank's corporate governance framework and risk governance framework

Major role and contribution of the Chairman of the Board

The Chairman of the Board shall provide leadership and ensure effective functioning of the Board of Directors, including maintaining a relationship of trust with the members. He shall:

1. Ensure that the meeting agenda focuses on strategic matters, including discussion on risk appetites and key governance concerns;
2. Ensure a sound decision making process;
3. Encourage and promote critical discussion;
4. Ensure that views can be expressed and discussed within the decision-making process;
5. Ensure that members of the Board of Directors receive accurate, timely, and relevant information;
6. Ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
7. Ensure conduct of performance evaluation of the board of directors at least once a year.

During the Bank's annual stockholder's meeting on May 31, 2019, the stockholders approved the appointment of the Directors shown in the table below.

However, the Board accepted the request for retirement of Mr. Francis T. Lee as Chairman and

consequently approved the appointment of Mr. Jeffrey S. Yao as Chairman and Mr. Rolando R. Avante as Vice Chairman during the Bank's Board of Directors meeting last November 20, 2019. Mr. Avante is also assuming the position of President and CEO of the Bank concurrently.

Name of Directors	Board		Executive		Audit		Corporate Governance	
	Attended	%	Attended	%	Attended	%	Attended	%
Francis T. Lee*	6	60%	7	70%				
Jeffrey S. Yao	10	83%	12	100%				
Rolando R. Avante	12	100%	12	100%				
Danilo A. Alcoseba	11	92%			9	75%	9	75%
Roberto A. Atendido	9	75%			8	67%	8	67%
Paterno H. Dizon	12	100%			9	75%	9	75%
Honorio O. Reyes-Lao	12	100%						
Benjamin R. Sta. Catalina, Jr.	11	92%			10	83%	10	83%
Dra. Leticia M. Yao	11	92%						
Narciso DL. Eraña	11	92%			11	92%	11	92%
Atty. Roberto C. Uyquiengco**	10	83%			11	92%	11	92%
Total number of meetings held during the year 2019	12		12		12		12	

Name of Directors	Related Party Transactions		Risk Oversight		Trust	
	Attended	%	Attended	%	Attended	%
Francis T. Lee*						
Jeffrey S. Yao					2	50%
Rolando R. Avante					4	100%
Danilo A. Alcoseba	8	80%	10	83%		
Roberto A. Atendido	6	60%	8	67%		
Paterno H. Dizon	5	50%	6	50%		
Honorio O. Reyes-Lao			10	83%	4	100%
Benjamin R. Sta. Catalina, Jr.	9	90%	10	83%		
Dra. Leticia M. Yao					3	75%
Narciso DL. Eraña	8	80%	10	83%		
Atty. Roberto C. Uyquiengco**	9	90%	11	92%		
Total number of meetings held during the year 2019	10		12		4	

*Retired last November 2019

**Appointment was confirmed by the SEC on January 2019 and is part of the committee since then, official assumption to office commenced upon approval of the Corporate Governance Committee and confirmation of the Board

Related Party Transactions

The Board of Directors have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors, and other stakeholders. The Board is responsible for approving all material RPTs, those that cross material threshold, and write-off of material exposures to related parties, and submits the same for confirmation by majority vote of the stockholder in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall be approved by the Board of Directors. The Board of Directors delegated to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. This excludes DOSRI transactions, which are required to be approved by the Board.

The Board of Directors constituted an RPT Committee who will:

1. Evaluate on an on-going basis the existing relationship between and among businesses and counterparties to ensure that all related parties are continuously identified, monitored, and subsequent relationships with counterparties are captured;
2. Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions;
3. Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures and policies on conflict of interest or potential conflict of interest;
4. Report to the Board of Directors on a regular basis the status and aggregate exposure to each related party;
5. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review; and
6. Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting the RPTs including the periodic review of RPT policies and procedures.

The senior management shall implement appropriate controls to effectively manage and monitor RPTs.

PBB's RPT shall be allowed provided that these comply with applicable regulatory/internal limits/requirements and dealings are conducted at arm's length basis. Said transactions shall only be made and entered into substantially on terms and conditions not less favorable than those with other customers of comparable risks.

RPTs shall not require the approval of the Board of Directors, except on the following:

1. Transactions with DOSRI which presently require prior approval from the BOD under existing policy of the Bank and in accordance the MORB; and
2. RPTs that exceed the material threshold amounts, as approved by the Board.

Approval of the RPT with non-DOSRI and those that do not exceed the material threshold amounts shall be in accordance with the revised policy on levels of signing authority, as approved by the Board. All RPTs that cross the threshold amounts shall be considered as material RPTs and shall be subject to pre-board approval evaluation by the RPT Committee before the same are endorsed to the Board for approval. All approved RPTs shall be reported by the booking/contracting units to the Central Operations Group (COG) upon approval of the transaction/signing and notarization of the contract for MIS disclosure and regulatory reporting purposes.

If an actual or potential conflict of interest arises on the part of the director, officer or employee, he is mandated to fully and immediately disclose the same and should not participate in the decision-making process related to the transactions. Any member of the Board who has an interest in the transaction under evaluation shall not participate therein and shall abstain from voting on the approval of transaction.

Transactions that were entered into with unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the RPT Policy.

To ensure that RPTs are done at arm's length, all transactions with related parties shall undergo the normal/regular transaction processing and approval. Interest on loans and other credit accommodations and deposit/deposit substitute shall be consistent with the price discovery mechanism/standards of the bank as posted in its website. Other economic terms of RPTs shall likewise be based on existing policy of the bank. All RPTs with deviation shall be subject to evaluation and endorsement by the RPT Committee to the Board of Directors for approval, regardless of amount, and shall be supported by written justifications. Price discovery mechanism for ROPA and selection of service providers and supplier are also mentioned in the RPT policy of the Bank.

Materiality thresholds for each type of transactions with each related party or group of related parties are specified in the RPT Policy. Internal limits for individual and aggregate exposures are also defined in the RPT Policy to ensure that RPTs are within prudent levels.

As a publicly listed company that is regulated by the Securities and Exchange Commission, the Bank also adheres and complies with SEC rules and regulations for related party transactions such as but not limited to SEC Memorandum Circular No. 010 Series of 2019 (Rules on Material Related Party Transactions).

Self-Assessment Function

The control environment of the Bank consists of:

- a. Board of Directors - ensures that PBB is properly and effectively managed and supervised;
- b. Management - manages and operates the Bank in a sound and prudent manner;
- c. Organizational and procedural controls supported by effective management information and risk management reporting system; and
- d. An independent audit mechanism to monitor the adequacy and effectiveness of the Bank's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations, and contracts.

Consumer Protection Practices

A. Board and Senior Management Oversight Function

a. Board of Directors

The Board shall be primarily responsible for approving and overseeing the implementation of policies governing major areas of the Bank's consumer protection program, including the mechanism to ensure compliance with the set policies.

The roles of the Board shall include the following:

- i. Approve the consumer protection policies;
- ii. Approve risk assessment strategies relating to effective recourse by the consumer;
- iii. Provide adequate resources devoted to consumer protection; and
- iv. Review the applicable policies periodically.

b. Senior Management

The senior management shall be responsible for the proper implementation of the consumer protection policies and procedures duly approved by the Board. Also, its role shall focus on ensuring effective management of day-to-day consumer protection activities.

B. Consumer Protection Risk Management System

The Board shall be responsible in developing and maintaining a sound CPRMS which shall be integrated into the overall framework for the entire product and service life cycle. The Board and senior management should periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. The Board and senior management must also ensure that sufficient resources have been devoted to the program. Likewise, the Board and senior management must also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

C. Consumer Assistance Management System

The Consumer Assistance Management System (CAMS) is a mechanism that records all complaints filed by customers either through the BSP or directly to the concerned branch. The system also monitors the status of the complaints' processing and resolution.

The general process of handling customer complaints is as follows:

- a. The client may lodge his/her complaint through any of the following means:
 - i. By personally visiting the concerned branch/head office unit (where he/she shall be asked to fill out the Customer Complaint Form [CCF]);
 - ii. Through telephone via the following contact numbers: or

Telephone Numbers	Available Time	Banking Day	Non-Banking Day
Branch/H.O. unit	8:30 AM – 5:30 PM	Y	N
CPO Hotline 8461-5800 loc. 5072	8:30 AM – 5:30 PM	Y	N
PBB Helpdesk 8363-3000	24 hrs.	Y	Y
Mobile Phone thru TEXT 0922-8715322	24 hrs.	Y	Y
Direct Recorded 8363-HELP (4357)	8:30 AM – 5:30 PM	Y	N

- iii. Via e-mail at consumerprotection@pbb.com.ph

- b. The concerned branch/head office unit personnel shall validate the complaint received from the customer. If the complaint can be resolved immediately/upfront, he/she shall explain to the client the resolution of the complaint. If the complaint cannot be resolved immediately, he/she shall explain to the client the following timeline (which are reckoned from the date of receipt of the complaint):

	If the complaint is classified as “Simple”	If the complaint is classified as “Complex”
Acknowledgment	Within 2 days	Within 2 days
Processing and resolution (assess, investigate, and resolve)	Within 7 days	Within 45 days
Communication of resolution	Within 9 days	Within 47 days

The concerned branch/head office unit shall transmit the CCF to the Consumer Protection Unit via e-mail or fax.

- c. The complaint shall pass through the Consumer Protection Officer (CPO) or the PBB Helpdesk (if the complaint is lodged via telephone), who shall acknowledge receipt of the same and shall obtain/record the details of the complaint in the CAMS. The CPO (or PBB Helpdesk) shall then assign the complaint to the concerned support group.

- d. The support group retrieves the complaint received through the CAMS or e-mail (whichever is applicable) and performs the necessary corrective actions based on the nature of the complaint. The resolution made on the complaint shall then be recorded accordingly in the CAMS or reply via e-mail (whichever is applicable).
- e. Once the complaint has been resolved by the Support Group, the CPO shall tag it as closed in the CAMS. The CPO (or the PBB Helpdesk) shall also be the one to generate and submit the Customer Complaint Summary Report daily to the Consumer Protection Head.
- f. The Consumer Protection Head shall perform the following tasks:
 - i. Monitor and evaluate customer complaints handling process;
 - ii. Analyze the nature of the complaints and recommends solutions to avoid recurrence;
 - iii. Extract generated complaints report monthly except when it is urgently needed to be submitted to and reviewed by the HR Head;
 - iv. Recommend the resolution of the case or if needed to be elevated to proper authorities or needed to be taken up in the Committee on Employee Discipline (CED), if applicable;
 - v. Report to senior management on a quarterly basis the complaints received and the resolutions applied;
 - vi. Report periodically to the Board all complaints received within the period as stated; and
 - vii. Make recommendation and assessment on the cases filed to avoid recurrence in the future.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

Annex A..... Audited Financial Statements

(b) Reports on SEC Form 17-C

State whether any reports on SEC Form 17-C, as amended were filed during the last six month period covered by this report, listing the items reported, any financial statements filed and the dates of such.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of CALOOCAN CITY on 16 MAR 2020

By:



JEFFREY S. YAO

Chairman



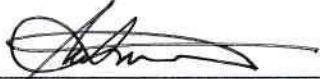
ROSELLE M. BALTAZAR

Assistant Controller



ATTY. ROBERTO S. SANTOS

Corporate Secretary



ROLANDO R. AVANTE

Vice Chairman and President/CEO



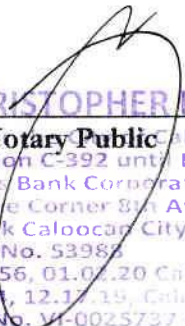
ROLANDO G. ALVENDIA

Chief Accountant

16 MAR 2020

SUBSCRIBED AND SWORN to before me this _____ day of _____ 20____
affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	TIN NO.
JEFFREY S. YAO	121-076-085
ROLANDO R. AVANTE	106-968-623
ROSELLE M. BALTAZAR	179-193-899
ROLANDO G. ALVENDIA	107-182-307
ROBERTO S. SANTOS	123-467-623


ATTY. NIÑO CHRISTOPHER R. PURA

Notary Public
Notary Public - Caloocan
Notarial Commission C-392 until Dec 2021
Philippine Business Bank Corporate Center
350 Rizal Avenue Corner 8th Avenue
Grace Park Caloocan City
Roll No. 53982

PTR No. 11026756, 01.02.20 Caloocan
IBP No. 099164, 12.12.19, Caloocan
MCLE Certificate No. VI-0025737 04.10.19

DOC. NO. 068
PAGE NO. 75
BOOK NO. 7
SERIES OF 70

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

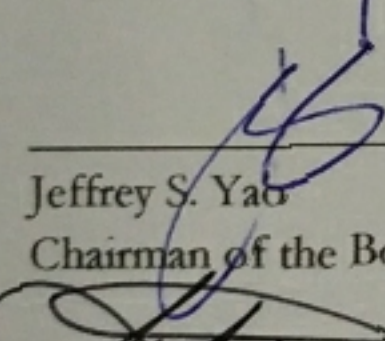
The management of **Philippine Business Bank, Inc. (A savings bank)** (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

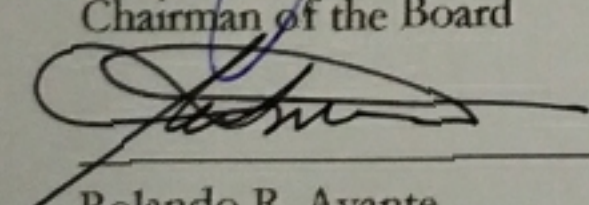
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease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

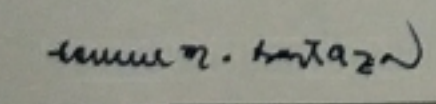
The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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

Punongbayan and Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.


Jeffrey S. Yao
Chairman of the Board

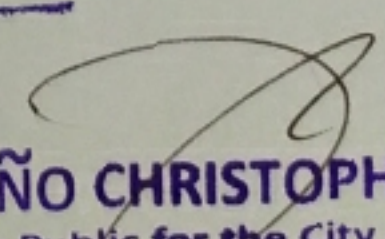

Rolando R. Avante
Vice Chairman & President/ CEO


Roselle M. Baltazar
FVP COG Group Head and Asst. Controller

Signed this 01 JUL 2020 day of _____

SUBSCRIBED AND SWORN to before me on 01 JUL 2020
Affiant/s exhibiting to me his/her Government-issued
ID/s wearing his/her Photograph/s and Signature/s

DOC. NO. 326
PAGE NO. 07
BOOK NO. 10
SERIES NO. 2020


ATTY. NIÑO CHRISTOPHER R. PURA
Notary Public for the City of Caloocan
Notarial Commission C-392 until Dec 2021
Philippine Business Bank Corporate Center
350 Rizal Avenue Corner 8th Avenue
Grace Park Caloocan City

350 Rizal Ave. Extension cor. 8th Ave., Grace Park, Caloocan City, Philippines | Tel. No. 1652-363-3333

Roll No. 88983
PTR No. 11026756, 01.08.20 Caloocan
JRC No. 00104, 12.17.19, Caloocan
MCLE Certificate No. VI-0025737 04.10.19

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines
T +63 2 988 22 88

Report of Independent Auditors

The Board of Directors and Stockholders
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Emphasis of a Matter

We draw attention to Note 30 to the financial statements, which describes management's assessment of the impact on the Bank's financial statements of the business disruption brought about by the corona virus outbreak and consequent events after the reporting period. Management has determined that these are non-adjusting events and as such, had no impact on the Bank's financial statements as of and for the year ended December 31, 2019. As further stated in Note 30, management was unable to reliably estimate yet as at the issuance date of the financial statements the impact of said events on the Bank's financial condition and operations in subsequent periods. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

(a) Expected Credit Loss on Loans and Receivables

Description of the Matter

As of December 31, 2019, the Bank's loans and receivables and allowance for expected credit losses (ECL) on loans and receivables amounts to P87.3 billion and P1.78 billion, respectively. We have identified the Bank's ECL on loans and receivables as a key audit matter because this:

- requires significant management judgment on the interpretation and implementation of the requirements of PFRS 9, *Financial Instruments*, in assessing impairment losses based on an ECL model that involves segmenting credit risk exposures, defining when does default occur and what constitutes a significant increase in the credit risk of different exposures;
- involves high degree of estimation uncertainty related to management's use of various inputs and assumptions applied in the ECL model such as credit risk rating of the counterparty, expected amount and timing of cash flows, including recovery of collaterals for defaulted accounts, and forward-looking macroeconomic information which may be affected by management estimation bias; and,
- requires complex estimation process that entails implementation of internal controls and use of information system in ensuring the completeness and accuracy of data used in the ECL calculation and in the preparation of required disclosures in the financial statements.

The summary of significant accounting policies and the significant judgment, including estimation applied by management, as those related to the credit risk assessment process of the Bank are disclosed in Notes 2, 3 and 4 to the financial statements. The other disclosures related to this matter are presented in Notes 12 and 28.

How the Matter was Addressed in the Audit

We obtained an understanding of the Bank's accounting policies and methodologies applied and we evaluated whether those: (a) are established and implemented consistent with the underlying principles of PFRS 9; (b) are appropriate in the context of the Bank's lending activities and asset portfolio that takes into consideration the different segments of credit exposures and the relevant regulatory framework; and, (c) are supported by pertinent processes and controls, including documentations of the accounting policies that capture in sufficient detail the judgment, including estimation, applied in the development of the ECL model.

With respect to the use of significant judgment, including those involving estimation of inputs and assumptions used in the ECL model, we performed the following:

- assessed the Bank's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics and evaluated the appropriateness of the specific model applied for each loan portfolio;
- evaluated both the quantitative and qualitative criteria applied in the definition of default against historical analysis for each segment of loan portfolio and in accordance with credit risk management practices, and tested the criteria in the determination of the significant increase in credit risk, including assignment of a loan or group of loans into different stages of impairment;
- tested the Bank's application of internal credit risk rating system for selected items of loans, and verified the mapping of the ratings to the ECL calculation;
- tested loss given default information across various types of loan by inspecting records of historical recoveries and relevant costs, including valuation and cash flows from collateral, and write-offs;
- reconciled and tested exposure at default for all outstanding loans against the relevant loan databases, including review of the potential exposures from undrawn commitments against historical drawdown, if any;
- assessed the appropriateness of the identification of forward-looking information (overlays) used in the ECL model and validated their reasonableness against publicly available information and our understanding of Bank's loan portfolios and industry where they operate; and,
- tested the effective interest rate used in discounting the ECL.

As part of our audit of the ECL methodology, we tested the completeness and accuracy of the data used in the ECL model through reconciliation of loan data subjected to the ECL calculations, which were prepared by management outside its general ledger system, against the relevant financial reporting applications and other accounting records. Moreover, we tested the stratification of loan data that were disaggregated into various portfolio segments for purposes of ECL calculations. Furthermore, we tested the mathematical formula and the computation logics applied in the calculation of the different inputs in the ECL model and the estimation of the credit losses for all loans and receivables subjected to impairment assessment.

We evaluated the completeness of the disclosures in the financial statements against the requirements of the relevant standards.

(b) Merger of the Bank and Insular Savers Bank, Inc.

Description of the Matter

On December 20, 2018, the Bangko Sentral ng Pilipinas (BSP) approved the merger between the Bank and Insular Savers Bank, Inc. (ISBI) wherein the Bank is the surviving entity. Under the terms of the merger, the Bank absorbs the assets, liabilities and operations of ISBI for a total purchase consideration of P575.0 million, and, consequently, terminate the operations of ISBI as a separate entity. The merger was approved by the Securities and Exchange Commission (SEC) on June 10, 2019, and the full implementation of the merger was completed on July 17, 2019.

The Bank determined the merger to be an acquisition of a business as defined in PFRS 3, *Business Combinations*; hence, it accounted for the merger by applying the acquisition method. The acquisition method requires the recognition of identifiable assets, liabilities, indemnification assets, contingent liabilities and deferred consideration in a business combination, if any, at fair value at the date of acquisition, with the excess of the acquisition price over the identified fair values recognized as goodwill, if positive, otherwise, gain on bargain purchase.

The merger also involved operational and accounting data transfer from ISBI accounting and other information technology (IT) systems to the Bank's accounting and IT systems.

Considering the complexities involved in the merger transaction, its material impact on the Bank's financial statements and the following other considerations, we have determined the merger as a key audit matter:

- high level of management judgement and estimates used in identifying and determining the fair value of identifiable assets acquired and liabilities assumed, and recognition and measurement of any resulting goodwill or gain on bargain purchase during the purchase price allocation process; and,
- complex transfer of operational and accounting data, and the rollforward of the amounts of assets and liabilities acquired.

The Bank's accounting policy and disclosures related to business combinations are set out in Notes 1, 2, and 31 to the financial statements.

How the Matters were Addressed in the Audit

Our main audit responses include the following:

- Obtained adequate understanding of the merger transaction by:
 - reviewing the merger approval documents which include minutes meetings of the Bank's Board of Directors, and certificates of approval by the BSP and SEC;
 - reviewing the Articles and Plan of Merger to understand the key terms and conditions; and,
 - confirming our understanding with management;
- Evaluated the appropriateness of the acquisition method, which includes identification of assets and liabilities in accordance with the terms of Articles and Plan of Merger, used by management;
- Engaged our firm's valuation specialist to evaluate the propriety of methodology and the reasonableness of the key assumptions used by management and their external independent valuation specialist to value the identified assets for the purchase price allocation and related gain on bargain purchase recognized;
- Recalculated the deferred tax liabilities arising on the acquired intangible assets and verified if the appropriate tax rates have been used; and,
- Assessed the appropriateness and adequacy of disclosures made in the financial statements of the Bank.

In testing the transfer of operational and accounting data of ISBI into the systems of the Bank following the full implementation of the merger, we tested, on a sample basis, the key controls over completeness and accuracy of the data transferred. In testing these key controls, we involved our IT specialists to assess the overall data migration process and assessed the Bank's data migration trial testing documentation and results, and inspected the formal sign-offs for each phase of the migration. We have validated, on a sample basis, the accuracy and completeness of the loans and receivables and deposit accounts' operational data migrated from ISBI against underlying physical documentation. Also, the balances of ISBI's accounts with other banks and financial instruments transferred to the Bank were confirmed, on a sample basis, with counterparties and depositories.

(c) Adoption of PFRS 16, Leases

Description of the Matter

As described in Note 2 to the financial statements, the Bank have adopted on January 1, 2019, PFRS 16, *Leases*, which replaced Philippine Accounting Standard (PAS) 17, *Leases*, and the related interpretations to PAS 17. The adoption of this new standard, which primarily affected the Bank's accounting for leases as a lessee by recognizing "right-of-use" assets and lease liabilities "on-balance sheet", is considered a key audit matter because of the complexities of the accounting requirements, significant judgement involved in determining the assumptions to be used in applying the new standard and significant data extraction exercise undertaken by management to summarize all lease data such that the respective inputs could be uploaded into management's model. Key areas of judgment include the determination of the lease term of contracts with renewal and termination options, appropriate discount rate in measuring lease liabilities and leasing arrangements within the scope of PFRS 16.

As of December 31, 2019, the Bank's total resources increased by P298.3 million and total liabilities by P343.7 million because of the adoption of PFRS 16. The right-of-use assets and lease liabilities are presented as part of Bank Premises, Furniture, Fixtures and Equipment and Accrued and Other Liabilities, respectively, in the 2019 statement of financial position. Related to the recognition of right-of-use asset and lease liabilities, the Bank also recognized depreciation expense of P112.0 million and interest expense from the accretion of lease liabilities of P30.1 million, respectively, in 2019.

The Bank's new accounting policy and disclosures related to the adoption of PFRS 16 are presented in Notes 2, 3, 13 and 19 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address this key audit matter include the following:

- Assessed the design of key internal controls relevant to management's process in reviewing the terms and conditions of the lease contracts and determination of the related PFRS 16 adjustments;
- Evaluated the accounting policies applied by the management including the use of practical expedients permitted by the standard;
- Verified the completeness of the lease databases used by validating and comparing the scope of the operating leases identified under the previously applicable standard, PAS 17, and reviewed the residual lease expenses;
- Evaluated, on a representative sample basis, the reasonableness and appropriateness of the inputs and assumptions used in determining the lease term, discount rates applied in determining lease liabilities;

- Verified the accuracy of the underlying lease databases by agreeing a representative sample of leases to original contract or other supporting information, and checked the integrity and mathematical accuracy of the PFRS 16 calculations for each lease sampled through recalculation of the expected PFRS 16 adjustments; and,
- Assessed whether the disclosures within the financial statements are appropriate based on of the requirements of the standard.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

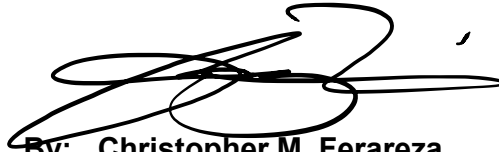
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2019 required by the BSP and by the Bureau of Internal Revenue as disclosed in Notes 33 and 34 to the financial statements, respectively, is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Christopher M. Ferareza.

PUNONGBAYAN & ARAULLO



By: Christopher M. Ferareza
Partner

CPA Reg. No. 0097462
TIN 184-595-975
PTR No. 8116545, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 1185-AR-2 (until May 9, 2021)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-34-2017 (until Jun. 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 31, 2020

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
<u>RESOURCES</u>			
CASH AND OTHER CASH ITEMS	9	P 1,171,299,633	P 988,547,825
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	5,232,433,363	6,164,361,658
DUE FROM OTHER BANKS	10	2,808,949,984	4,528,594,643
TRADING AND INVESTMENT SECURITIES – Net	11		
At fair value through profit or loss (FVPL)		4,677,230,319	1,816,806,583
At fair value through other comprehensive income (FVOCI)		9,223,102,447	2,279,714,729
At amortized cost - net		853,464,020	771,055,060
LOANS AND OTHER RECEIVABLES – Net	12	87,323,525,458	75,530,357,441
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – Net	13	753,363,064	475,278,837
INVESTMENT PROPERTIES – Net	14	494,368,200	429,250,479
DEFERRED TAX ASSETS – Net	25	509,912,664	287,532,960
OTHER RESOURCES – Net	15	1,044,317,720	1,457,991,756
TOTAL RESOURCES		P 114,091,966,872	P 94,729,491,971
<u>LIABILITIES AND EQUITY</u>			
DEPOSIT LIABILITIES	16		
Demand		P 1,306,446,400	P 1,360,580,445
Savings		42,267,564,120	29,493,591,196
Time		51,694,028,064	46,396,911,610
Total Deposit Liabilities		95,268,038,584	77,251,083,251
BILLS PAYABLE	17	612,523,350	3,696,505,696
CORPORATE NOTES PAYABLE	18	2,980,423,657	-
ACCRUED EXPENSES AND OTHER LIABILITIES	19	2,363,299,268	2,422,845,987
Total Liabilities		101,224,284,859	83,370,434,934
EQUITY	21		
Capital stock		7,057,500,940	7,057,500,940
Additional paid-in capital		1,998,396,816	1,998,396,816
Surplus		3,512,526,245	2,479,160,277
Revaluation reserves		299,258,012	(176,000,996)
Total Equity		12,867,682,013	11,359,057,037
TOTAL LIABILITIES AND EQUITY		P 114,091,966,872	P 94,729,491,971

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018	2017
INTEREST INCOME				
Loans and other receivables	12	P 6,623,714,504	P 5,311,070,538	P 3,672,405,502
Trading and investment securities	11	438,338,936	150,073,005	169,493,706
Due from Bangko Sentral ng Pilipinas and other banks	9, 10	32,147,874	48,332,797	38,533,466
Others	23	-	83,110	1,037,221
		<u>7,094,201,314</u>	<u>5,509,559,450</u>	<u>3,881,469,895</u>
INTEREST EXPENSE				
Deposit liabilities	16	2,336,614,176	1,619,874,200	826,990,066
Bills payable	17	104,442,612	112,387,248	14,841,279
Corporate notes payable	18	71,661,457	-	-
Others	19, 23	30,502,328	-	-
		<u>2,543,220,573</u>	<u>1,732,261,448</u>	<u>841,831,345</u>
NET INTEREST INCOME		4,550,980,741	3,777,298,002	3,039,638,550
IMPAIRMENT LOSSES	28	<u>561,174,001</u>	<u>294,731,906</u>	<u>260,519,609</u>
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		<u>3,989,806,740</u>	<u>3,482,566,096</u>	<u>2,779,118,941</u>
OTHER INCOME				
Service charges, fees and commissions		348,810,364	284,823,000	200,841,789
Trading gains (losses) – net	11	292,699,496	(30,493,963)	128,497,849
Miscellaneous – net	22	155,562,175	103,286,349	57,739,234
		<u>797,072,035</u>	<u>357,615,386</u>	<u>387,078,872</u>
OTHER EXPENSES				
Salaries and other employee benefits	23	987,095,419	816,987,670	735,812,499
Taxes and licenses	33	636,888,387	552,300,873	382,355,576
Depreciation and amortization	13, 14, 15	286,675,217	186,015,752	168,389,752
Occupancy	19, 26	237,341,142	316,885,097	294,904,718
Insurance		215,092,421	199,899,999	163,492,077
Management and other professional fees		196,834,113	144,843,719	117,575,137
Representation and entertainment		55,627,184	45,480,967	33,466,272
Miscellaneous	22	478,197,228	336,346,147	356,868,288
		<u>3,093,751,111</u>	<u>2,598,760,224</u>	<u>2,252,864,319</u>
PROFIT BEFORE TAX		1,693,127,664	1,241,421,258	913,333,494
TAX EXPENSE	25	<u>436,754,221</u>	<u>383,423,004</u>	<u>273,247,394</u>
NET PROFIT		<u>P 1,256,373,443</u>	<u>P 857,998,254</u>	<u>P 640,086,100</u>
Earnings Per Share				
Basic and Diluted	29	<u>P 1.64</u>	<u>P 1.33</u>	<u>P 0.99</u>

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
NET PROFIT		P 1,256,373,443	P 857,998,254	P 640,086,100
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Loss on remeasurements of post-employment defined benefit plan	23	(64,778,664)	(24,019,637)	(19,589,334)
Tax income	25	19,433,599	7,205,891	5,876,800
		(45,345,065)	(16,813,746)	(13,712,534)
Items that will be reclassified subsequently to profit or loss	11			
Fair value gains (losses) on investment securities at FVOCI during the year - net		524,190,029	(75,060,232)	-
Fair value gains reclassified to profit or loss during the year - net		(3,585,956)	-	(29,979,364)
Expected credit losses for FVOCI securities		-	4,229,457	-
Fair value gains on available-for-sale securities during the year - net		-	-	59,748,950
		520,604,073	(70,830,775)	29,769,586
Other Comprehensive Income (Loss) - Net of Tax		475,259,008	(87,644,521)	16,057,052
TOTAL COMPREHENSIVE INCOME		P 1,731,632,451	P 770,353,733	P 656,143,152

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

Revaluation Reserves (see Note 21)												
Notes	Capital Stock (see Note 21)		Additional Paid-in Capital (see Note 21)	Surplus (see Note 21)			Net Unrealized Fair Value Losses on Investment Securities at AFS	Net Unrealized Fair Value Losses on Investment Securities at FVOCI	Accumulated Actuarial Losses	Total	Total Equity	
	Preferred Stock	Common Stock		Appropriated	Unappropriated	Total						
BALANCE AS OF JANUARY 1, 2019												
As previously reported	P	620,000,000	P 6,437,500,940	P 1,998,396,816	P 733,687,323	P 1,745,472,954	P 2,479,160,277	p -	(P 132,717,700)	(P 43,283,296)	(P 176,000,996)	P 11,359,057,037
Effect of adoption of Philippine Financial Reporting Standards (PFRS) 16, <i>Leases</i>	2	-	-	-	(25,007,475)	(25,007,475)	-	-	-	-	-	(25,007,475)
As restated		620,000,000	6,437,500,940	1,998,396,816	733,687,323	1,720,465,479	2,454,152,802	-	(132,717,700)	(43,283,296)	(176,000,996)	11,334,049,562
Appropriation for trust reserves	21, 27	-	-	-	1,642,763	(1,642,763)	-	-	-	-	-	-
Appropriation for general loan loss reserve	21	-	-	-	(193,551,904)	193,551,904	-	-	-	-	-	-
Cash dividends		-	-	-	-	(198,000,000)	(198,000,000)	-	-	-	-	(198,000,000)
Total comprehensive income (loss)	21	-	-	-	-	1,256,373,443	1,256,373,443	-	520,604,073	(45,345,065)	475,259,008	1,731,632,451
BALANCE AS OF DECEMBER 31, 2019		P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 541,778,181	P 2,970,748,064	P 3,512,526,245	P -	P 387,886,373	(P 88,628,361)	P 299,258,012	P 12,867,682,013
BALANCE AS OF JANUARY 1, 2018												
As previously reported	P	620,000,000	P 6,437,500,940	P 1,998,396,816	P 7,107,770	P 1,241,942,126	P 1,249,049,896	(P 52,250,091)	p -	(P 26,469,550)	(P 78,719,641)	P 10,226,228,011
Effect of adoption of PFRS 9, <i>Financial Instruments</i>		-	-	-	449,628,263	(77,516,136)	372,112,127	52,250,091	(61,886,925)	-	(9,636,834)	362,475,293
As restated		620,000,000	6,437,500,940	1,998,396,816	456,736,033	1,164,425,990	1,621,162,023	-	(61,886,925)	(26,469,550)	(88,356,475)	10,588,703,304
Appropriation for trust reserves	21, 27	-	-	-	1,200,755	(1,200,755)	-	-	-	-	-	-
Appropriation for general loan loss reserve	21	-	-	-	275,750,535	(275,750,535)	-	-	-	-	-	-
Total comprehensive income (loss)		-	-	-	-	857,998,254	857,998,254	-	(70,830,775)	(16,813,746)	(87,644,521)	770,353,733
BALANCE AS OF DECEMBER 31, 2018		P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 733,687,323	P 1,745,472,954	P 2,479,160,277	P -	(P 132,717,700)	(P 43,283,296)	(P 176,000,996)	P 11,359,057,037
BALANCE AS OF JANUARY 1, 2017												
As previously reported	P	620,000,000	P 5,364,584,370	P 1,998,396,816	P 5,989,552	P 1,675,890,814	P 1,681,880,366	(P 82,019,677)	P -	(P 12,737,016)	(P 94,776,693)	P 9,570,084,859
Stock dividends	21	-	1,072,916,570	-	-	(1,072,916,570)	(1,072,916,570)	-	-	-	-	-
Appropriation for trust reserves	19, 25	-	-	-	1,118,218	(1,118,218)	-	-	-	-	-	-
Total comprehensive income (loss)		-	-	-	-	640,086,100	640,086,100	29,769,586	-	(13,712,534)	16,057,052	656,143,152
BALANCE AS OF DECEMBER 31, 2017		P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 7,107,770	P 1,241,942,126	P 1,249,049,896	(P 52,250,091)	p -	(P 26,469,550)	(P 78,719,641)	P 10,226,228,011

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2019	2018 (As Restated - see Note 2)	2017 (As Restated - see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	P	1,693,127,664	P 1,241,421,258	P 913,333,494
Adjustments for:				
Interest income	9, 10, 11, 12, 22	(7,094,201,314)	(5,509,559,450)	(3,881,469,895)
Interest received		6,923,838,951	5,114,460,120	3,863,885,130
Interest expense	16, 17, 18, 19, 23	2,543,220,573	1,732,261,448	841,831,345
Interest paid		(2,515,087,399)	(1,731,615,495)	(840,597,172)
Impairment losses	28	561,174,001	294,731,906	260,519,609
Depreciation and amortization	13, 14, 15	286,675,217	185,904,712	168,389,752
Unrealized loss (gain) on foreign currency revaluation of investment securities	11	70,161,837	(80,556,789)	8,938,655
Amortization of premium (discount)	11	(28,394,227)	(3,053,009)	8,583,967
Reversal of allowance for impairment	14	(6,774,075)	(547,987)	-
Gain on sale of investment securities at fair value through other comprehensive income (FVOCI)	11	(3,585,956)	-	-
Amortization of bond issue cost	18	2,923,657	-	-
Loss on sale on investments at amortized cost	11	2,614,440	-	-
Loss (gain) on sale of properties - net	22	2,293,672	(13,457,936)	(21,104,197)
Gain on sale of available-for-sale securities		-	-	(35,661,078)
Operating profit before working capital changes		2,437,987,040	1,229,988,777	1,286,649,609
Decrease (increase) in trading and investment securities at FVPL	(	2,860,423,736)	(1,232,591,853)	(3,274,168,284)
Increase in loans and other receivables	(	9,450,804,971)	(3,793,317,757)	(18,928,474,019)
Decrease in investment properties		86,593,114	117,426,391	94,683,757
Decrease (increase) in other resources	(	263,404,097)	(89,607,475)	(23,921,740)
Increase in deposit liabilities		16,334,539,720	3,729,065,836	14,447,530,766
Increase (decrease) in accrued expenses and other liabilities	(	630,617,250)	(900,958,562)	(167,350,457)
Cash generated from operations		5,653,869,821	861,922,482	31,129,681
Cash paid for income taxes	(	282,855,331)	(496,975,483)	(334,642,895)
Net Cash From (Used in) Operating Activities		5,371,014,490	364,946,999	(303,513,214)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of investment securities at FVOCI	11	(7,597,787,934)	(783,916,126)	-
Proceeds from sale of investment securities at FVOCI	11	1,259,392,734	-	4,803,015,169
Acquisitions of bank premises, furniture, fixtures and equipment	13	(287,233,902)	(144,117,676)	(102,838,293)
Acquisitions of investment securities at amortized cost	11	(178,191,613)	(375,097,281)	-
Acquisition of software licenses	15	(67,836,580)	(77,965,698)	(16,556,063)
Proceeds from maturities of investment securities at amortized cost	11	51,442,610	-	-
Proceeds from sale of investment securities at amortized cost	11	48,076,576	-	-
Proceeds from sale of bank premises, furniture, fixtures and equipment	13	24,351,950	15,588,647	15,532,562
Acquisition of available-for-sale securities		-	-	(3,352,273,750)
Net Cash From (Used in) Investing Activities	(	6,747,786,159)	(1,365,508,134)	1,346,879,625
CASH FLOWS FROM FINANCING ACTIVITIES				
Settlement of bills payable	32	(13,704,081,337)	(14,883,616,833)	(4,490,487,476)
Availments of bills payable	32	10,620,098,991	16,646,397,805	6,424,212,200
Issuance of corporate notes payable	32	2,977,500,000	-	-
Payment of cash dividends	21	(198,000,000)	-	(79,200,000)
Payment of lease liabilities	32	(107,720,219)	-	-
Net Cash From (Used in) Financing Activities	(	412,202,565)	1,762,780,972	1,854,524,724
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(	1,788,974,234)	762,219,837	2,897,891,135
Cash Obtained Through Merger	31	365,765,156	-	216,156,116
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
Cash and other cash items	9	988,547,825	1,002,240,895	1,098,616,524
Due from Bangko Sentral ng Pilipinas	9	6,164,361,658	6,575,270,040	6,225,701,096
Due from other banks	10	4,528,594,643	4,012,519,495	1,633,340,396
Securities under reverse repurchase agreement	12	1,500,000,000	826,072,472	345,154,260
Foreign currency notes and coins on hand	15	56,963,020	60,144,407	59,387,782
		13,238,467,146	12,476,247,309	9,362,200,058
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash and other cash items	9	1,171,299,633	988,547,825	1,002,240,895
Due from Bangko Sentral ng Pilipinas	9	5,232,433,363	6,164,361,658	6,575,270,040
Due from other banks	10	2,808,949,984	4,528,594,643	4,012,519,495
Securities under reverse repurchase agreement	12	2,542,070,169	1,500,000,000	826,072,472
Foreign currency notes and coins on hand	15	60,504,919	56,963,020	60,144,407
	P	11,815,258,068	P 13,238,467,146	P 12,476,247,309

Supplemental note details of non-cash transactions are presented in Note 32.

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Philippine Pesos or As Otherwise Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Philippine Business Bank, Inc., A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. The Bank is a publicly listed entity in the Philippine Stock Exchange (PSE). It had its initial public offering (IPO) of shares on February 13, 2013 (see Note 21.4).

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

PBB is the first savings bank in the Philippines that obtained the BSP approval to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange under RA Nos. 8791 and 7906 and the Manual of Regulations for Banks. It was granted in April 2010.

The Bank operates in the Philippines and, as of December 31, 2019 and 2018, it has 159 and 145 branches, respectively, located nationwide.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.2 Merger between the Bank and Insular Savers Bank, Inc.

On December 20, 2018, the BSP approved the merger between the Bank and Insular Savers Bank, Inc. (ISBI) wherein the Bank is the surviving entity. Under the terms of the merger, PBB absorbs the assets, liabilities and operations of ISBI, and, consequently, terminate the operations of ISBI as a separate entity. Subsequently, the merger was approved by the SEC on June 10, 2019, and the full implementation of the merger was completed on July 17, 2019 (see Note 31).

1.3 Approval of the Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2019 (including the comparative financial statements as at December 31, 2018 and for the years ended December 31, 2018 and 2017) were authorized for issue by the Bank's Board of Directors (BOD) on March 31, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 *Basis of Preparation of Financial Statements*

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

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

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

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

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

In 2019, the Bank changed the presentation in the statement of cash flows of transactions related to investment properties from investing activities in prior years to operating activities to conform to the 2019 presentation. The change in presentation did not affect other statements, hence, presentation of a third statement of financial position is not required.

(c) *Functional and Presentation Currency*

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

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU), which is reported in United States (US) dollar, are translated to Philippine peso based on Bankers Association of the Philippine (BAP) at the end of reporting period for the statement of financial position accounts and at the average BAP for the period for the profit and loss.

2.2 Adoption of New and Amended PFRS

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

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

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS 2015-2017 Cycle		
PAS 12 (Amendments)	:	Income Taxes – Tax Consequences of Dividends
PAS 23 (Amendments)	:	Borrowing Costs – Eligibility for Capitalization
PFRS 3 (Amendments) and PFRS 11 (Amendments)	:	Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interest in a Joint Operation

Discussed below are the relevant information about these pronouncements.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset). Management has assessed that the amendments had no significant impact on the Bank's financial statements.
- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). Management has assessed that the amendments had no significant impact on the Bank's financial statements.
- (iii) PFRS 16, *Leases*. The new standard has replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. The adoption of this new standard resulted in the Bank accounting for its leases, as a lessee, “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability.

The Bank adopted PFRS 16 using the modified retrospective approach as allowed by the standard. This allowed the Bank not to restate its prior periods' financial statements. The impact of PFRS 16 at the date of initial adoption, which is at January 1, 2019, is on the recognition of right-of-use asset and lease liability in the statement of financial position. Difference arising from the adoption of PFRS 16 in relation to remeasurements are recognized in the opening balance of Surplus in the current year [see Note 2.2(a)(iii)(d)]. The new accounting policies of the Bank as a lessee are disclosed in Note 2.16.

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

- a. For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as lease under PAS 17 and IFRIC 4.
- b. The Bank has not elected to include initial direct costs in the measurement of the right-of-use assets for operating leases that exist at the date of initial application. At this date, the Bank has recognized right-of-use assets for leases previously classified as an operating lease applying PAS 17 and has elected to measure the right-of-use assets, on a lease-by-lease basis, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application. Lease liability has been measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate at the date of initial application. Right-of-use asset is presented as part of the Bank Premises, Furniture, Fixtures and Equipment, while Lease liability is presented as part of the Accrued Expenses and Other Liabilities account in the statement of financial position.
- c. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months, the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.
- d. The Bank has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:
 - i. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the Bank has no onerous contracts; and,
 - ii. use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The table below shows the effects of the adoption of PFRS 16 in the statement of financial position as of January 1, 2019.

	December 31, 2018	Adjustments	January 1, 2019
Bank Premises, Furniture, Fixtures and Equipment - Net	P 475,278,837	P 306,359,326	P 781,638,163
Deferred Tax Assets - Net	287,532,960	<u>10,717,489</u>	298,250,449
Effect on Total Assets		<u>317,076,815</u>	
Accrued Expenses and Other Liabilities	P 2,422,845,987	P <u>342,084,290</u>	P 2,764,930,277
Effect on Total Liabilities		<u>342,084,290</u>	
Net Effect on Equity		(P <u>25,007,475</u>)	

The following is a reconciliation of total operating lease commitments at December 31, 2018 under PAS 17, as disclosed in the December 31, 2018 financial statements, to the lease liabilities recognized at January 1, 2019 under PFRS 16:

	Notes	
Total operating lease commitment as at December 31, 2018 before discounting	26.1	P 502,612,310
Leases with remaining term of less than 12 months	2.2(a)(iii)(d), 19.2	(<u>58,462,072</u>) 444,150,238
Discounted using incremental borrowing rate		(<u>102,065,948</u>)
Total lease liabilities recognized under PFRS 16 as at January 1, 2019		<u>P 342,084,290</u>

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

- (v) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
 - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
- (vi) PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Bank obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Bank obtains joint control of the business.

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

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

PAS 28 (Amendments)	:	Investment in Associates and Long-term Interest in Associates and Joint Ventures
Annual Improvements to PFRS 2015-2017 Cycle		
PFRS 11 (Amendments)	:	Joint Arrangements

(c) *Effective Subsequent to 2019 but not Adopted Early*

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

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

- (ii) PFRS 3 (Amendments), *Business Combinations – Definition of Business* (effective January 1, 2020). The amendments clarify the definition of a business by providing a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments also clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs.
- (iii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

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

2.3 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Gain on bargain purchase which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss (see Note 31).

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.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provision, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 8.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8, *Operating Segments*, is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 8.

2.5 Financial Assets

Financial assets are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at FVPL are expensed outright in profit or loss. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

(a) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described as follows.

(i) *Financial Assets at Amortized Cost*

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

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" or "HTC"); and
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(b)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL. The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Investment Securities at Amortized Cost, Loans and Other Receivables and as part of Other Resources in respect of security deposits, petty cash fund and foreign currency notes and coins on hand which are included in the account.

For purposes of cash flows reporting and presentation, cash and cash equivalents include cash and other cash items, due from BSP and other banks, foreign currency notes and coins on hand and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less.

(ii) *Financial Assets at Fair Value Through Other Comprehensive Income*

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVPL. The Bank has no equity instruments as at the reporting periods.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of the Revaluation Reserves account in equity. When the asset is disposed of, the cumulative fair value gains or losses previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Surplus, except for those debt securities classified as FVOCI wherein fair value changes are recycled to profit or loss.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than “hold to collect” or “hold to collect and sell” are categorized at FVPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVPL. The Bank’s financial assets at FVPL include debt securities which are held for trading purposes or designated as at FVPL.

Financial assets at FVPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading Gains or Losses in the statement of profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and (ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument’s contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank’s business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) Effective Interest Rate Method and Interest Income

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVPL, or at FVOCI, is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income. The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

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

(c) *Impairment of Financial Assets*

The Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI and other contingent accounts. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments which are measured as 12-month ECL:

- all current loan accounts, except restructured loans;
- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments).

‘Stage 2’ financial instruments also include the following characteristics:

- performing accounts but with occurrence of loss event;
- accounts with missed payments but not yet classified as defaulted;
- current restructured loans; and,
- current loans that are rated as Especially Mentioned based on the Internal Credit Risk Rating System (ICRRS) of the Bank.

A lifetime ECL shall be recognized for ‘Stage 3’ financial instruments, which include financial assets considered as credit-impaired, purchased or originated credit-impaired assets, and those classified as Past Due and Items in Litigation based on the ECL methodology of the Bank.

The Bank’s definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3.

Measurement of ECL

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – This is a quantitative measure of default risk based on the general credit worthiness of the borrower or issuer. It is the likelihood of a borrower defaulting on its obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. A related measurement of default is the survival rate, which is the chance that the loan will be repaid.
- *Loss given default (LGD)* – The fraction of loan value or exposure that is likely to be lost in the event of borrower default. The loss statistic is specific to the facility structure and thus, associated with the facility risk rating. A related measure is the recovery rate, which is the percentage of the defaulted principal that can be recovered if default occurs.
- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation. The EAD is measured at book value of facilities granted with an assumption that most short-term lines and credit commitments are fully drawn at default. In case of a loan commitment, the Bank shall include the potential avancement (up to the current contractual limit) at the time of default should it occur.

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

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

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position. For loan commitments, the loss allowance is recognized as provisions (presented and included as part of the Accrued Expense and Other Liabilities account in the statement of financial position).

Where a financial instrument includes a drawn and undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn commitment; the Bank presents a combined allowance for ECL for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as provisions.

(d) *Reclassification of Financial Assets*

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

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

(e) *Derecognition of Financial Assets*

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

(i) *Modification of Loans*

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

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

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

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) *Derecognition of Financial Assets Other than Through Modification*

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

2.6 *Derivative Financial Instruments*

The Bank uses derivative financial instruments, particularly plain vanilla foreign exchange forwards, to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive (recognized as part of Investment securities at FVPL under the Trading and Investment Securities account) and as liabilities (recognized under the Accrued Expenses and Other Liabilities account) when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.7 *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount 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.

2.8 *Financial Liabilities*

Financial liabilities include deposit liabilities, bills payable, corporate notes payable and accrued expenses and other liabilities (excluding tax-related payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of profit or loss.

Deposit liabilities, bills payable and corporate notes payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.

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

Dividend distributions to shareholders are recognized as financial liabilities upon declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

2.9 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; 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 assets as follows:

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized using the estimated useful lives of 5 to 20 years or the remaining term of the lease whichever is shorter. Prior to the adoption of PFRS 16, the Bank had been amortizing the leasehold improvements over the term of the lease or its useful life, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

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

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

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

2.10 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are neither held by the Bank for sale in the next 12 months nor used in the rendering of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its acquisition price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Investment properties, except land, are depreciated over a period of five to ten years. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation.

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

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss under the Gain (or Loss) on sale of properties under Miscellaneous Income (or Expenses) in the statement of profit or loss, in the year of retirement or disposal.

2.11 Intangible Assets

Intangible assets include goodwill, branch licenses, club shares and computer software, which are included as part of Other Resources and are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets and branch licenses acquired at the date of acquisition. Branch licenses represent the rights given by the BSP to the Bank to establish a certain number of branches in various areas in the country.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.19). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units and is subsequently carried at cost less any allowance for impairment losses.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of 5 years. In addition, intangible assets are subject to impairment testing when indications exist, as described in Note 2.19. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

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

2.12 Other Resources

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

Other acquired assets pertains to chattels properties acquired through repossession or dación en pago from defaulting borrowers. These are stated at cost less accumulated depreciation and any impairment in value. Depreciation of other acquired assets is computed on a straight line basis over the estimated useful life of three years. The carrying value of other acquired assets is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

2.13 Provisions and Contingencies

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.14 Equity

Capital stock represents the nominal value of the common and preferred 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.

Appropriated surplus consist of:

- (a) General loan loss reserve, which pertains to the accumulated amount of appropriation from Surplus made by the Bank arising from the excess of the one-percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL; and,
- (b) Reserve for trust business representing the accumulated amount set aside by the Bank under existing regulations requiring the Bank to appropriate and transfer to surplus 10% of its net profits accruing from their trust business until the surplus shall amount to 20% of the regulatory capital. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this account.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revaluation reserves comprise of the remeasurements of post-employment defined benefit plan and unrealized fair value gains or losses on mark-to-market valuation of financial assets at FVOCI, net of amortization of fair value gains or losses on reclassified financial assets.

2.15 Related Party Transactions and Relationships

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

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

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

For purposes of reporting to the SEC in accordance with SEC Memorandum Circular No. 10-2019, *Rules on Material Related Party Transactions for Publicly-Listed Companies*, transaction amounting to ten percent (10%) or more of the total assets that were entered into with related parties are considered material. All individual material related party transactions shall be approved by at least two-thirds vote of the board of directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of ten percent (10%) of the Bank's total assets, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

2.16 Other Income and Expense Recognition

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

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

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

- a. *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided or after fulfilling the corresponding criteria. These include the commissions, deposit-related fees and other credit-related fees.
- b. *Asset Management Services* – The Bank provides asset management services, which include trust and fiduciary activities. Related fees are recognized in profit or loss as follows:
 - (i) *Asset management and trust fees* – these are service fees calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on the scheduled collection date. Revenue from asset management services is recognized over time as the services are provided.
 - (ii) *Non-refundable upfront fees* – are charged to customers when opening certain types of trust account with the Bank. These fees give rise to material rights for future services and are recognized as revenue over the period for which a customer is expected to continue receiving asset management services.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

- a. *Trading and Securities Gains (Losses)* – These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains and losses as a result of the mark-to-market valuation of investment securities classified as FVPL.
- b. *Gain or loss from assets sold or exchanged* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Miscellaneous Income or Miscellaneous Expenses in the statement of profit or loss.

Costs and expenses are recognized in profit or loss upon utilization of the assets and/or services or at the date those are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.21).

2.17 Leases – Bank as Lessee

(a) Accounting for Leases in Accordance with PFRS 16 (from January 1, 2019)

For the outstanding lease contracts as of January 1, 2019 and any new contracts entered into on or after January 1, 2019, the Bank considers whether a contract is or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.’ To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank amortizes the right-of-use asset on a straight-line basis from the lease commencement date over the useful life of the right-of-use asset or the term of the lease, whichever is shorter. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.19).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including those determined to be fixed in substance), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for any short-term leases (less than 12 months) using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The corresponding right-of-use assets and lease liabilities are presented as part of Bank Premises, Furniture, Fixtures and Equipment, and Accrued Expenses and Other Liabilities, respectively, in the statement of financial position.

(b) Accounting for Leases in Accordance with PAS 17 (until December 31, 2018)

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

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.18 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.19 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment (including right-of-use assets), investment properties, and other resources (including branch licenses goodwill, computer software, other acquired assets) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill and branch licenses (see Note 2.11) or those not yet available for use are tested for impairment at least annually.

All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed, except goodwill and branch license, if the cash generating units' recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

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

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

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

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

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). 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 and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Bonus Plans*

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Compensated Absences*

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

2.21 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.22 Income Taxes

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

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

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

The measurement of deferred tax 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 profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.23 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net profit attributable to common shares by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period, if any.

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the SEC.

Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. As of December 31, 2019 and 2018, the Bank has no convertible preferred shares (see Note 21.1).

2.24 Trust and Fiduciary Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.25 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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) Application of ECL to Financial Assets at FVOCI and Amortized Cost

The Bank uses external benchmarking and historical loss rates to calculate ECL for all debt instruments carried at FVOCI and amortized cost as well as loan commitments. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

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

(b) *Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments*

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

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

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies. Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

In 2019, the Bank disposed of certain debt securities from its HTC portfolio in accordance with its investment policy and has applied these evaluation process to ensure that the disposal is consistent with the Bank's HTC business model (see Note 11.3).

(c) *Distinction Between Investment Properties or Other Acquired Assets and Owner-occupied Properties*

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

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other acquired assets presented under Other Resources, if the Bank expects that the properties, which are other than land and building, will be recovered through sale rather than use, and as Investment Properties if the Bank intends to hold the properties, which could be land and/or building, to earn rental or for capital appreciation.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(d) *Determination of Branch Licenses Having Indefinite Useful Lives*

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

(e) *Determination of Lease Term (2019)*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Bank did not include renewal options as part of the lease term of as the terms are renewable upon mutual agreement.

The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(f) *Distinction Between Operating and Finance Leases (2018)*

The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or 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.

As of December 31, 2018, the Bank has determined that all its leases are operating leases.

(g) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and relevant disclosures are presented in Note 26.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on debt financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behaviour (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.

The carrying value of investment debt securities at amortized cost and at FVOCI, and loans and other receivables together with the analysis of the allowance for impairment on such financial assets, are shown in Notes 11 and 12, respectively.

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

The carrying values of the Bank's financial assets at FVPL and FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Note 11.

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

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

(c) *Fair Value Measurement for Financial Assets at FVPL and at FVOCI*

The Bank carries certain financial assets at fair value which requires judgment and extensive use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 7.2).

The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss or other comprehensive income.

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation (see Note 7.2).

The carrying values of the Bank's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 11.

(d) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Computer Software, Goodwill and Branch Licenses*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

The carrying amounts of bank premises, furniture, fixtures and equipment, including right-of-use assets, investment properties and computer software are analyzed in Notes 13, 14 and 15, respectively, while the carrying amounts of goodwill and branch licenses are analyzed in Note 15. Based on management's assessment as of December 31, 2019 and 2018, there are no changes in the useful lives of these assets.

Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Determination of Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management has assessed to be fully recoverable, as of December 31, 2019 and 2018 is disclosed in Note 25.

(f) *Determination of Fair Value of Investment Properties*

The Bank's investment properties are composed of parcels of land and buildings and improvements which are held for capital appreciation, and are measured using the cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property. For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties. A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.

(g) *Determination of Fair Value of Identifiable Assets Acquired and Liabilities Assumed from the Merger and Resulting Gain on Bargain Purchase*

The merger between the Bank and ISBI is considered as an acquisition of a business as defined in PFRS 3, hence, the Bank accounted the merger by applying the acquisition method. The acquisition method requires the recognition of identifiable assets, liabilities, indemnification assets, contingent liabilities and deferred consideration in a business combination, if any, at fair value at the date of acquisition, with the excess of the acquisition price over the identified fair values recognized as goodwill, if positive, otherwise gain on bargain purchase (see Note 31).

The Bank obtained a valuation report for the purchase price allocation from an independent external valuation specialist in order to determine the fair value of assets, liabilities and contingent liabilities acquired, and that formed a basis for any resulting goodwill or a gain on bargain purchase. To calculate the goodwill or gain on bargain purchase in the merger transaction, the Bank, through its independent external valuation specialist, allocated the purchase price to the fair values of identifiable assets acquired and liabilities assumed on the following order: (a) fair value of tangible net assets as at the acquisition date and then (b) fair value of identifiable intangible asset, if any. (see Note 31).

Fair value of tangible assets are determined based on the current economic and market conditions as well as the physical condition of the assets (see also Note 7).

(b) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives (i.e. goodwill and branch licenses), which are annually tested for impairment, PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Allowance for impairment recognized on investment properties and other properties held for sale are discussed in Notes 14 and 15. There are no impairment losses recognized in goodwill, branch licenses, bank premises, furniture, fixtures and equipment, and right-of-use assets.

(i) Valuation of Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates, expected rate of salary increases and employee turnover. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of defined benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 23.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.1 Risk Management

The Bank continually advances on its risk management techniques and integrate this into the overall strategic business objectives to support the growth objectives of the Bank.

The Bank has automated the front-office, back office, and middle office operations as far as market risk is concerned. This includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes review and approval of large exposure and credit concentration within proper authority. The Bank also reviews plans and progress on the resolution of problem loan accounts. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the overall objective and strategies of the Bank. In addition, information security policies were further strengthened, implemented, and disseminated across all units of the Bank.

4.2 Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty, and other downside risks within the context of the supervisory risk guidelines of the BSP and aligned best practices on risk management.

4.3 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. ERMG, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an ICRRS for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making.

4.3.1 Credit Risk Measurement

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL as required by PFRS 9.

The initial recognition of credit risk by individual or group of related counterparties is done via its ICRRS. The ICRRS is tailored to consider various categories of counterparty. The rating system is further supplemented with external data such as credit rating agencies' scoring information on individual borrowers.

The ICRRS is established by the Bank in congruence with and with reference to the credit risk rating methodology used by an established rating agency in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between risk ratings). Past due, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated under Especially Mentioned, Substandard, Doubtful or Loss, and the loan loss provision of which are based on the loss given default.

Management considers additional information for each type of loan portfolio held by the Bank:

(i) Retail or Consumer Loans

Subsequent to initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. The ECL parameters were carried on collective basis on shared credit risk characteristics of the borrowers and the repayment scheme of the products.

(ii) Corporate and Commercial Loans

For corporate and commercial loans, the rating is determined at the borrower level. A relationship manager incorporates any updated or new information or credit assessments into the credit review system on an ongoing basis. In addition, the relationship manager also updates information about the creditworthiness of the borrower every year from sources such as publicly available financial statements. This determines the internal credit rating and the PD.

(iii) *Debt Securities at Amortized Cost and at FVOCI*

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as S&P) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

In the process of applying the Bank's ICRRS in determining indications of impairment on individually significant items of financial assets at amortized cost and debt securities at FVOCI, the Bank analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

<u>Risk Rating</u>	<u>Rating Description/Criteria</u>
Excellent	Borrowers have very strong debt service capacity and have conservative balance sheet leverage
Strong	Borrower normally has a comfortable degree of stability, substance and diversity
Good	Borrowers have low probability of going into default and bear characteristics of some degree of stability and substance though susceptible to cyclical changes and higher degree of concentration of business risk either by product or by market
Satisfactory	Borrowers where clear risk elements exist and the probability of default is somewhat greater
Acceptable	Borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within acceptable period can be expected
Watch list	Borrowers for which unfavorable industry or company-specific risk factors represent a concern

Classified accounts or accounts already in default as defined are further mapped into BSP classification of non-performing accounts as follows:

<u>Risk Rating</u>	<u>Rating Description/Criteria</u>
Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan
Substandard	Have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable
Loss	Loans considered absolutely uncollectible or worthless

Credit exposures shall be regularly assessed and loan loss provision be recognized in a timely manner to ensure that capital is adequate to support such risk exposure. To ensure that this is rationally implemented, the Bank developed and adopted an internal loan loss methodology.

4.3.2 Credit Quality Analysis

The table in the succeeding page sets out information about the credit quality of loans and other receivables, financial assets measured at amortized cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts for loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2019 and 2018, there are no purchased or originated credit-impaired financial assets in the Bank's financial statements.

The following table shows the exposure (gross of unamortized charges and unearned discount) to credit risk for each internal risk grade and the related allowance for impairment as of December 31:

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate*				
Excellent	P 2,235,742,578	P -	P -	P 2,235,742,578
Strong	1,502,326,375	-	-	1,502,326,375
Good	20,549,082,583	131,270,158	-	20,680,352,741
Satisfactory	43,914,235,553	758,226,054	-	44,672,461,607
Acceptable	7,644,266,196	102,931,445	-	7,747,197,641
Watchlist	-	759,950,754	50,892,961	810,843,715
Classified	-	-	1,599,489,079	1,599,489,079
	75,845,653,285	1,752,378,411	1,650,382,040	79,248,413,736
Expected credit loss allowance	(218,630,691)	(317,391,193)	(869,001,267)	(1,405,023,151)
Carrying amount	<u>P 75,627,022,594</u>	<u>P 1,434,987,218</u>	<u>P 781,380,773</u>	<u>P 77,843,390,585</u>
Receivables from customers – consumer*				
Auto loans	P 2,344,410,861	P 139,038,557	P 235,465,096	P 2,718,914,514
Contract-to-sell	33,488,708	-	497,393	33,986,101
Housing loans	3,106,421,538	52,678,889	205,158,140	3,364,258,567
Salary loans	153,013,925	9,938,856	91,185,602	254,138,383
	5,637,335,032	201,656,302	532,306,231	6,371,297,565
Expected credit loss allowance	(99,098,287)	(39,984,245)	(151,860,864)	(290,943,396)
Carrying amount	<u>P 5,538,236,745</u>	<u>P 161,672,057</u>	<u>P 380,445,367</u>	<u>P 6,080,354,169</u>
Other receivables				
Excellent	P 2,732,547,916	P -	P -	P 2,732,547,916
Strong	7,462,681	-	-	7,462,681
Good	43,300,040	2,922,491	-	46,222,530
Satisfactory	111,875,936	1,213,437	-	113,089,373
Acceptable	202,647,881	691,314	73,378	203,412,573
Watchlist	-	8,012,093	518,167	8,530,260
Classified	-	206,410	418,480,929	418,687,340
	3,097,834,454	13,045,745	419,072,474	3,529,952,673
Expected credit loss allowance	(2,992,815)	(2,459,888)	(72,441,091)	(77,893,794)
Carrying amount	<u>P 3,094,841,639</u>	<u>P 10,585,857</u>	<u>P 346,631,383</u>	<u>P 3,452,058,879</u>
Debt investment securities at FVOCI				
Grades AAA to B : Current	<u>P 9,223,102,447</u>	<u>P -</u>	<u>P -</u>	<u>P 9,223,102,447</u>
Debt investment securities at amortized cost				
Grades AAA to B : Current	P 855,081,960	P -	P -	P 855,081,960
Expected credit loss allowance	(1,617,940)	-	-	(1,617,940)
Carrying amount	<u>P 853,464,020</u>	<u>P -</u>	<u>P -</u>	<u>P 853,464,020</u>

*Excludes unamortized charges from capitalized commission amounting to P120.7 million.

**As of December 31, 2019, the Bank has no irrevocable loan commitments.

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers - corporate				
Excellent	P 1,294,018,554	P -	P -	P 1,294,018,554
Strong	1,426,380,763	-	-	1,426,380,763
Good	26,746,808,452	-	-	26,746,808,452
Satisfactory	28,828,290,947	-	34,777,449	28,863,068,396
Acceptable	8,123,868,414	-	-	8,123,868,414
Watchlist	2,155,093,781	264,038,478	117,121,887	2,536,254,146
Classified	-	5,102,318	1,169,145,731	1,174,248,049
	68,574,460,911	269,140,796	1,321,045,067	70,164,646,774
Expected credit loss allowance	(223,912,949)	(13,268,069)	(566,712,181)	(803,893,199)
Carrying amount	<u>P 68,350,547,962</u>	<u>P 255,872,727</u>	<u>P 754,332,886</u>	<u>P 69,360,753,575</u>
Receivables from customers - consumer				
Auto loans	P 1,083,488,229	P 518,950	P 65,995,161	P 1,150,002,340
Contract-to-sell	42,234,804	-	497,393	42,732,197
Housing loans	2,834,277,589	22,495,477	177,531,784	3,034,304,850
Salary loans	46,077,061	-	3,305,628	49,382,689
	4,006,077,683	23,014,427	247,329,966	4,276,422,076
Expected credit loss allowance	(27,088,724)	(2,128,563)	(56,937,254)	(86,154,541)
Carrying amount	<u>P 3,978,988,959</u>	<u>P 20,885,864</u>	<u>P 190,392,712</u>	<u>P 4,190,267,535</u>
Other receivables				
Excellent	P 1,652,460,398	P -	P -	P 1,652,460,398
Strong	8,015,981	-	-	8,015,981
Good	78,746,767	-	-	78,746,767
Satisfactory	84,114,764	-	724,227	84,838,991
Acceptable	103,724,462	-	-	103,724,462
Watchlist	5,755,615	1,103,102	2,001,949	8,860,666
Classified	-	-	367,689,676	367,689,676
	1,932,817,987	1,103,102	370,415,852	2,304,336,941
Expected credit loss allowance	(2,319,779)	(19,104)	(152,435,039)	(154,773,922)
Carrying amount	<u>P 1,930,498,208</u>	<u>P 1,083,998</u>	<u>P 218,460,873</u>	<u>P 2,149,563,019</u>
Loan commitments and other				
contingent accounts				
Excellent	P -	P -	P -	P -
Strong	-	-	-	-
Good	641,068,466	-	-	641,068,466
Satisfactory	753,882,953	-	-	753,882,953
Acceptable	568,776,041	-	-	568,776,041
Watchlist	-	-	-	-
Classified	-	-	-	-
	1,963,727,460	-	-	1,963,727,460
Expected credit loss allowance	(9,563,549)	-	-	(9,563,549)
Carrying amount	<u>P 1,954,163,911</u>	<u>P -</u>	<u>P -</u>	<u>P 1,954,163,911</u>
Debt investment securities at FVOCI				
(2018)/AFS securities (2017)				
Grades AAA to B: Current	<u>P 2,279,714,729</u>	<u>P -</u>	<u>P -</u>	<u>P 2,279,714,729</u>
Debt investment securities at				
amortized cost				
Grades AAA to B: Current	P 772,673,000	P -	P -	P 772,673,000
Expected credit loss allowance	(1,617,940)	-	-	(1,617,940)
Carrying amount	<u>P 771,055,060</u>	<u>P -</u>	<u>P -</u>	<u>P 771,055,060</u>

As of December 31, 2019 and 2018, the Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totaling to P9,212.7 million and P11,681.5 million, respectively (see Notes 9 and 10). The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

4.3.3 Concentrations of Credit Risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below (amounts in thousands).

	2019			2018		
	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	P 11,754,753	P 2,648,402	P 14,180,648	P 13,238,467	P 2,696,089	P 2,480,110
Wholesale and retail trade	-	32,301,851	-	-	26,402,438	371,914
Real estate activities	-	14,806,015	-	-	15,724,361	-
Manufacturing	-	9,752,198	-	-	8,093,324	-
Transportation and storage	-	7,677,588	-	-	7,107,820	10,364
Electricity, gas, steam and air-conditioning supply	-	4,206,239	190,000	-	5,210,786	190,000
Construction	-	4,131,806	-	-	2,522,954	-
Accommodation and food service activities	-	2,495,182	-	-	1,196,942	-
Water supply, sewerage, waste management and remediation activities	-	2,248,908	-	-	426,940	-
Agriculture, forestry and fishing	-	1,546,344	-	-	1,803,213	-
Administrative and support services	-	862,664	-	-	1,084,207	-
Information and communication	-	584,358	-	-	513,377	-
Consumption	-	481,286	-	-	47,788	-
Mining and quarrying	-	384,278	-	-	369,397	-
Professional, scientific, and technical activities	-	151,815	-	-	137,617	-
Education	-	137,792	-	-	144,548	-
Human health and social service activities	-	44,469	-	-	193,504	-
Arts, entertainment and recreation	-	10,300	-	-	149,170	-
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	-	3,343	-	-	3,443	-
Other service activities	-	1,144,873	-	-	613,151	-
	P 11,754,753	P 85,619,711	P 14,370,648	P 13,238,467	P 74,441,069	P 3,052,388

* Cash and cash equivalents include cash and other cash items, due from BSP and other banks, SPURRA and foreign currency notes and coins on hand (see Note 2.5).

**Receivables from customers are reported gross of unearned interests or discounts.

4.3.4 Amounts Arising from Expected Credit Losses

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI have significant increase in credit risk (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using PD, LGD and EAD.

(a) *Significant Increase in Credit Risk (SICR)*

As outlined in PFRS 9, a '3-stage' impairment model was adopted by the Bank based on changes in credit quality since initial recognition of the financial asset. As discussed in Note 2.5(d), a financial asset that is not credit-impaired on initial recognition is classified as 'Stage 1', with credit risk continuously monitored by the Bank as its ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months. If an SICR since initial recognition is identified, the classification will be moved to 'Stage 2' but is not yet deemed to be credit-impaired. Such assessment is based on certain qualitative criteria as follows:

- Borrowers with past due accounts over the cure period of 30 days but with current accounts at the effectivity of the cure period policy shall be downgraded to Watchlist Rating.
- Watchlist borrowers can be upgraded upon completion of the seasoning period which shall be 12 months from the time of downgrading provided an updated ICCR has been conducted. The seasoning means that there is not incident of past due even within the cure period.
- Borrowers with accounts that are all past due over the cure period shall be rated as Classified. Such shall be categorized as:
 - (i) Classified secured less than 5 years past due
 - (ii) Classified – Clean less than 3 years
 - (iii) Classified over Recovery Period

Watchlisted accounts shall be considered as Stage 2 accounts for purposes of provisioning while Classified accounts shall be Stage 3.

(b) *Definition of Default and Credit-impaired Assets*

Credit impaired assets are those classified as both past due and under Stage 3. Total credit impaired assets under corporate, consumer, and other receivables amounted to P1,650.4 million, P532.3 million, and P419.1 million, respectively, as at December 31, 2019 and P1,321.0 million, P247.3 million, and P370.4 million, respectively, as at December 31, 2018. The Bank defines a financial asset as in default, which is aligned with the definition of credit-impaired asset, when it meets one or more of the following criteria:

- *Quantitative* – in this criterion, the borrower is more than 30 days past due on its contractual payments.
- *Qualitative* – this includes instances where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of long-term forbearance, borrower's death, insolvency, breach of financial covenant/s, disappearance of active market for that financial instrument because of financial difficulties, and bankruptcy.

These criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the Bank.

An instrument is considered to have cured when it no longer meets any of the default criteria for a consecutive period of six months. The cure period sets the tolerance period wherein the borrowers are allowed to update the payments. This period was determined based on an analysis which considers the likelihood of a financial instrument returning to default status. The Bank considers verifiable collection experience and reasonable judgment that support the likelihood.

Unsecured and secured loans qualify for write-off when they remained unpaid and outstanding for more than 914 days and 1,095 days, respectively, and upon BOD approval.

(c) *Key Inputs, Assumptions and Estimation Techniques Used in Measurement of ECL*

The ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the PD, LGD, and EAD, which are defined in Note 2.5(c). The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (usually, an observation period of five to seven years).

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed.

For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information [see Note 4.3.4(d)]. Further, the assumptions underlying the calculation of the ECL – such as how the maturity profile of the PDs and how collateral values change – are monitored and reviewed by the Bank on a quarterly basis.

There have been no significant changes in the estimation techniques or significant assumptions made by the Bank in 2019.

(d) Overlay of Forward-looking Information in the Measurement of ECL

The Bank incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties and the ECL for each portfolio of debt instruments.

The MEVs and their associated impact on the PD, EAD and LGD vary by financial instrument. The Bank formulates forecasts of MEVs (one base economic scenario, and two less likely scenarios – one upside and one downside) and are performed by the Bank's ERMG on a quarterly basis and provide the best estimate view of the economy over the next five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of EAD and LGD.

The base scenario is aligned with information used by the Bank for strategic planning and budgeting. The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its corporate loans portfolio, which include gross domestic product and interest rates. The analysis of these scenarios take into account the range of possible outcomes that each chosen scenario is representative of. The assessment of SICR is performed using the lifetime PD under each of the scenario, multiplied by the associated scenario weight, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3, hence, whether a 12-month or lifetime ECL should be recorded.

Following this assessment, the Bank measures ECL as either a probability-weighted 12-month ECL (Stage 1), or a probability-weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weights.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Bank's different product types to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Management has also considered other FLI not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL.

(e) *Collective Basis of Measurement of ECL*

For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as instrument, product type (auto loans, housing loans, etc.), repayment scheme, industry type, remaining life to maturity, and geographical locations of the borrowers and/or counterparties.

The groupings are subject to the regular review by the Bank's CMD in order to ensure that credit exposures within a particular group remain appropriately homogenous.

4.3.5 Modifications of Financial Assets

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is most commonly applied to term or corporate loans (see Note 12).

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets.

4.3.6 Credit Risk Exposures

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets, except for certain secured loans and receivables from customers, as shown below.

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
2019				
Loans and discounts:				
Corporate	P79,248,413,736	P52,287,911,760	P26,860,601,976	P 52,387,811,760
Consumer	6,371,297,565	10,236,124,689	-	6,371,297,565
Sales contracts receivables	<u>68,531,388</u>	<u>156,880,925</u>	<u>-</u>	<u>68,531,388</u>
	<u>P85,688,242,689</u>	<u>P62,680,917,374</u>	<u>P 26,860,601,976</u>	<u>P58,827,640,713</u>

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
<u>2018</u>				
Loans and discounts:				
Corporate	P70,164,646,774	P46,445,086,188	P23,719,560,586	P46,445,086,188
Consumer	4,276,422,076	7,926,358,430	-	4,276,422,076
Sales contracts receivables	<u>94,001,157</u>	<u>157,684,338</u>	<u>-</u>	<u>94,001,157</u>
	<u>P74,535,070,007</u>	<u>P54,529,128,956</u>	<u>P 23,719,560,586</u>	<u>P50,815,509,421</u>

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

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
<u>2019</u>				
Loans and discounts:				
Corporate	P 1,650,382,040	P 969,991,541	P 680,390,499	P 969,991,541
Consumer	532,306,231	757,089,723	-	532,306,231
Sales contracts receivables	<u>9,892,227</u>	<u>31,337,400</u>	<u>-</u>	<u>9,892,227</u>
	<u>P 2,192,580,498</u>	<u>P 1,758,418,664</u>	<u>P 680,390,499</u>	<u>P 1,512,189,999</u>

<u>2018</u>				
Loans and discounts:				
Corporate	P 1,321,045,067	P 714,833,580	P 606,211,487	P 714,833,580
Consumer	247,329,966	368,535,710	-	247,329,966
Sales contracts receivables	<u>9,211,431</u>	<u>27,486,513</u>	<u>-</u>	<u>9,211,431</u>
	<u>P 1,577,586,464</u>	<u>P 1,110,855,803</u>	<u>P 606,211,487</u>	<u>P 971,374,977</u>

The following table sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and debt securities at FVOCI as of December 31:

	Notes	2019	2018
Cash equivalents	9, 10	<u>P 9,212,682,980</u>	<u>P11,681,504,126</u>
Debt securities			
At amortized cost	11.3	853,464,020	771,055,060
At FVOCI	11.2	<u>9,223,102,447</u>	<u>2,279,714,729</u>
		<u>10,076,566,467</u>	<u>3,050,769,789</u>
		<u>P 19,289,249,447</u>	<u>P 14,732,273,915</u>

Cash equivalents includes loans and advances to banks (i.e., Due from BSP and Due from Other Banks). Debt securities includes government and corporate bonds. These are held by the BSP, financial institutions and other counterparties that are reputable and with low credit risk; hence, ECL is negligible.

4.3.7 Allowance for Expected Credit Loss

The following tables show the reconciliation of the loss allowance for ECL by class of financial instruments at the beginning and end of 2019 and 2018:

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 223,912,949	P 13,268,070	P 566,712,180	P 803,893,199
Transfers to:				
Stage 1	5,511,702	(5,511,702)	-	-
Stage 2	(9,320,010)	9,320,010	-	-
Stage 3	(2,660,964)	(940,599)	3,601,563	-
Net remeasurement of loss allowance	(43,571,689)	133,185,500	461,637,867	551,251,678
New financial assets originated	111,587,866	169,996,000	223,061,749	504,645,615
Derecognition of financial assets	(66,829,163)	(1,926,086)	(386,012,092)	(454,767,341)
Write-offs	-	-	-	-
Balance at December 31	<u>P 218,630,691</u>	<u>P 317,391,193</u>	<u>P 869,001,267</u>	<u>P 1,405,023,151</u>
Receivables from customers – consumer				
Balance at January 1	P 27,088,724	P 2,128,563	P 56,937,254	P 86,154,541
Transfers to:				
Stage 1	7,681,405	-	(7,681,405)	-
Stage 2	(160,466)	872,764	(712,298)	-
Stage 3	(584,026)	(116,168)	700,194	-
Net remeasurement of loss allowance	2,237,641	1,732,546	10,220,716	14,190,903
New financial assets originated	63,838,156	35,622,294	117,222,759	216,683,209
Derecognition of financial assets	(1,003,147)	(255,754)	(24,826,356)	(26,085,257)
Write-offs	-	-	-	-
Balance at December 31	<u>P 99,098,287</u>	<u>P 39,984,245</u>	<u>P 151,860,864</u>	<u>P 290,943,396</u>
Other receivables				
Balance at January 1	P 2,319,779	P 19,104	P 152,435,039	P 154,773,922
Transfers to:				
Stage 1	2,054,956	(69)	(2,054,887)	-
Stage 2	(35,420)	70,271	(34,851)	-
Stage 3	(45,510)	(5,802)	51,312	-
Net remeasurement of loss allowance	(1,641,544)	1,226,921	(97,920,171)	(98,334,794)
New financial assets originated	2,052,165	1,156,366	23,413,172	26,621,703
Derecognition of financial assets	(1,711,611)	(6,903)	(3,448,523)	(5,167,037)
Balance at December 31	<u>P 2,992,815</u>	<u>P 2,459,888</u>	<u>P 72,441,091</u>	<u>P 77,893,794</u>
Loan commitments				
Balance at January 1	P 9,563,549	P -	P -	P 9,563,549
Net remeasurement of loss allowance	(9,563,549)	-	-	(9,563,549)
New financial assets originated or purchased	-	-	-	-
Derecognition of financial assets	-	-	-	-
Balance at December 31	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>
Debt investment securities at FVOCI				
Balance at January 1	P 4,229,457	P -	P -	P 4,229,457
Net remeasurement of loss allowance	-	-	-	-
Balance at December 31	<u>P 4,229,457</u>	<u>P -</u>	<u>P -</u>	<u>P 4,229,457</u>
Debt investment securities at amortized cost				
Balance at January 1	P 1,617,940	P -	P -	P 1,617,940
Net remeasurement of loss allowance	-	-	-	-
Reversal of impairment	-	-	-	-
Balance at December 31	<u>P 1,617,940</u>	<u>P -</u>	<u>P -</u>	<u>P 1,617,940</u>

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 209,238,344	P 1,706,829	P 686,156,061	P 897,101,234
Transfers to:				
Stage 1	24,120	-	(24,120)	-
Stage 2	-	1,763,019	(1,763,019)	-
Stage 3	(971,467)	(515,107)	1,486,574	-
Net remeasurement of loss allowance	(4,332,130)	10,207,602	208,405,145	214,280,617
New financial assets originated	110,196,491	2,979,206	40,096,398	153,272,095
Derecognition of financial assets	(90,242,409)	(2,873,479)	(39,445,816)	(132,561,704)
Write-offs	-	-	(328,199,043)	(328,199,043)
Balance at December 31	<u>P 223,912,949</u>	<u>P 13,268,070</u>	<u>P 566,712,180</u>	<u>P 803,893,199</u>
Receivables from customers – consumer				
Balance at January 1	P 29,473,763	P 163,268	P 69,315,419	P 98,952,450
Transfers to:				
Stage 1	16,848,554	-	(16,848,554)	-
Stage 2	-	-	-	-
Stage 3	(521,581)	-	521,581	-
Net remeasurement of loss allowance	(30,294,204)	1,948,201	22,705,898	(5,640,105)
New financial assets originated	15,598,373	657,751	11,053,830	27,309,954
Derecognition of financial assets	(4,016,181)	(640,657)	(9,778,553)	(14,435,391)
Write-offs	-	-	(20,032,367)	(20,032,367)
Balance at December 31	<u>P 27,088,724</u>	<u>P 2,128,563</u>	<u>P 56,937,254</u>	<u>P 86,154,541</u>
Other receivables				
Balance at January 1	P 851,083	P 6,027	P 145,415,838	P 146,272,948
Transfers to:				
Stage 1	406,607	-	(406,607)	-
Stage 2	70,792	337	(71,129)	-
Stage 3	(2,668)	-	2,668	-
Net remeasurement of loss allowance	5,880,181	7,865	(8,868,246)	(2,980,200)
New financial assets originated	4,107,171	4,875	21,989,278	26,101,324
Derecognition of financial assets	(8,993,387)	-	(4,886,263)	(13,879,650)
Write-offs	-	-	(740,500)	(740,500)
Balance at December 31	<u>P 2,319,779</u>	<u>P 19,104</u>	<u>P 152,435,039</u>	<u>P 154,773,922</u>
Loan commitments				
Balance at January 1	P 6,058,499	P -	P -	P 6,058,499
Net remeasurement of loss allowance	245,976	-	-	245,976
New financial assets originated or purchased	8,510,678	-	-	8,510,678
Derecognition of financial assets	(5,251,604)	-	-	(5,251,604)
Balance at December 31	<u>P 9,563,549</u>	<u>P -</u>	<u>P -</u>	<u>P 9,563,549</u>
Debt investment securities at FVOCI (2018) / AFS securities (2017)				
Balance at January 1	P -	P -	P -	P -
Net remeasurement of loss allowance	<u>4,229,457</u>	<u>-</u>	<u>-</u>	<u>4,229,457</u>
Balance at December 31	<u>P 4,229,457</u>	<u>P -</u>	<u>P -</u>	<u>P 4,229,457</u>
Debt investment securities at amortized cost (2018)/HTM securities (2017)				
Balance at January 1	P -	P -	P -	P -
Net remeasurement of loss allowance	2,165,927	-	-	2,165,927
Reversal of impairment	(547,987)	-	-	(547,987)
Balance at December 31	<u>P 1,617,940</u>	<u>P -</u>	<u>P -</u>	<u>P 1,617,940</u>

4.3.8 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of financial instruments in 2019 and 2018 contributed to the changes in the allowance for ECL.

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 68,574,460,911	P 269,140,796	P 1,321,045,067	P 70,164,646,774
Transfers to:				
Stage 1	54,984,942 (	54,984,942)	-	-
Stage 2	(1,004,890,362)	1,004,890,362	-	-
Stage 3	(330,100,744)	(32,378,626)	362,479,370	-
New financial assets originated	52,191,772,039	816,839,870	253,238,325	53,261,850,234
Derecognition of financial assets	(43,640,573,501)	(251,129,049)	(274,165,313)	(44,165,867,863)
Write-offs	-	-	(7,495,409)	(7,495,409)
Balance at December 31	<u>P 75,845,653,285</u>	<u>P 1,752,378,411</u>	<u>P 1,650,382,040</u>	<u>P 79,248,413,736</u>
Receivables from customers – consumer				
Balance at January 1	P 4,006,077,683	P 23,014,427	P 247,329,966	P 4,276,422,076
Transfers to:				
Stage 1	35,564,159	-	(35,564,159)	-
Stage 2	(22,335,512)	25,872,645	(3,537,133)	-
Stage 3	(83,585,256)	(1,658,951)	85,244,207	-
New financial assets originated	1,973,205,787	158,812,807	278,829,167	2,410,847,761
Derecognition of financial assets	(271,591,829)	(4,384,626)	(39,995,817)	(315,972,272)
Write-offs	-	-	-	-
Balance at December 31	<u>P 5,637,335,032</u>	<u>P 201,656,302</u>	<u>P 532,306,231</u>	<u>P 6,371,297,565</u>
Other receivables				
Balance at January 1	P 1,932,817,987	P 1,103,102	P 370,415,852	P 2,304,336,941
Transfers to:				
Stage 1	6,263,657 (	22,769)	(6,240,888)	-
Stage 2	(3,193,038)	3,216,527	(23,489)	-
Stage 3	(3,827,095)	(23,936)	3,851,031	-
New financial assets originated	2,736,223,638	9,193,768	54,489,869	2,799,907,275
Derecognition of financial assets	(1,570,450,695)	(420,947)	(5,779,901)	(1,576,651,543)
Write-offs	-	-	(2,360,000)	(2,360,000)
Balance at December 31	<u>P 3,097,834,454</u>	<u>P 13,045,745</u>	<u>P 419,072,474</u>	<u>P 3,529,952,673</u>
Loan commitments				
Balance at January 1	P 1,963,727,460	P -	P -	P 1,963,727,460
New financial assets originated or purchased	1,761,099,684	-	-	1,761,099,684
Derecognition of financial assets	(3,724,827,144)	-	-	(3,724,827,144)
Foreign exchange	-	-	-	-
Balance at December 31	<u>P -</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>
Debt investment securities at FVOCI				
Balance at January 1	P 2,279,714,729	P -	P -	P 2,279,714,729
New financial assets purchased	7,726,621,265	-	-	7,726,621,265
Fair value gains	520,604,073	-	-	520,604,073
Disposals	(1,255,806,778)	-	-	(1,255,806,778)
Foreign currency revaluation and others	(70,161,837)	-	-	(70,161,837)
Amortization of discount	22,130,995	-	-	22,130,995
Balance at December 31	<u>P 9,223,102,447</u>	<u>P -</u>	<u>P -</u>	<u>P 9,223,102,447</u>
Debt investment securities at amortized cost				
Balance at January 1	P 771,055,060	P -	P -	P 771,055,060
New financial assets purchased	178,279,354	-	-	178,279,354
Maturities	(51,442,610)	-	-	(51,442,610)
Disposals	(50,691,016)	-	-	(50,691,016)
Amortization of discount	6,263,232	-	-	6,263,232
Net remeasurement of loss allowance	-	-	-	-
Balance at December 31	<u>P 853,464,020</u>	<u>P -</u>	<u>P -</u>	<u>P 853,464,020</u>

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 65,706,362,030	P 2,313,439	P 1,463,590,523	P 67,172,265,992
Transfers to:				
Stage 1	3,000,000	-	(3,000,000)	-
Stage 2	-	22,627,168	(22,627,168)	-
Stage 3	(211,661,592)	(43,117,709)	254,779,301	-
New financial assets originated	44,925,708,041	287,718,455	429,932,070	45,643,358,566
Derecognition of financial assets	(41,848,947,568)	(400,557)	(473,430,616)	(42,322,778,741)
Write-offs	-	-	(328,199,043)	(328,199,043)
Balance at December 31	<u>P 68,574,460,911</u>	<u>P 269,140,796</u>	<u>P 1,321,045,067</u>	<u>P 70,164,646,774</u>
Receivables from customers – consumer				
Balance at January 1	P 3,126,168,221	P 22,417,729	P 285,549,313	P 3,434,135,263
Transfers to:				
Stage 1	81,384,427	-	(81,384,427)	-
Stage 2	-	-	-	-
Stage 3	(53,125,437)	-	53,125,437	-
New financial assets originated	1,779,206,092	8,139,499	61,749,964	1,849,095,555
Derecognition of financial assets	(927,555,620)	(7,542,801)	(51,677,954)	(986,776,375)
Write-offs	-	-	(20,032,367)	(20,032,367)
Balance at December 31	<u>P 4,006,077,683</u>	<u>P 23,014,427</u>	<u>P 247,329,966</u>	<u>P 4,276,422,076</u>
Other receivables				
Balance at January 1	P 1,118,672,343	P 65,211	P 72,963,243	P 1,191,700,797
Transfers to:				
Stage 1	1,932,781	-	(1,932,781)	-
Stage 2	(219,914)	902,711	(682,797)	-
Stage 3	(2,525,886)	-	2,525,886	-
New financial assets originated	855,565,212	135,180	313,960,874	1,169,661,266
Derecognition of financial assets	(40,606,549)	-	(15,678,073)	(56,284,622)
Write-offs	-	-	(740,500)	(740,500)
Balance at December 31	<u>P 1,932,817,987</u>	<u>P 1,103,102</u>	<u>P 370,415,852</u>	<u>P 2,304,336,941</u>
Loan commitments				
Balance at January 1	P 2,861,681,871	P -	P -	P 2,861,681,871
New financial assets originated or purchased	1,761,099,684	-	-	1,761,099,684
Derecognition of financial assets	(2,659,054,095)	-	-	(2,659,054,095)
Foreign exchange	-	-	-	-
Balance at December 31	<u>P 1,963,727,460</u>	<u>P -</u>	<u>P -</u>	<u>P 1,963,727,460</u>
Debt investment securities at FVOCI (2018)				
/ AFS securities (2017)				
Balance at January 1	P 2,438,872,511	P -	P -	P 2,438,972,511
Effect of adoption of PFRS 9 (see Note 2.2)	(949,330,793)	-	-	(949,330,793)
New financial assets purchased	783,916,126	-	-	783,916,126
Fair value losses	(75,060,232)	-	-	(75,060,232)
Foreign currency revaluation and others	81,317,117	-	-	81,317,117
Balance at December 31	<u>P 2,279,714,729</u>	<u>P -</u>	<u>P -</u>	<u>P 2,279,714,729</u>
Debt investment securities at amortized cost (2018)/HTM securities (2017)				
Balance at January 1	P -	P -	P -	P -
Effect of adoption of PFRS 9 (see Note 2.2)	393,117,111	-	-	393,117,111
New financial assets purchased	375,097,281	-	-	375,097,281
Amortization of discount	2,292,681	-	-	2,292,681
Net remeasurement of loss allowance	547,987	-	-	547,987
Balance at December 31	<u>P 771,055,060</u>	<u>P -</u>	<u>P -</u>	<u>P 771,055,060</u>

4.3.9 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, standby letters of credit or bank guaranty, government guaranty, chattel mortgage, assignment of receivables, pledge of equity securities, personal and corporate guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of repurchase and securities borrowing arrangements. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2019 and 2018.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31 are presented below.

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<u>2019</u>				
Real properties	P41,598,043,958	P 1,507,433,111	P 1,118,870,693	P 44,224,347,762
Chattel	12,342,180,446	532,271,214	639,547,971	13,513,999,631
Hold-out deposits	2,173,505,646	-	-	2,173,505,646
Others	<u>2,769,064,335</u>	<u>-</u>	<u>-</u>	<u>2,769,064,335</u>
	<u>P58,882,794,385</u>	<u>P 2,039,704,325</u>	<u>P 1,758,418,664</u>	<u>P 62,680,917,374</u>
<u>2018</u>				
Real properties	P38,871,440,341	P 158,217,230	P 814,706,858	P 39,844,364,429
Chattel	9,857,085,696	87,113,879	295,148,944	10,239,348,519
Hold-out deposits	2,348,719,446	25,000,000	1,000,000	2,374,719,446
Others	<u>2,070,696,562</u>	<u>-</u>	<u>-</u>	<u>2,070,696,562</u>
	<u>P53,147,942,045</u>	<u>P 270,331,109</u>	<u>P 1,110,855,802</u>	<u>P 54,529,128,956</u>

As of December 31, 2019 and 2018, the Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P140.2 million and P138.7 million, respectively (see Note 14).

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Bank does not generally use the non-cash collateral for its own operations.

There were no changes in the Bank's collateral policies in 2019 and 2018.

4.3.10 Write-Offs

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

The Bank may write off financial assets that are still subject to enforcement activity. The outstanding amounts of such assets written off in 2019 and 2018 amounted to P9.9 million and P349.0 million, respectively. The Bank still seeks to recover amounts legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.3.11 Maximum Exposure to Credit Risk of Finance of Financial Instruments not Subject to Impairment

The following table contains analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e., FVPL):

	<u>2019</u>	<u>2018</u>
Corporate debt securities	P 4,248,886,382	P 1,206,152,222
Government securities	427,233,724	610,654,361
Derivative financial assets	<u>1,110,213</u>	<u>-</u>
	<u>P 4,677,230,319</u>	<u>P 1,816,806,583</u>

4.3.12 Sensitivity Analysis on ECL Measurement

Set out below are the changes to the Bank's ECL as of December 31, 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

		<u>Impact on ECL Allowance</u>	
	<u>Change in MEV assumption + / - 1%</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Housing loans	Inflation rate	P 84,128,088	(P 88,971,799)
Time loans	GDP rate, PPP rate and CPI rate	64,249,958	(11,822,115)
Domestic bills	GDP rate and Inflation rate	10,681,280	(6,883,963)
Auto loans	GDP rate and Inflation rate	2,182,226	(1,070,938)
Salary loans	GDP rate	1,408,560	(605,708)
Agri-agra loans	GDP rate and Inflation rate	983,469	(142,366)

4.4 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its resources and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in the overall liquidity and funding conditions in the market.

Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

(a) Foreign Currency Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The breakdown of the financial assets and financial liabilities as to foreign currency (translated into Philippine pesos) and Philippine peso-denominated balances as of December 31, 2019 and 2018 follows (amounts in thousands):

	<u>Foreign Currency</u>	<u>Philippine Peso</u>	<u>Total</u>
2019			
<u>Financial Assets:</u>			
Cash and other cash items	P -	P 1,171,300	P 1,171,300
Due from BSP	-	5,232,433	5,232,433
Due from other banks	1,677,445	1,131,505	2,808,950
Investment securities at:			
FVPL	1,049,318	3,627,912	4,677,230
FVOCI	1,984,700	7,238,402	9,223,102
Amortized cost	-	853,464	853,464
Loans and other receivables - net	2,025,890	85,297,636	87,323,526
Other resources	<u>60,505</u>	<u>40,139</u>	<u>100,644</u>
	<u>P 6,797,858</u>	<u>P 104,592,791</u>	<u>P 111,390,649</u>
<u>Financial Liabilities:</u>			
Deposit liabilities	P 6,060,333	P 89,207,706	P 95,268,039
Corporate notes payable	-	2,980,424	2,980,424
Bills payable	-	612,523	612,523
Accrued expenses and other liabilities	<u>114,311</u>	<u>1,909,831</u>	<u>2,024,142</u>
	<u>P 6,174,644</u>	<u>P 94,710,484</u>	<u>P 100,885,128</u>

	Foreign Currency		Philippine Peso		Total	
2018						
<i>Financial Assets:</i>						
Cash and other cash items	P	-	P	988,548	P	988,548
Due from BSP		-		6,164,362		6,164,362
Due from other banks		3,187,792		1,340,803		4,528,595
Investment securities at:						
FVPL		1,057,827		758,980		1,816,807
FVOCI		1,761,243		518,472		2,279,715
Amortized cost		-		771,055		771,055
Loans and other						
receivables - net		972,207		74,558,150		75,530,357
Other resources		<u>56,963</u>		<u>33,602</u>		<u>90,565</u>
	P	<u>7,036,032</u>	P	<u>85,133,972</u>	P	<u>92,170,004</u>
<i>Financial Liabilities:</i>						
Deposit liabilities	P	5,733,260	P	71,517,823	P	77,251,083
Bills payable		-		3,696,506		3,696,506
Accrued expenses and						
other liabilities		<u>-</u>		<u>2,354,185</u>		<u>2,354,185</u>
	P	<u>5,733,260</u>	P	<u>77,568,514</u>	P	<u>83,301,774</u>

(b) *Interest Rate Risk*

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing resources and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly.

The analyses of the groupings of resources, liabilities, capital funds and off-book financial position items as of December 31, 2019 and 2018 based on the expected interest realization or recognition follows (amounts in thousands).

	<u>Less than One Month</u>	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>More than One Year</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
2019						
<u>Resources:</u>						
Cash and other cash items	P -	P -	P -	P -	P 1,171,300	P 1,171,300
Due from BSP	1,150,000	-	-	-	4,082,433	5,232,433
Due from other banks	2,808,950	-	-	-	-	2,808,950
Trading and investment securities	4,679,230	1,944	1,211,972	8,860,651	-	14,753,797
Loans and other receivables - net	52,080,560	14,752,319	13,023,441	7,467,205	-	87,323,525
Other resources*	-	-	-	-	<u>2,801,962</u>	<u>2,801,962</u>
Total Resources	<u>60,718,740</u>	<u>14,754,263</u>	<u>14,235,413</u>	<u>16,327,856</u>	<u>8,055,695</u>	<u>114,091,967</u>
<u>Liabilities and Equity:</u>						
Deposit liabilities	39,543,892	5,153,393	2,417,643	4,448,934	43,704,177	95,268,039
Bills payable	-	-	606,250	-	6,273	612,523
Corporate notes payable	-	-	-	2,980,424	-	2,980,424
Accrued expenses and other liabilities	-	-	-	-	<u>2,363,299</u>	<u>2,363,299</u>
Total Liabilities	39,543,892	5,153,393	3,023,893	7,429,358	46,073,749	101,224,285
Equity	-	-	-	-	<u>12,867,682</u>	<u>12,867,682</u>
Total Liabilities and Equity	<u>39,543,892</u>	<u>5,153,393</u>	<u>3,023,893</u>	<u>7,429,358</u>	<u>58,941,431</u>	<u>114,091,967</u>
On-book Gap	<u>21,174,848</u>	<u>9,600,870</u>	<u>11,211,520</u>	<u>8,898,498</u>	(<u>50,885,736</u>)	-
Cumulative On-book Gap	<u>21,174,848</u>	<u>30,775,718</u>	<u>41,987,238</u>	<u>50,885,736</u>	-	-
Contingent Resources	-	-	-	-	822,521	822,521
Contingent Liabilities	-	-	-	-	-	-
Off-book Gap	-	-	-	-	<u>822,521</u>	<u>822,521</u>
Net Periodic Gap	<u>21,174,848</u>	<u>9,600,870</u>	<u>11,211,520</u>	<u>8,898,498</u>	(<u>50,063,215</u>)	<u>822,521</u>
Cumulative Total Gap	<u>P 21,174,848</u>	<u>P 30,775,718</u>	<u>P 41,987,238</u>	<u>P 50,885,736</u>	<u>P 822,521</u>	<u>P -</u>

* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

	Less than <u>One Month</u>	One to Three <u>Months</u>	Three Months to <u>One Year</u>	More than <u>One Year</u>	Non-rate <u>Sensitive</u>	<u>Total</u>
2018						
<u>Resources:</u>						
Cash and other cash items	P -	P -	P -	P -	P 988,548	P 988,548
Due from BSP	6,164,362	-	-	-	-	6,164,362
Due from other banks	4,528,595	-	-	-	-	4,528,595
Trading and investment securities	-	-	38,942	4,828,634	-	4,867,576
Loans and other receivables - net	43,097,889	8,837,454	7,737,870	849,747	15,007,397	75,530,357
Other resources*	-	-	-	-	2,650,054	2,650,054
Total Resources	<u>53,790,846</u>	<u>8,837,454</u>	<u>7,776,812</u>	<u>5,678,381</u>	<u>18,645,999</u>	<u>94,729,492</u>
<u>Liabilities and Equity:</u>						
Deposit liabilities	18,135,290	17,542,332	7,611,648	2,972,865	30,988,948	77,251,083
Bills payable	2,000,000	125,000	375,000	-	1,196,506	3,696,506
Accrued expenses and other liabilities	-	-	-	-	2,422,846	2,422,846
Total Liabilities	20,135,290	17,667,332	7,986,648	2,972,865	34,608,300	83,370,435
Equity	-	-	-	-	11,359,057	11,359,057
Total Liabilities and Equity	<u>20,135,290</u>	<u>17,667,332</u>	<u>7,986,648</u>	<u>2,972,865</u>	<u>45,967,357</u>	<u>94,729,492</u>
On-book Gap	<u>33,655,556</u>	(<u>8,829,878</u>)	(<u>209,836</u>)	<u>2,705,516</u>	(<u>27,321,358</u>)	-
Cumulative On-book Gap	<u>33,655,556</u>	<u>24,825,678</u>	<u>24,615,842</u>	<u>27,321,358</u>	-	-
Contingent Resources	-	-	-	-	3,419,351	3,419,351
Contingent Liabilities	-	-	-	-	3,775,968	3,775,968
Off-book Gap	-	-	-	-	(<u>356,617</u>)	(<u>356,617</u>)
Net Periodic Gap	<u>33,655,556</u>	(<u>8,829,878</u>)	(<u>209,836</u>)	<u>2,705,516</u>	(<u>27,677,975</u>)	(<u>356,617</u>)
Cumulative Total Gap	<u>P 33,655,556</u>	<u>P 24,825,678</u>	<u>P 24,615,824</u>	<u>P 27,321,358</u>	(<u>P 356,617</u>)	<u>P -</u>

* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

(c) Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs VaR methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement; i.e., losses could exceed the VaR in one out of 100 trading days.

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and ten days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (i) VaR limit on a per instrument and portfolio; (ii) loss limit on per investment portfolio, (iii) off-market rate limits on per instrument type; and, (iv) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

The following table shows the VaR position and ranges of the Bank's financial assets at FVPL and at FVOCI portfolios as at December 31 (amounts in millions):

	<u>2019</u>	<u>2018</u>
<u>VaR Position:</u>		
Financial assets at FVPL	P 4,677	P 1,816
Financial assets at FVOCI	9,223	2,279
<u>VaR Ranges:</u>		
Minimum	97	33
Maximum	519	1,840
Average	268	1,036

Stress test on the December 31, 2019 and 2018 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVPL and at FVOCI as follows:

<u>2019</u>				
<u>Currency</u>	<u>Current Market Value</u>	<u>Sensitivities</u>		
		<u>+100 bps</u>	<u>+300 bps</u>	<u>+500 bps</u>
Philippine peso	P 10,865,204,848	(P 547,626,471)	(P 1,642,879,413)	(P 2,738,132,355)
US dollar	<u>3,034,017,705</u>	<u>(368,068,561)</u>	<u>(1,104,205,683)</u>	<u>(1,840,342,806)</u>
Total	<u>P 13,899,222,553</u>	<u>(P 915,695,032)</u>	<u>(P 2,747,085,096)</u>	<u>(P 4,578,475,161)</u>
<u>2018</u>				
<u>Currency</u>	<u>Current Market Value</u>	<u>Sensitivities</u>		
		<u>+100 bps</u>	<u>+300 bps</u>	<u>+500 bps</u>
Philippine peso	P 1,277,451,215	(P 65,703,574)	(P 197,110,723)	(P 328,517,871)
US dollar	<u>2,819,070,097</u>	<u>(179,512,119)</u>	<u>(538,536,358)</u>	<u>(897,560,596)</u>
Total	<u>P 4,096,521,312</u>	<u>(P 245,215,693)</u>	<u>(P 735,647,081)</u>	<u>(P 1,226,078,467)</u>

(d) Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder.

A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-book financial position items as of December 31, 2019 and 2018 follows (amounts in thousands).

		<u>Less than One Month</u>	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>More than One Year</u>	<u>Total</u>
2019						
<i>Resources:</i>						
Cash and other cash items	P	1,171,300	P -	P -	P -	P 1,171,300
Due from BSP		5,232,433	-	-	-	5,232,433
Due from other banks		2,808,950	-	-	-	2,808,950
Trading and investment securities		4,679,230	1,944	1,211,972	8,860,651	14,753,797
Loans and other receivables		6,512,264	3,426,765	4,021,287	73,363,209	87,323,525
Other resources*		<u>1,558,755</u>	<u>-</u>	<u>-</u>	<u>1,243,207</u>	<u>2,801,962</u>
Total Resources		<u>21,962,932</u>	<u>3,428,709</u>	<u>5,233,259</u>	<u>83,467,067</u>	<u>114,091,967</u>
<i>Liabilities and Equity:</i>						
Deposit liabilities		16,419,615	1,417,122	5,383,316	72,047,986	95,268,039
Corporate notes payable		-	-	-	2,980,424	2,980,424
Bills payable		-	-	612,523	-	612,523
Accrued expenses and other liabilities		<u>909,425</u>	<u>940,044</u>	<u>98,004</u>	<u>415,826</u>	<u>2,363,299</u>
Total Liabilities		17,329,040	2,357,166	6,093,843	75,444,236	101,224,285
Equity		<u>-</u>	<u>-</u>	<u>-</u>	<u>12,867,682</u>	<u>12,867,682</u>
Total Liabilities and Equity		<u>17,329,040</u>	<u>2,357,166</u>	<u>6,093,843</u>	<u>88,311,918</u>	<u>114,091,967</u>
On-book Gap		<u>4,633,892</u>	<u>1,071,543</u>	<u>(860,584)</u>	<u>(4,844,851)</u>	<u>-</u>
Cumulative On-book Gap		<u>4,633,892</u>	<u>5,705,435</u>	<u>4,844,851</u>	<u>-</u>	<u>-</u>
Contingent Resources		695,773	126,748	-	-	822,521
Contingent Liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Off-book Gap		<u>695,773</u>	<u>126,748</u>	<u>-</u>	<u>-</u>	<u>822,521</u>
Net Periodic Gap		<u>5,329,665</u>	<u>1,198,291</u>	<u>(860,584)</u>	<u>(4,844,851)</u>	<u>822,521</u>
Cumulative Total Gap		<u>P 5,329,665</u>	<u>P 6,527,956</u>	<u>P 5,667,372</u>	<u>P 822,521</u>	<u>P -</u>

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
<u>2018</u>					
<i>Resources:</i>					
Cash and other cash items	P 988,548	P -	P -	P -	P 988,548
Due from BSP	6,164,362	-	-	-	6,164,362
Due from other banks	4,528,595	-	-	-	4,528,595
Trading and investment securities	-	-	38,942	4,828,634	4,867,576
Loans and other receivables	13,483,189	14,564,446	14,781,467	32,701,255	75,530,357
Other resources*	<u>385,794</u>	<u>219,171</u>	<u>183,582</u>	<u>1,861,507</u>	<u>2,650,054</u>
Total Resources	<u>25,550,488</u>	<u>14,783,617</u>	<u>15,003,991</u>	<u>39,391,396</u>	<u>94,729,492</u>
<i>Liabilities and Equity:</i>					
Deposit liabilities	48,911,835	17,754,735	7,611,648	2,972,865	77,251,083
Bills payable	2,166,417	459,874	1,070,215	-	3,696,506
Accrued expenses and other liabilities	<u>1,377,624</u>	<u>682,912</u>	<u>305,342</u>	<u>56,968</u>	<u>2,422,846</u>
Total Liabilities	52,455,876	18,897,521	8,987,205	3,029,833	83,370,435
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,359,057</u>	<u>11,359,057</u>
Total Liabilities and Equity	<u>52,455,876</u>	<u>18,897,521</u>	<u>8,987,205</u>	<u>14,388,890</u>	<u>94,729,492</u>
On-book Gap	(<u>26,905,388</u>)	(<u>4,113,904</u>)	<u>6,016,786</u>	<u>25,002,506</u>	<u>-</u>
Cumulative On-book Gap	(<u>26,905,388</u>)	(<u>31,019,292</u>)	(<u>25,002,506</u>)	<u>-</u>	<u>-</u>
Contingent Resources	-	-	-	3,419,351	3,419,351
Contingent Liabilities	<u>2,633,255</u>	<u>745,382</u>	<u>397,320</u>	<u>11</u>	<u>3,775,968</u>
Off-book Gap	(<u>2,633,255</u>)	(<u>745,382</u>)	(<u>397,320</u>)	<u>3,419,340</u>	(<u>356,617</u>)
Net Periodic Gap	(<u>29,538,643</u>)	(<u>4,859,286</u>)	<u>5,619,466</u>	<u>28,421,846</u>	(<u>356,617</u>)
Cumulative Total Gap	(<u>P 29,538,643</u>)	(<u>P 34,397,929</u>)	(<u>P 28,778,463</u>)	(<u>P 356,617</u>)	<u>P -</u>

* Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.

Forward

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of assets and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the Bank's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management. In case of breach in the MCO Limit, the Risk Management Center elevates the concern to the BOD through the ROC for corrective action.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis.

More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly ALCO meetings.

Pursuant to applicable BSP regulations, the Bank is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Bank's demand deposit accounts with the BSP. The BSP also requires the Bank to maintain asset cover of 100% for foreign currency-denominated liabilities of its FCDU.

4.4.1 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Bank maintains significant exposure. Specifically, the Bank ensures that its measurement, monitoring, and control systems account for these exposures as well. The Bank sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Bank also assesses its access to foreign exchange markets when setting up its risk limits.

4.4.2 Liquidity Risk Stress

To augment the effectiveness of the Group's gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. Survivability and resilience of the Bank are assessed for a minimum stress period of 30 days for all crisis scenarios enumerated in BSP Circular 981: *Guidelines on Liquidity Risk Management*. The results of these liquidity stress simulations are reported monthly to ALCO and ROC.

4.4.3 Minimum Liquidity Ratio

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

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019. However, the Bank was only able to comply with the MLR requirement starting June 2019.

The Bank's MLR as of December 31, 2019 are analyzed below (amounts in millions except MLR figure).

Eligible stock of liquid assets	P	25,373
Total qualifying liabilities		<u>97,152</u>
MLR		<u><u>26.18%</u></u>

4.5 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss.

Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are enumerated in the succeeding page.

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ROC to keep them up-to-date with different operational risk issues, challenges and initiatives.
- With ROC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).
- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.
- Internal loss information is collected, reported and utilized to model operational risk.
- The ROC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) Reputational Risk

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

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

(b) Legal Risk and Regulatory Risk Management

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

In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance.

It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

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

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

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

The Bank’s procedures for compliance with the AMLA are set out in its MLPP. The Bank’s Compliance Officer, through the Anti-Money Laundering Department (AMLDD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLDD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

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

5. CAPITAL MANAGEMENT

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. PBB, being a stand-alone thrift bank, is required under BSP regulations to comply with Basel 1.5. Under this regulation, the qualifying capital account of the Bank should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

- (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
- (c) deferred tax asset net of deferred tax liability;
- (d) goodwill;
- (e) sinking fund for redemption of redeemable preferred shares; and,
- (f) other regulatory deductions.

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risk.

The following are the risk-based capital adequacy of the Bank as of December 31, 2019, 2018 and 2017 (amounts in millions):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Tier 1 Capital	P 11,997	P 11,124	P 9,809
Tier 2 Capital	<u>842</u>	<u>779</u>	<u>678</u>
Total Qualifying Capital	<u>P 12,839</u>	<u>P 11,903</u>	<u>P 10,487</u>
Risk Weighted Assets			
Credit Risk Weighted Assets	P 84,133	P 74,044	P 68,887
Operational Risk Weighted Assets	5,051	4,118	3,941
Market Risk Weighted Assets	<u>4,544</u>	<u>1,254</u>	<u>2,092</u>
Total Risk-Weighted Assets	<u>P 93,728</u>	<u>P 79,416</u>	<u>P 74,920</u>
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	13.7%	14.1%	14.0%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	12.8%	13.1%	13.1%

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

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

A bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital equivalent to 50% of the following:

- (a) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
- (b) Investments in debt capital instruments of unconsolidated subsidiary banks;
- (c) Investments in equity of subsidiary insurance companies and non-financial allied undertakings;
- (d) Reciprocal investments in equity of other banks/enterprises; and,
- (e) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided, that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

As of December 31, 2019 and 2018, the Bank has no exposure in item (a) to item (e) above. There were no material changes in the Bank's management of capital during the current year.

As of December 31, 2019 and 2018, the Bank has satisfactorily complied with the capital-to-risk assets ratio.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). Thrift banks with head office in the National Capital Region and have more than 50 branches are required to comply with the minimum capital requirement of P2.0 billion. The Bank has complied with the minimum capital requirement at the end of each reporting period.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying values and fair values of the financial assets and financial liabilities in the statements of financial position:

	<u>Notes</u>	<u>Carrying Values</u>	<u>Fair Values</u>
<u>December 31, 2019:</u>			
<i><u>Financial Assets</u></i>			
At amortized cost:			
Cash and other cash items	9	P 1,171,299,633	P 1,171,299,633
Due from BSP	9	5,232,433,363	5,232,433,363
Due from other banks	10	2,808,949,984	2,808,949,984
Investment securities - net	11	853,464,020	888,203,287
Loans and other receivables - net	12	87,323,525,458	85,364,411,030
Other resources	15	100,643,902	100,643,902
FVPL securities	11	4,677,230,319	4,677,230,319
FVOCI securities	11	<u>9,223,102,447</u>	<u>9,223,102,447</u>
		<u>P 111,390,649,126</u>	<u>P 109,466,273,965</u>
<i><u>Financial Liabilities</u></i>			
At amortized cost:			
Deposit liabilities	16	P 95,268,038,584	P 95,170,153,470
Bills payable	17	612,523,350	612,523,350
Corporate notes payable	18	2,980,423,657	2,967,131,158
Accrued expenses and other liabilities	19	<u>1,950,806,471</u>	<u>1,950,806,471</u>
		<u>P 100,811,792,062</u>	<u>P 100,700,614,449</u>
<u>December 31, 2018:</u>			
<i><u>Financial Assets</u></i>			
At amortized cost:			
Cash and other cash items	9	P 988,547,825	P 988,547,825
Due from BSP	9	6,164,361,658	6,164,361,658
Due from other banks	10	4,528,594,643	4,528,594,643
Investment securities - net	11	771,055,060	760,373,635
Loans and other receivables - net	12	75,530,357,441	69,844,432,133
Other resources	15	90,565,430	90,565,430
FVPL securities	11	1,816,806,583	1,816,806,583
FVOCI securities	11	<u>2,279,714,729</u>	<u>2,279,714,729</u>
		<u>P 92,170,003,369</u>	<u>P 86,473,396,636</u>
<i><u>Financial Liabilities</u></i>			
At amortized cost:			
Deposit liabilities	16	P 77,251,083,251	P 71,557,678,415
Bills payable	17	3,696,505,696	3,696,505,696
Accrued expenses and other liabilities	19	<u>2,354,184,964</u>	<u>2,354,184,964</u>
		<u>P 83,301,773,911</u>	<u>P 77,608,369,075</u>

The Bank concluded that the carrying amounts of foregoing other financial assets and financial liabilities which are measured at amortized cost approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Bank's debt securities are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets, presented in the statements of financial position at gross amounts, are covered by enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position		
		Financial Instruments	Collateral received	Net amount
December 31, 2019				
Loans and receivables - net	P 87,323,525,458	(P 3,153,505,646)	P -	P 84,170,019,812
Deposit liabilities	95,268,038,584	(2,173,505,646)	-	93,094,532,938
Bills Payable	612,523,350	(106,250,000)	-	506,273,350
December 31, 2018				
Loans and receivables - net	P 75,530,357,441	(P 4,197,858,340)	P -	P 71,332,499,101
Deposit liabilities	77,251,083,251	(2,374,719,446)	-	74,876,363,805
Bills Payable	3,696,505,696	(1,191,604,686)	-	2,504,901,010

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

7.2 Financial Instruments Measured at Fair Value

The table shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2019 and 2018 (amounts in millions).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2019</u>				
Financial assets at FVPL				
Government debt securities	P 427	P -	P -	P 427
Corporate debt securities	<u>4,249</u>	<u>-</u>	<u>-</u>	<u>4,249</u>
	<u>P 4,676</u>	<u>P -</u>	<u>P -</u>	<u>P 4,676</u>
Financial assets at FVOCI				
Government debt securities	P 8,970	P -	P -	P 8,970
Corporate debt securities	<u>253</u>	<u>-</u>	<u>-</u>	<u>253</u>
	<u>P 9,223</u>	<u>P -</u>	<u>P -</u>	<u>P 9,223</u>
<u>December 31, 2018</u>				
Financial assets at FVPL				
Government debt securities	P 447	P 759	P -	P 1,206
Corporate debt securities	<u>611</u>	<u>-</u>	<u>-</u>	<u>611</u>
	<u>P 1,058</u>	<u>P 759</u>	<u>P -</u>	<u>P 1,817</u>
Financial assets at FVOCI				
Government debt securities	P 1,494	P 518	P -	P 2,012
Corporate debt securities	<u>268</u>	<u>-</u>	<u>-</u>	<u>268</u>
	<u>P 1,762</u>	<u>P 518</u>	<u>P -</u>	<u>P 2,280</u>

As of December 31, 2019 (nil in 2018), the Bank had outstanding derivative financial assets amounting to P1.1 million presented as part of Financial assets at FVPL account in the 2019 statement of financial position (see Note 11.1). The Bank had an outstanding derivative financial liability amounting to P0.1 million (nil in 2019) presented as part of Accrued Expense and Other Liabilities in the 2018 statement of financial position (see Note 19.1).

Derivative financial assets are categorized within Level 2, and are determined through valuation techniques using the net present value computation.

The fair value of the debt securities of the Bank determined as follows:

- (a) Fair values of peso-denominated government debt securities issued by the Philippine government, are based on the reference price per Bloomberg which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithm of direct observations or observed comparables.
- (b) Fair values of actively traded corporate debt securities are determined based on their market prices quoted in the PDS or based on the direct reference price per Bloomberg at the end of each reporting period; hence, categorized within Level 1.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

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

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amount in millions).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2019</u>				
<i>Financial Assets:</i>				
Cash and other cash items	P 1,171	P -	P -	P 1,171
Due from BSP	5,232	-	-	5,232
Due from other banks	2,809	-	-	2,809
Investment securities at amortized cost	888	-	-	888
Loans and other receivable	2,542	-	85,364	87,906
Other financial assets	<u>61</u>	<u>-</u>	<u>40</u>	<u>101</u>
	<u>P 12,703</u>	<u>P -</u>	<u>P 85,404</u>	<u>P 98,107</u>
<i>Financial Liabilities:</i>				
Deposit liabilities	P -	P -	P 95,170	P 95,170
Bills payable	-	-	613	613
Corporate notes payable	-	-	2,967	2,967
Accrued expenses and other liabilities	<u>-</u>	<u>-</u>	<u>1,951</u>	<u>1,951</u>
	<u>P -</u>	<u>P -</u>	<u>P 100,701</u>	<u>P 100,701</u>
<u>December 31, 2018</u>				
<i>Financial Assets:</i>				
Cash and other cash items	P 989	P -	P -	P 989
Due from BSP	6,164	-	-	6,164
Due from other banks	4,529	-	-	4,529
Investment securities at amortized cost	693	67	-	760
Loans and other receivable	1,500	-	68,344	69,844
Other financial assets	<u>60</u>	<u>-</u>	<u>31</u>	<u>91</u>
	<u>P 12,435</u>	<u>P 67</u>	<u>P 69,875</u>	<u>P 82,377</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Financial Liabilities:</i>				
Deposit liabilities	P -	P -	P 71,558	P 71,558
Bills payable	-	-	3,697	3,697
Accrued expenses and other liabilities	<u>-</u>	<u>-</u>	<u>2,354</u>	<u>2,354</u>
	<u>P -</u>	<u>P -</u>	<u>P 77,609</u>	<u>P 77,609</u>

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) *Cash and Other Cash Items*

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 automated teller machines (see Note 9). Other cash items include cash items other than currency and coins on hand (see Note 15) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours. Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

(b) *Due from BSP and Other Banks and SPURRA*

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements while SPURRA pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(c) *Loans and Other Receivables*

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(d) *Other Financial Assets*

Other financial assets pertain to foreign currency notes and coins, security deposits and petty cash fund which are included in the Other Resources account. Due to their short duration, the carrying amounts of these items in the statements of financial position are considered to be reasonable approximation of their fair values.

(e) Deposits Liabilities and Borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount of short term bills payable approximate their fair values. For corporate notes payable categorized within Level 3, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(f) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities classified as financial liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Due to their short-duration, management ascertained that the fair values of these short-term liabilities approximate their carrying values.

7.4 Fair Value Measurement of Investment Properties Carried at Cost

The total estimated fair values of the Bank's investment properties, categorized under Level 3 of the fair value hierarchy amount to P700.7 million and P684.7 million as of December 31, 2019 and 2018, respectively (see Note 14).

The fair value of the investment properties of the Bank was determined on the basis of a valuation carried out on the acquisition dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in highest and best use. Based on management's assessment, the best use of the investment properties indicated above is their current use which is generate positive future cash flows through sale.

The fair value of these investment properties were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using observable recent prices of the reference properties adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value. On the other hand, if fair value of the land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, fair value is included in Level 2. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property, minor adjustments on the price is made to consider peculiarities of the property with that of the benchmark property.

(b) *Fair Value Measure for Building and Improvements*

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

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2019 and 2018.

8. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

- (a) *Consumer Banking* – includes auto financing, home financing, and salary or personal loans;
- (b) *Corporate Banking* – includes term loans, working capital credit lines, bills purchase and discounting lines; and,
- (c) *Treasury Operations* – manages liquidity of the Bank and is a key component in revenue and income generation through its trading and investment activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

8.1 Analysis of Primary Segment Information

The contribution of these various business activities to the Bank's revenues and income for the years 2019, 2018 and 2017 are as follows (amounts in millions):

	<u>Consumer</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Total</u>
2019				
Net interest and other income				
From external customers				
Interest income	P 543	P 6,005	P 547	P 7,095
Interest expense	(195)	(2,153)	(196)	(2,544)
Net interest income	348	3,852	351	4,551
Non-interest income	-	492	293	785
	<u>348</u>	<u>4,344</u>	<u>644</u>	<u>5,336</u>
Expenses				
Operating expenses excluding depreciation and amortization	221	2,954	189	3,364
Depreciation and amortization	<u>16</u>	<u>224</u>	<u>49</u>	<u>289</u>
	<u>237</u>	<u>3,178</u>	<u>238</u>	<u>3,653</u>
Segment operating income (loss)	P 111	P 1,166	P 406	P 1,683
Total resources and liabilities				
Total resources	P 6,481	P 82,021	P 24,026	P 112,528
Total liabilities	P 5,646	P 76,333	P 16,609	P 98,588
2018				
Net interest and other income				
From external customers				
Interest income	P 320	P 4,944	P 246	P 5,510
Interest expense	(78)	(1,447)	(207)	(1,732)
Net interest income	242	3,497	39	3,778
Non-interest income	-	321	-	321
	<u>242</u>	<u>3,818</u>	<u>39</u>	<u>4,099</u>
Expenses				
Operating expenses excluding depreciation and amortization	108	2,222	318	2,648
Depreciation and amortization	<u>9</u>	<u>142</u>	<u>22</u>	<u>173</u>
	<u>117</u>	<u>2,364</u>	<u>340</u>	<u>2,821</u>
Segment operating income (loss)	P 125	P 1,454	(P 301)	P 1,278
Total resources and liabilities				
Total resources	P 4,535	P 71,809	P 16,606	P 92,950
Total liabilities	P 3,669	P 67,611	P 9,676	P 80,956

	<u>Consumer</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Total</u>
<u>2017</u>				
Net interest and other income				
From external customers				
Interest income	P 276	P 3,395	P 209	P 3,880
Interest expense	(41)	(687)	(114)	(842)
Net interest income	235	2,708	95	3,038
Non-interest income	-	227	139	366
	<u>235</u>	<u>2,935</u>	<u>234</u>	<u>3,404</u>
Expenses				
Operating expenses				
excluding depreciation				
and amortization	99	1,919	276	2,294
Depreciation and				
amortization	<u>7</u>	<u>115</u>	<u>19</u>	<u>141</u>
	<u>106</u>	<u>2,034</u>	<u>295</u>	<u>2,435</u>
Segment operating income (loss)	<u>P 129</u>	<u>P 901</u>	<u>(P 61)</u>	<u>P 969</u>
Total resources and liabilities				
Total resources	<u>P 3,997</u>	<u>P 68,874</u>	<u>P 14,327</u>	<u>P 87,198</u>
Total liabilities	<u>P 3,614</u>	<u>P 60,642</u>	<u>P 10,087</u>	<u>P 74,343</u>

8.2 Reconciliation

Presented below is a reconciliation of the Bank's segment information to the key financial information presented in its consolidated financial statements (amounts in millions).

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net interest and other income			
Total segment revenues	P 5,336	P 4,099	P 3,404
Unallocated income	<u>12</u>	<u>36</u>	<u>22</u>
Net interest and other income as reported in profit or loss	<u>P 5,348</u>	<u>P 4,135</u>	<u>P 3,426</u>
Profit or loss			
Total segment operating income	P 1,683	P 1,278	P 969
Unallocated profit	<u>10</u>	<u>(37)</u>	<u>(56)</u>
Net profit before tax as reported in profit or loss	<u>P 1,693</u>	<u>P 1,241</u>	<u>P 913</u>
Resources			
Total segment resources	P 112,528	P 92,950	P 87,198
Unallocated assets	<u>1,564</u>	<u>1,779</u>	<u>66</u>
Total resources	<u>P 114,092</u>	<u>P 94,729</u>	<u>P 87,264</u>
Liabilities			
Total segment liabilities	P 98,659	P 80,956	P 74,343
Unallocated liabilities	<u>2,565</u>	<u>2,414</u>	<u>2,695</u>
Total liabilities	<u>P 101,224</u>	<u>P 83,370</u>	<u>P 77,038</u>

The Bank has no intersegment revenues during 2019, 2018 and 2017.

9. CASH AND DUE FROM BSP

This account is composed of the following (see also Note 4.3.2):

	<u>2019</u>	<u>2018</u>
Cash and other cash items	<u>P 1,171,299,633</u>	<u>P 988,547,825</u>
Due from BSP		
Mandatory reserves	<u>3,532,433,363</u>	5,964,361,658
Other than mandatory reserves	<u>1,700,000,000</u>	<u>200,000,000</u>
	<u>5,232,433,363</u>	<u>6,164,361,658</u>
	<u>P 6,403,732,996</u>	<u>P 7,152,909,483</u>

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 automated teller machines. Other cash items include cash items other than currency and coins on hand (see Note 15) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims (see Note 16).

Due from BSP other than mandatory reserves bears annual effective interest rates as follows:

<u>2019</u>	<u>2018</u>	<u>2017</u>
4.00% – 4.8%	3.7% – 4.5%	0.0% – 2.5%

The total interest income earned in 2019, 2018 and 2017 amounted to P10.4 million, P12.1 million and P24.4 million, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following (see also Note 4.3.2):

	<u>2019</u>	<u>2018</u>
Local banks	<u>P 1,412,368,502</u>	P 3,056,955,134
Foreign banks	<u>1,396,581,482</u>	<u>1,471,639,509</u>
	<u>P 2,808,949,984</u>	<u>P 4,528,594,643</u>

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2019, 2018 and 2017. The total interest income earned in 2019, 2018 and 2017 amounted to P21.7 million, P36.2 million and P14.1 million, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

11. TRADING AND INVESTMENT SECURITIES

The components of this account are presented below.

	Notes	2019	2018
Financial assets at FVPL	11.1	P 4,677,230,319	P 1,816,806,583
Financial assets at FVOCI	4.3.2, 11.2	9,223,102,447	2,279,714,729
Investment securities at amortized cost – net	4.3.2, 11.3	<u>853,464,020</u>	<u>771,055,060</u>
		<u>P 14,753,796,786</u>	<u>P 4,867,576,372</u>

Interest income on trading and investment securities consists of:

	2019	2018	2017
Investment securities at FVPL			
Government debt securities	P129,678,055	P 8,346,060	P 12,773,539
Corporate bonds	32,626,579	40,485,440	3,646,781
Investment securities at FVOCI (2019 and 2018)/ AFS securities (2017)			
Government debt securities	155,244,585	10,188,835	23,216,409
Corporate bonds	73,035,555	65,585,484	129,856,977
Investment securities at amortized cost			
Government debt securities	28,828,197	9,670,203	-
Corporate bonds	<u>18,925,965</u>	<u>15,796,983</u>	<u>-</u>
	<u>P438,338,936</u>	<u>P150,073,005</u>	<u>P169,493,706</u>

Trading gains (loss) – net consist of the following:

	2019	2018	2017
Investment securities at FVPL			
Realized	P307,094,405	(P 12,952,884)	P 92,836,770
Unrealized	(15,366,425)	(17,541,079)	-
	291,727,980	(30,493,963)	92,836,770
Investment securities at FVOCI	3,585,956	-	35,661,079
Investment securities at amortized cost	(2,614,440)	-	-
	<u>P292,699,496</u>	<u>(P 30,493,963)</u>	<u>P128,497,849</u>

11.1 Investment Securities at FVPL

The account is composed of the following:

	2019	2018
Corporate bonds	P 4,248,886,382	P 1,206,152,222
Government debt securities	427,233,724	610,654,361
Derivative financial assets	<u>1,110,213</u>	<u>-</u>
	<u>P 4,677,230,319</u>	<u>P 1,816,806,583</u>

Effective interest rates of investment securities at FVPL range from:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Government debt securities	3.7% – 8.0%	4.3% – 4.6%	3.5% – 8.0%
Corporate bonds	3.0% – 5.8%	3.0% – 5.5%	3.7% – 4.0%

The Bank is a counterparty to derivative contracts, such as foreign currency short-term forwards. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. These derivatives are entered into as a means of reducing or managing their respective exchange rate exposures. Such derivative financial instruments are initially recorded at fair value on the date when the derivative contract is entered into and are subsequently remeasured at fair value at the end of each year. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative (see Note 19).

The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of the derivative are measured. This indicate the volume of transactions outstanding as at December 31, 2019 and 2018 and are not indicative of either market risk or credit risk.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31, 2019 and 2018 both in the Bank's financial statements are shown below.

	<u>Notional Amount</u>	<u>Fair Values</u>	
		<u>Assets</u>	<u>Liabilities</u>
<u>2019</u>			
Freestanding derivatives –			
Forward exchange sold	\$ 6,000,000	P 1,110,213	P -
<u>2018</u>			
Freestanding derivatives –			
Forward exchange sold	\$ 2,500,000	-	137,423

11.2 Investment Securities at FVOCI

The account is composed of the following:

	<u>2019</u>	<u>2018</u>
Government debt securities	P 8,919,851,676	P 2,012,190,318
Corporate bonds	<u>303,250,771</u>	<u>267,524,411</u>
	<u>P 9,223,102,447</u>	<u>P 2,279,714,729</u>

Effective interest rates of investment securities at FVOCI range from:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Government debt securities	3.5% – 6.9%	5.8%	0.0% – 8.1%
Corporate bonds	4.8% – 5.8%	3.7% – 6.3%	4.0% – 7.5%

In 2018, provision for probable loss and accumulated impairment losses on these securities amounted to P4.2 million and is presented as part of Impairment Losses and Unrealized Fair Value Losses on Investment Securities at FVOCI in the 2018 statement of profit or loss and statement of changes in equity, respectively.

In compliance with current banking regulations relative to the Bank's trust functions, certain securities of the Bank, with a face value of P80.0 million and P40.0 million as of December 31, 2019 and 2018, respectively, are deposited with the BSP (see Note 27).

Changes in the investment securities at FVOCI are summarized below.

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Balance at beginning of year		P 2,279,714,729	P 1,489,541,718
Additions		7,597,787,934	783,916,126
Acquired through merger	31	128,833,331	-
Disposals		(1,255,806,778)	-
Fair value gains (losses)		520,604,073	(75,060,232)
Foreign currency revaluation		(70,161,837)	80,556,789
Amortization of discount		<u>22,130,995</u>	<u>760,328</u>
Balance at end of year		<u>P 9,223,102,447</u>	<u>P 2,279,714,729</u>

The reconciliation of unrealized fair value losses on investment securities at FVOCI (AFS securities in 2017) reported under equity is shown below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year	(P 132,717,700)	(P 61,886,925)	(P 82,019,677)
Changes on unrealized fair value gains (losses) during the year:			
Fair value gains (losses) during the year	524,190,029	(75,060,232)	59,748,950
Realized fair value (gains) on securities disposed during the year - net	(3,585,956)	-	(29,979,364)
Expected credit losses on FVOCI securities	<u>-</u>	<u>4,229,457</u>	<u>-</u>
Balance at end of year	<u>P 387,886,373</u>	<u>(P 132,717,700)</u>	<u>(P 52,250,091)</u>

11.3 Investment Securities at Amortized Cost

This account is composed of the following:

	Note	2019	2018
Government securities		P 565,081,960	P 482,673,000
Corporate bonds		290,000,000	290,000,000
	4.3.2	855,081,960	772,673,000
Allowance for impairment	4.3.2	(1,617,940)	(1,617,940)
		P 853,464,020	P 771,055,060

The reconciliation of the carrying amounts of investment securities at amortized cost in are presented below.

	2019	2018
Balance at beginning of year	P 771,055,060	P 393,117,111
Additions	178,191,613	375,097,281
Transfer from merger	87,741	-
Maturities	(51,442,610)	-
Disposal	(50,691,016)	-
Amortization of discount	6,263,232	2,292,681
Reversal of impairment	-	547,987
Balance at end of year	P 853,464,020	P 771,055,060

Effective interest rates of investment securities at amortized cost range from:

	2019	2018	2017
Government debt securities	3.5% – 8.1%	3.5% – 8.1%	–
Corporate bonds	3.2% – 6.2%	4.0% – 6.2%	–

In September 2019, the Bank acquired certain US dollar-denominated bonds under its HTC portfolio amounting to P50.6 million. Subsequently in December 2019, the Bank disposed such bonds, resulting in net loss amounting to P2.6 million. The disposal was made because of the foreseen technical default of the issuing company. Management had assessed that such disposals of the investment securities are consistent with the Bank's HTC business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Bank's business model in managing financial assets manual and the requirements of PFRS 9.

The above disposal of investment securities were approved by BOD in compliance with the documentation requirements of the BSP.

12. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Receivable from customers:			
Loans and discounts		P 81,730,126,251	P 70,546,193,193
Unearned discount		(172,940,831)	(170,226,689)
		81,557,185,420	70,375,966,504
Customers' liabilities on acceptances, letters of credit and trust receipts		4,000,654,596	3,884,168,578
Bills purchased		9,593,110	10,707,079
		85,567,433,126	74,270,842,161
Other receivables:			
SPURRA		2,542,070,169	1,500,000,000
Accrued interest receivable		773,142,130	602,780,238
Accounts receivable		75,146,203	38,424,130
Deficiency claims receivable		71,062,783	71,164,766
Sales contract receivable		68,531,388	91,967,808
		3,529,952,673	2,304,336,942
		89,097,385,799	76,575,179,103
Allowance for impairment	28	(1,773,860,341)	(1,044,821,662)
		P 87,323,525,458	P 75,530,357,441

SPURRA are secured by certain treasury bills of the BSP. SPURRA represent loans and receivables from BSP as of December 31, 2019 and 2018 arise from overnight lending from excess liquidity.

Loans acquired through merger with ISBI in 2019 amounted to P1,831.3 million (see Note 31).

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.3.6.

As to security, receivable from customers, gross of allowance and unearned discount, are classified into the following (amounts in thousands):

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Secured:			
Real estate mortgage		P 34,722,566	P 34,345,108
Chattel mortgage		7,418,275	6,607,784
Deposit hold-out	6.2	2,173,506	2,374,719
Others		3,231,787	2,061,646
		47,546,134	45,389,257
Unsecured		38,073,577	29,051,812
		P 85,619,711	P 74,441,069

Of the total loans and discounts of the Bank as of December 31, 2019 and 2018, 77.8% and 80.0%, respectively, are subject to periodic interest repricing.

Annual effective interest rates ranges from:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Loans and discounts	0.8% – 141.6%	1.0% – 42.0%	0.8% – 72.9%
Other receivables	4.0% – 12.0%	5.0% – 12.0%	2.0% – 8.6%

The total interest income earned amounted to:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Loans and discounts	P 6,598,377,572	P 5,294,976,072	P 3,630,099,255
Other receivables	<u>25,336,932</u>	<u>16,094,466</u>	<u>42,306,247</u>
	<u>P 6,623,714,504</u>	<u>P 5,311,070,538</u>	<u>P 3,672,405,502</u>

Interest income recognized on impaired loans and receivables amounted to P41.5 million, P63.8 million and P15.3 million in 2019, 2018 and 2017, respectively.

Loans receivables pledged as collaterals to secure borrowings under rediscounting privileges amount to P980.0 million and P1,815.4 million as of December 31, 2019 and 2018, respectively (see Note 17).

13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	<u>Land</u>	<u>Building</u>	<u>Furniture Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improve- ments</u>	<u>Right-of-use Asset</u>	<u>Total</u>
December 31, 2019							
Cost	P 90,802,205	P 135,701,007	P 541,452,440	P 166,951,888	P 652,996,138	P 410,238,138	P 1,998,141,816
Accumulated depreciation and amortization	-	(65,234,386)	(393,295,697)	(116,212,403)	(558,088,177)	(111,948,089)	(1,244,778,752)
Net carrying amount	<u>P 90,802,205</u>	<u>P 70,466,621</u>	<u>P 148,156,743</u>	<u>P 50,739,485</u>	<u>P 94,907,961</u>	<u>P 298,290,049</u>	<u>P 753,363,064</u>
December 31, 2018							
Cost	P 90,802,205	P 130,629,198	P 513,076,860	P 164,618,199	P 577,847,097	P -	P 1,476,973,559
Accumulated depreciation and amortization	-	(59,892,868)	(353,671,048)	(104,555,882)	(483,574,924)	-	(1,001,694,722)
Net carrying amount	<u>P 90,802,205</u>	<u>P 70,736,330</u>	<u>P 159,405,812</u>	<u>P 60,062,317</u>	<u>P 94,272,173</u>	<u>P -</u>	<u>P 475,278,837</u>
January 1, 2018							
Cost	P 90,802,205	P 118,392,293	P 453,608,640	P 154,979,127	P 545,555,882	P -	P 1,363,338,147
Accumulated depreciation and amortization	-	(51,867,987)	(311,120,293)	(86,070,295)	(427,640,386)	-	(876,698,961)
Net carrying amount	<u>P 90,802,205</u>	<u>P 66,524,306</u>	<u>P 142,488,347</u>	<u>P 68,908,832</u>	<u>P 117,915,496</u>	<u>P -</u>	<u>P 486,639,186</u>

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 is shown below.

	Land	Building	Furniture Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Asset	Total
Balance at January 1, 2019 net of accumulated depreciation and amortization	P 90,802,205	P 70,736,330	P 159,405,812	P 60,062,317	P 94,272,173	P -	P 475,278,837
Effect of PFRS 16 adoption	-	-	-	-	-	306,359,326	306,359,326
Additions	-	5,105,810	39,282,912	15,734,870	46,344,950	90,382,680	196,851,222
Transfer from merger	17,429,220	-	2,283,109	2,613,539	6,180,556	13,496,132	42,002,556
Disposals	(17,429,220)	(23,709)	(2,013,132)	(4,621,437)	(264,452)	-	(24,351,950)
Depreciation and amortization charges for the year	-	(5,351,810)	(50,801,958)	(23,049,804)	(51,625,266)	(111,948,089)	(242,776,927)
Balance at December 31, 2019 net of accumulated depreciation and charges for the year	<u>P 90,802,205</u>	<u>P 70,466,621</u>	<u>P 148,156,743</u>	<u>P 50,739,485</u>	<u>P 94,907,961</u>	<u>P 298,290,049</u>	<u>P 753,363,064</u>
Balance at January 1, 2018 net of accumulated depreciation and amortization	P 90,802,205	P 66,524,306	P 142,488,347	P 68,908,832	P 117,915,496	P -	P 486,639,186
Additions	-	8,271,626	78,379,744	21,237,283	36,229,023	-	144,117,676
Disposals	-	-	(10,708,963)	(4,774,013)	(105,671)	-	(15,588,647)
Depreciation and amortization charges for the year	-	(4,059,602)	(50,753,316)	(25,309,785)	(59,766,675)	-	(139,889,378)
Balance at December 31, 2019 net of accumulated depreciation and for the year	<u>P 90,802,205</u>	<u>P 70,736,330</u>	<u>P 159,405,812</u>	<u>P 60,062,317</u>	<u>P 94,272,173</u>	<u>P -</u>	<u>P 475,278,837</u>

As of December 31, 2019 and 2018, the cost of the Bank's fully depreciated bank premises, furniture, fixtures and equipment that are still used in operations amounts to P208.9 million and P191.1 million, respectively.

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

The Bank leases office space for its various branches. With the exception of short-term leases each lease, in respect of right-of-use asset, is presented in the statement of financial position as part of Bank Premises, Furniture, Fixtures, and Equipment and in respect of the related obligation as lease liability under Accrued Expenses and Other Liabilities. Leases have terms ranging from one to 20 years with renewal options and annual escalation rates from 4.0% to 10.0% in both 2019 and 2018.

Each lease imposes a restriction that the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security. The Bank must keep those premises in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The use of extension and termination options gives the Bank added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Bank's business expansion unit's strategy and the economic benefits of exercising the option exceeds the expected overall cost.

14. INVESTMENT PROPERTIES

Investment properties consist of various land and buildings and improvements acquired through foreclosure or dacion as payment of outstanding loans by the borrowers.

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

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
December 31, 2019			
Cost	P 485,199,989	P 115,561,340	P 600,761,329
Accumulated depreciation	(-)	(70,661,732)	(70,661,732)
Allowance for impairment	(30,485,507)	(5,245,890)	(35,731,397)
Net carrying amount	<u>P 454,714,482</u>	<u>P 39,653,718</u>	<u>P 494,368,200</u>
December 31, 2018			
Cost	P 417,254,063	P 143,752,934	P 561,006,997
Accumulated depreciation	(-)	(89,251,044)	(89,251,044)
Allowance for impairment	(37,259,583)	(5,245,891)	(42,505,474)
Net carrying amount	<u>P 379,994,480</u>	<u>P 49,255,999</u>	<u>P 429,250,479</u>
January 1, 2018			
Cost	P 394,712,982	P 143,032,494	P 537,745,476
Accumulated depreciation	(-)	(85,652,200)	(85,652,200)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	<u>P 368,161,121</u>	<u>P 55,187,300</u>	<u>P 423,348,421</u>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2019 and 2018 is shown below.

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
Balance at January 1, 2019, net of accumulated depreciation and impairment	P 379,994,480	P 49,255,999	P 429,250,479
Additions	124,734,836	15,420,235	140,155,071
Transfer from merger	6,786,750	10,544,250	17,331,000
Disposals	(63,575,659)	(25,311,127)	(88,886,786)
Depreciation for the year	(-)	(10,255,639)	(10,255,639)
Reversal of impairment loss	<u>6,774,075</u>	<u>-</u>	<u>6,774,075</u>
Balance at December 31, 2019, net of accumulated depreciation and impairment	<u>P 454,714,482</u>	<u>P 39,653,718</u>	<u>P 494,368,200</u>

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated depreciation and impairment	P 368,161,121	P 55,187,300	P 423,348,421
Additions	126,037,932	12,668,370	138,706,302
Disposals	(103,496,851)	(471,602)	(103,968,453)
Depreciation for the year	-	(15,075,172)	(15,075,172)
Impairment loss	(<u>10,707,722</u>)	(<u>3,052,897</u>)	(<u>13,760,619</u>)
Balance at December 31, 2018, net of accumulated depreciation and impairment	<u>P 379,994,480</u>	<u>P 49,255,999</u>	<u>P 429,250,479</u>

As of December 31, 2019 and 2018, foreclosed investment properties still subject to redemption period by the borrowers amount to P131.7 million and P138.4 million, respectively.

Loss on sale of investment properties amounted to P2.1 million in 2019 while gains on sale amounted to P13.5 million and P15.2 million in 2018 and 2017, respectively, and are presented as part of Loss on sale of properties under Miscellaneous Expense in 2019, and as part of Gain on sale of properties under Miscellaneous Income in 2018 and 2017 (see Notes 22.1 and 22.2).

Expenses incurred on investment properties include real property taxes and depreciation. Real property taxes incurred on these investment properties amounted to P27.8 million, P13.2 million and P9.3 million in 2019, 2018 and 2017, respectively, and are presented as part of Miscellaneous, as Litigation on asset acquired, under Other Expenses in the statements of profit or loss (see Note 22.2). Depreciation recognized in 2019 and 2018, as shown above, and in 2017 were included in Depreciation and Amortization under Other Expenses in profit or loss.

The total estimated fair values of the Bank's investment properties amount to P700.7 million and P684.7 million as of December 31, 2019 and 2018, respectively (see also Note 7.4).

15. OTHER RESOURCES

This account consists of the following as of December 31:

	Notes	2019	2018
Branch licenses	15.3	P 250,811,200	P 250,500,000
Prepaid expenses		142,093,242	136,510,688
Computer software – net	15.1	131,311,285	92,893,978
Goodwill	15.4	121,890,408	121,890,408
Due from head office or branches		67,866,207	72,628,444
Foreign currency notes and coins on hand	6	60,504,919	56,963,020
Security deposits	6	40,138,983	33,602,410
Club shares		38,000,000	38,000,000
Stationery and supplies		16,547,427	16,969,490
Other acquired assets – net	15.5	10,054,051	4,213,309
Sundry debits		4,515,853	690,469
Other investment	15.2	-	575,030,000
Miscellaneous	15.6	162,238,882	59,754,277
		1,005,972,457	1,459,646,493
Allowance for impairment		(1,654,737)	(1,654,737)
		<u>P 1,004,317,720</u>	<u>P 1,457,991,756</u>

15.1 Computer Software

Movements in computer software are shown below.

	2019	2018
Balance at beginning of year	P 92,893,978	P 45,868,442
Additions	69,776,142	77,965,698
Transfer from merger	808,494	-
Amortization	(32,167,329)	(30,940,162)
Balance at end of year	<u>P 131,311,285</u>	<u>P 92,893,978</u>

15.2 Other Investment

This account pertains to the total purchase price paid by the Bank for the acquisition of ISBI, which was subject to SEC's approval as at December 31, 2018 (see Note 1.3).

In July 2015, the Bank's BOD approved the acquisition of all outstanding shares of ISBI, an agreed initial purchase price of P518.2 million. Of this purchase price, the Bank directly paid P101.2 million to the shareholders of ISBI and deposited P417.0 million with the designated escrow agent. In 2016, the agreed purchase price was increased by P82.5 million but was subsequently reduced by P25.7 million in 2017 because of the revaluation of ISBI which brings the agreed purchase price to P575.0 million as at December 31, 2017 from P549.3 million as at December 31, 2016. As of December 31, 2019, the Bank has already released the balance of escrow fund upon consummation of the merger in 2019 (see Note 31).

15.3 Branch Licenses

In 2019 and 2016, the Bank have opened branches in Metro Manila, Southern Luzon, Vis-Min, CAMANAVA, and Central Luzon. The total cost of branch licenses amounted to P0.3 million in 2019 and P1.8 million in 2016.

On February 27, 2014, the Bank received an approval from the BSP regarding its application for new licenses. This is in line with the Bank's branch expansion program for which it has allocated a portion of its IPO proceeds to cover the cost of new licenses in the following areas plus processing fees which amounted to P2.2 million: CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon. In November 2011, the Monetary Board of BSP approved the request of the Bank to establish 15 branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

In December 2011, the Bank acquired four licenses from Prime Savings Bank, Inc. for a total consideration of P20.0 million.

Branch licenses are annually tested for impairment either individually or at the CGU level, as appropriate when circumstances indicate that the intangible asset may be impaired. The Bank engaged a third party specialist to perform an independent impairment testing of branch licenses. Key assumptions used in the impairment testing such as the discount rates and growth rates used to extrapolate projected cash flows for five-year period are consistent with those used in the in Note 15.4 and with forecasts included in industry reports specific to which the individual branch or CGU operates. As of December 31, 2019 and 2018, the Bank has assessed that the recoverable amount of these branch licenses is higher than the carrying value; hence, no impairment loss is required to be recognized in the statements of profit or loss.

15.4 Goodwill

Goodwill arose from the following acquisitions:

Rural Bank of Kawit (RBK)	P	59,513,648
Kabalikat Rural Bank, Inc. (KRBI)		49,878,393
Bataan Savings and Loan Bank, Inc. (BLSB)		<u>12,498,367</u>
	P	<u>121,890,408</u>

In September 2014, as part of the Bank's expansion strategy, the BOD approved the acquisition of all the assets and assumption of all the obligation of RBK in exchange for P15.0 million. Upon approval by the BSP on February 1, 2016, the Bank recognized the assets and liabilities of RBK at their fair values, resulting in the recognition of P59.9 million goodwill.

KRBI, which is located in Sta. Maria Bulacan, Philippines, was acquired in 2010, which also resulted in the recognition of goodwill amounting to P49.9 million.

In July 2015, the Bank entered into a Sale and Purchase Agreement with BLSB, whereby the Bank shall acquire all the assets of BLSB and assume the payment of all its obligation. The agreed purchase price was P68.8 million which has been fully paid by the Bank in 2015. On July 12, 2017, the BSP approved the acquisition; hence, the Bank recognized the assets and liabilities of BLSB at their approximate fair values resulting in the recognition of P12.5 million goodwill.

The Bank acquired the foregoing smaller banks with the objective of availing the branch incentives under the Strengthening Program for Rural Bank Plus; and, its expected future economic benefits and synergies that will result from incorporating the operations of these acquired rural banks with that of the Bank which expands its presence in the small and medium enterprise market. Accordingly, the Bank acquired them at a premium resulting in the recognition of goodwill.

As indicated in Notes 2.19 and 3.2(g), goodwill is tested for impairment annually. The Bank engaged a third party specialist to perform an independent impairment testing of goodwill. The recoverable amount of the CGU has been based on Value-in-Use (VIU) calculation using the cash flow projections from financial budgets approved by the Bank's senior management covering a five-year period. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows. Future cash flows and growth rates were based on experience, strategies developed, and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities within the industry.

In 2019 and 2018, the discount rates applied to cash flow projections are 8.0% and 5.2%, respectively, while the growth rates used to extrapolate cash flows for the five-year period are 6.4% and 6.1% for 2019 and 2018, respectively. The growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

As at December 31, 2019 and 2018, the Bank has assessed that the carrying amount of the goodwill is fully recoverable. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

15.5 Other Acquired Assets

This account pertain to chattel properties acquired by the Bank from defaulting borrowers.

Movements of other acquired assets is shown below.

	<u>2019</u>	<u>2018</u>
Cost		
Balance at beginning of year	P 8,747,077	P 12,817,614
Additions	13,826,755	2,295,090
Acquired through merger	5,974,029	-
Disposals	(10,742,414)	(6,365,627)
Balance at end of year	<u>17,805,447</u>	<u>8,747,077</u>
Accumulated depreciation		
Balance at beginning of year	4,533,768	-
Reclassification	3,857,579	4,422,728
Depreciation	1,475,322	111,040
Disposals	(2,115,273)	-
Balance at end of year	<u>7,751,396</u>	<u>4,533,768</u>
	<u>P 10,054,051</u>	<u>P 4,213,309</u>

As of December 31, 2019 and 2018, repossessed chattel properties still subject to redemption period by the borrowers amount to P13.8 million and P2.3 million, respectively.

Loss on disposal of the assets amounted to P0.2 million in 2019 and gain on the disposal of the assets amounted to P5.9 million in 2017 (nil in 2018), which were presented in the statements of profit or loss as part of Loss on sale of properties under Miscellaneous Expenses in 2019, and as part of Gain on sale of properties under Miscellaneous Income in 2017 (see Notes 22.1 and 22.2).

15.6 Miscellaneous

Miscellaneous includes various deposits, creditable withholding taxes, and other assets.

16. DEPOSIT LIABILITIES

The classification of the Bank's deposit liabilities as to currency follows:

	<u>2019</u>	<u>2018</u>
Philippine peso	P 89,207,705,928	P 71,517,822,829
Foreign currencies	<u>6,060,332,656</u>	<u>5,733,260,422</u>
	<u>P 95,268,038,584</u>	<u>P 77,251,083,251</u>

Annual interest rates on deposit liabilities range from:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Philippine peso	0.1% – 4.7%	3.3% – 5.5%	2.3% – 3.8%
Foreign currencies	0.1% – 2.3%	1.5% – 2.3%	0.9% – 1.6%

Total interest expense amounted to:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Time	P 2,263,978,792	P 1,564,929,816	P 784,659,617
Savings	72,351,760	54,936,904	42,330,449
Demand	<u>283,624</u>	<u>7,480</u>	<u>-</u>
	<u>P 2,336,614,176</u>	<u>P 1,619,874,200</u>	<u>P 826,990,066</u>

Deposit liabilities as of December 31, 2019 and 2018 include those that are from DOSRI as of December 31, 2019 and 2018 (see Note 24.1).

Under existing BSP regulations, the Bank is subject to reserve requirement equivalent to 4.0% of non-FCDU deposit liabilities. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the recent amendment, cash and other cash items are no longer considered as eligible reserves. The Bank's available reserves as of December 31, 2019 and 2018 amount to P3,532.4 million and P5,964.4 million, respectively, and is compliant with these BSP regulations (see Note 9).

17. BILLS PAYABLE

The bills payables of the Bank are as follows:

	<u>2019</u>	<u>2018</u>
Local banks	P 612,523,350	P 3,034,598,367
BSP	<u>-</u>	<u>661,907,329</u>
	<u>P 612,523,350</u>	<u>P 3,696,505,696</u>

Annual interest rates on bills payable range from:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Local banks	3.9% – 6.6%	3.8% – 6.9%	3.0% – 3.8%
BSP	4.6% – 5.4%	4.6% – 5.4%	3.5% – 3.6%

The total interest expense amounted to:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Local banks	P 85,592,021	P 91,406,942	P 6,240,532
BSP	<u>18,850,591</u>	<u>20,980,306</u>	<u>8,600,747</u>
	<u>P 104,442,612</u>	<u>P 112,387,248</u>	<u>P 14,841,279</u>

As of December 31, 2019 and 2018, bills payable are secured with certain Bank's loans and receivables (see Notes 6.2 and 12).

18. CORPORATE NOTES PAYABLE

On March 20, 2019, the BOD approved the authorization of the Bank to arrange a debt program of up to P10,000.0 million to finance the Bank's growing funding requirements. In July 2019, the Bank issued unsecured corporate notes with principal amount of P3,000.0 million bearing an interest ranging from 5.24% to 5.54% per annum, payable quarterly with maturity date of July 31, 2022.

Unamortized bond issue cost amounted to P19.6 million as of December 31, 2019. The related amortization of the bond issue cost is recorded as part of Interest Expense on Corporate Notes Payable in the statement of profit or loss. Total interest expense in 2019 amounted to P71.7 million.

19. ACCRUED EXPENSES AND OTHER LIABILITIES

19.1 *Accrued Expenses and Other Liabilities*

The breakdown of this account follows:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Accounts payable		P 603,848,798	P1,580,375,639
Accrued expenses		598,306,736	298,467,638
Lease liabilities	19.2	343,646,694	-
Withholding taxes payable		172,900,283	50,108,220
Income tax payable		166,256,520	2,366,432
Manager's checks		164,565,098	301,645,798
Payment orders payable		113,048,062	4,842,122
Post-employment defined benefit obligation	23.2	73,373,098	16,186,371
Outstanding acceptances		41,197,666	99,601,899
Due to BSP		19,245,786	19,558,325
Provisions for loan commitments		-	9,563,549
Derivative financial liabilities	11.1	-	137,423
Others		66,910,527	39,992,571
		<u>P 2,363,299,268</u>	<u>P 2,422,845,987</u>

Accrued expenses include primarily accruals on interest on corporate notes payable, Agri-agra penalty, profit sharing of the employees, other employee benefits, utilities, janitorial and security services fees.

Outstanding acceptances pertain to obligations recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

19.2 *Lease Liabilities*

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

	<u>Note</u>	
Balance as at December 31, 2018		P -
Effect of adoption of PFRS 16		<u>342,084,290</u>
Balance as at January 1, 2019		342,084,290
Additions		90,382,680
Assumed through merger	31	18,899,943
Payments of principal portion of lease liability		(<u>107,720,219</u>)
Balance as of December 31, 2019		<u>P 343,646,694</u>

The total interest expense incurred on the lease liability amounted to P30.1 million and is presented as Others under the Interest Expense section of 2019 statements of profit or loss.

As at December 31, 2019, the Bank has no committed leases which had not yet commenced.

The Bank has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. The expenses relating to short-term leases amounted to P58.5 million, and is presented as part of Occupancy under Other Expenses in the 2019 statements of profit or loss (see Note 22.2).

At December 31, 2019, the Bank is committed to short-term leases, and the total commitment at that date is P14.5 million.

The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows:

	<u>Within 1 Year</u>	<u>Two to Five Years</u>	<u>More than Five Years</u>	<u>Total</u>
Lease payments	P 128,325,756	P 260,315,051	P 8,307,650	P 396,948,457
Finance charges	(23,467,118)	(28,892,337)	(942,308)	(53,301,763)
Net present value	<u>P 104,858,638</u>	<u>P 231,422,714</u>	<u>P 7,365,342</u>	<u>P 343,646,694</u>

20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

		2019			2018		
	Notes	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources							
Cash and other cash items	9	P 1,171,299,633	P -	P 1,171,299,633	P 988,547,825	P -	P 988,547,825
Due from BSP	10	5,232,433,363	-	5,232,433,363	6,164,361,658	-	6,164,361,658
Due from other banks	10	2,808,949,984	-	2,808,949,984	4,528,594,643	-	4,528,594,643
Loans and other receivables	12	47,662,463,375	39,661,062,083	87,323,525,458	42,829,100,702	32,701,256,739	75,530,357,441
Financial assets at FVPL	11.1	4,677,230,319	-	4,677,230,319	1,816,806,583	-	1,816,806,583
Financial assets at FVOCI	11.2	1,031,644,719	8,191,457,728	9,223,102,447	-	2,279,714,729	2,279,714,729
Investments at amortized cost	11.3	178,087,935	675,376,085	853,464,020	732,141,084	38,913,976	771,055,060
Other resources	15	60,504,919	40,138,983	100,643,902	56,963,020	33,602,410	90,565,430
		<u>62,822,614,247</u>	<u>48,568,034,879</u>	<u>111,390,649,126</u>	<u>57,116,515,515</u>	<u>35,053,487,854</u>	<u>92,170,003,369</u>
Non Financial Resources							
Bank premises, furnitures, fixtures and equipment - net	13	-	753,363,064	753,363,064	-	475,278,837	475,278,837
Investment properties - net	14	-	494,368,200	494,368,200	-	429,250,479	429,250,479
Other resources	15	211,610,269	1,241,976,213	1,453,586,482	218,218,247	1,436,741,039	1,654,959,286
		<u>211,610,269</u>	<u>2,489,707,477</u>	<u>2,701,317,746</u>	<u>218,218,247</u>	<u>2,341,270,355</u>	<u>2,559,488,602</u>
		<u>P63,034,224,516</u>	<u>P51,057,742,356</u>	<u>P 114,091,966,872</u>	<u>P57,334,733,762</u>	<u>P37,394,758,209</u>	<u>P94,729,491,971</u>
Financial Liabilities							
Deposit liabilities	16	P90,128,365,670	P 5,139,672,914	P 95,268,038,584	P 73,502,888,467	P 3,748,194,784	P77,251,083,251
Bills Payable	17	500,000,000	112,523,350	612,523,350	2,500,000,000	1,196,505,696	3,696,505,696
Corporate Notes Payable	18	-	2,980,423,657	2,980,423,657	-	-	-
Accrued expenses and other liabilities	19	1,711,981,311	312,161,154	2,024,142,465	2,200,047,400	170,323,935	2,370,371,335
		<u>92,340,346,981</u>	<u>8,544,781,075</u>	<u>100,885,128,056</u>	<u>78,202,935,867</u>	<u>5,115,024,415</u>	<u>83,317,960,282</u>
Non Financial Liabilities							
Accrued expenses and other liabilities	19	339,156,803	-	339,156,803	52,474,652	-	52,474,652
		<u>P92,679,503,785</u>	<u>P 8,544,781,075</u>	<u>P 101,224,284,859</u>	<u>P78,255,410,519</u>	<u>P 5,115,024,415</u>	<u>P83,370,434,934</u>

21. EQUITY

21.1 Capital Stock

Capital stock consists of:

	<u>Number of Shares</u>		<u>Amount</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued and outstanding	<u>62,000,000</u>	<u>62,000,000</u>	<u>P 620,000,000</u>	<u>P 620,000,000</u>
Common shares – P10 par value				
Authorized – 870,000,000 shares				
Issued and outstanding	<u>643,750,094</u>	<u>643,750,094</u>	<u>P 6,437,500,940</u>	<u>P 6,437,500,940</u>

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to dividend of 8.0% per annum.

On February 17, 2017, the BOD approved the redemption of all the issued and outstanding preferred shares of the Bank at par value of P620.0 million through staggered redemption. However, as at December 31, 2019 and 2018, none of the preferred shares have been redeemed yet and the Bank is now considering conversion of the preferred shares to common shares instead. Both options require regulatory approvals which remains pending as at December 31, 2019.

On January 9, 2013, the PSE approved the Bank's application for the listing of its common shares. The approval covered the IPO of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013, its day of listing. The Bank offered its 101,333,400 unissued common to the public at the approved P31.50 per share resulting in the recognition of additional paid-in capital of P1,998.4 million, net of transactions costs (see Note 21.4).

As of December 31, 2019 and 2018, the Bank has 72 and 71 holders, respectively, of its listed common stock. The Bank has 643,750,094 common shares traded in the PSE as of December 31, 2019 and 2018 and its share price closed at P12.70 and P11.98, respectively, as at the same dates.

21.2 Dividends

On May 22, 2019, the Bank's BOD approved the declaration of cash dividend on preferred shares amounting to P198.0 million, which was fully paid on July 12, 2019 (see Note 29). The dividend was based on the cumulative balance of the outstanding preferred shares for the years 2014 to 2018. The cash dividends on preferred shares are analyzed as follows:

	<u>No. of Shares</u>		<u>Per Share</u>		<u>Total</u>
Tranche 1	1,200,000	P	40	P	48,000,000
Tranche 2	1,250,000		30		37,500,000
Tranche 3	3,750,000		30		<u>112,500,000</u>
				<u>P</u>	<u>198,000,000</u>

On March 15, 2017, the BOD approved the declaration of 20% stock dividend on common shares totaling 107.3 million or P1,072.9 million to stockholders of record as of August 4, 2017 and paid on August 18, 2017. The dividend distribution was approved by the stockholders on May 26, 2017. No dividend declarations were made in 2018.

21.3 Appropriated Surplus

In 2019, 2018 and 2017, additional appropriations of surplus amounting to P1.6 million, P1.2 million and P1.1 million, respectively, representing portion of the Bank's income from trust operations were made in compliance with BSP regulations (see Note 27).

In compliance with the requirements of the BSP, Circular No. 1011, which requires financial institutions to set up GLLP equivalent to 1% of all outstanding 'Stage 1' on-balance sheet loan accounts, the Bank appropriated P449.6 million for GLLP representing the excess of the 1% required allowance of the BSP over the computed allowance for ECL on loans (see Note 2). In 2019 the Bank reversed previously appropriated surplus amounting to P193.6 million which pertains to GLLP. Whereas, in 2018, the Bank appropriated an additional P275.8 million of its unappropriated surplus.

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. However, as of December 31, 2019 and 2018, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

21.4 Paid-in Capital from IPO

As mentioned in Note 20.1, the Bank's common shares were listed at the PSE in February 2013. The total proceeds received from the IPO amounted to P3,191.9 million which exceeded par value by P1,998.4 million, net of share issuance cost of P180.2 million. The excess over par value is presented as Additional Paid-in Capital in the statements of financial position.

21.5 Revaluation Reserves

Revaluation reserves pertain to the accumulated actuarial losses of post-employment defined benefit plan (see Note 23.2) and unrealized fair value losses on FVOCI securities (see Note 11.2).

	Notes	Net Unrealized Fair Value Losses on Securities at FVOCI	Accumulated Actuarial Losses	Total
Balance at January 1, 2019		(P 132,717,700)	(P 43,283,296)	(P 176,000,996)
Fair value gains (losses) on FVOCI securities during the year	11.2	524,190,029	-	524,190,029
Fair value gains reclassified to profit or loss	11.2	(3,585,956)	-	(3,585,956)
Remeasurements of post-employment defined benefit plan	23.2	-	(64,778,664)	(64,778,664)
Other comprehensive income before tax		387,886,373	(108,061,960)	279,824,413
Tax income	25	-	19,433,599	19,433,599
Balance at December 31, 2019		<u>P 387,886,373</u>	<u>(P 88,628,361)</u>	<u>(P 299,258,012)</u>
Balance at January 1, 2018		(P 61,886,925)	(P 26,469,550)	(P 88,356,475)
Fair value losses on reclassified FVOCI securities	11.2	(76,544,237)	-	(76,544,237)
Fair value gains on FVOCI securities during the year	11.2	1,484,005	-	1,484,005
Credit losses on financial assets at FVOCI	11.2	4,229,457	-	4,229,457
Remeasurements of post-employment defined benefit plan	23.2	-	(24,019,637)	(24,019,637)
Other comprehensive income before tax		(132,717,700)	(50,489,187)	(183,206,887)
Tax income	25	-	7,205,891	7,205,891
Balance at December 31, 2018		<u>(P 132,717,700)</u>	<u>(P 43,283,296)</u>	<u>(P 176,000,996)</u>
Balance at January 1, 2017		(P 82,019,677)	(P 12,757,016)	(P 94,776,693)
Fair value gains on AFS securities during the year	11.2	59,748,950	-	59,748,950
Fair value losses reclassified to profit or loss	11.2	(29,979,364)	-	(29,979,364)
Remeasurements of post-employment defined benefit plan	23.2	-	(19,589,334)	(19,589,334)
Other comprehensive income before tax		(52,250,091)	(32,346,350)	(84,596,441)
Tax expense	25	-	5,876,800	5,876,800
Balance at December 31, 2017		<u>(P 52,250,091)</u>	<u>(P 26,469,550)</u>	<u>(P 78,719,641)</u>

22. MISCELLANEOUS INCOME AND EXPENSES

22.1 *Miscellaneous Income*

This include the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Gain on bargain purchase	31	P 101,104,453	P -	P -
Gain on sale of properties – net	14, 15.5	-	13,457,936	21,104,197
Trust fees	27	16,427,630	12,007,548	11,182,180
Others		<u>38,030,092</u>	<u>77,820,865</u>	<u>25,452,957</u>
		<u>P 155,562,175</u>	<u>P103,286,349</u>	<u>P 57,739,234</u>

Others include penalty on loans, foreign currency gains or losses, rental of safe/night deposit box.

22.2 *Miscellaneous Expenses*

This include the following:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Transportation and travel		P135,866,392	P114,263,243	P 97,444,635
Fines, penalties and other charges		75,009,947	40,157,731	91,399,481
Communication		54,064,451	48,858,305	46,063,281
Banking fees		31,727,097	29,655,680	23,207,790
Information technology		28,691,739	22,178,590	12,630,837
Litigation on asset acquired	14	27,804,720	13,237,538	9,254,859
Office supplies		16,552,154	17,981,420	12,324,174
Advertising and publicity		5,250,213	4,534,674	15,128,405
Freight		4,257,419	4,233,744	2,931,697
Membership dues		3,635,595	1,872,577	1,609,507
Loss on sale of properties – net	14, 15.5	2,293,672	-	-
Amortization of deferred charges		2,192,982	3,824,567	6,556,401
Donations and contributions		2,058,200	12,064,237	6,051,921
Others		<u>88,792,647</u>	<u>23,483,841</u>	<u>32,265,300</u>
		<u>P478,197,228</u>	<u>P336,346,147</u>	<u>P356,868,288</u>

Others also include brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

23. EMPLOYEE BENEFITS

23.1 Salaries and Other Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are broken down below.

	Note	2019	2018	2017
Salaries and wages		P581,833,512	P502,459,087	P443,200,726
Bonuses		42,187,443	34,240,510	29,419,622
Social security costs		36,580,254	26,513,191	24,228,311
Post-employment				
defined benefit plan	23.2	29,146,433	27,491,517	25,930,263
Short-term medical benefits		1,314,439	1,105,982	613,216
Other short-term benefits		<u>296,033,338</u>	<u>225,177,383</u>	<u>212,420,361</u>
		<u>P987,095,419</u>	<u>P816,987,670</u>	<u>P735,812,499</u>

23.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by the Bank's trust department that is legally separated from the Bank. The Bank's Retirement Plan Committee, in coordination with the Bank's trust department, who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2019 and 2018.

The amounts of post-employment defined benefit obligation (see Note 19) recognized in the statements of financial position are determined as follows:

	2019	2018
Fair value of plan assets	P 232,006,439	P 209,762,625
Present value of the defined benefit obligation	(<u>305,379,537</u>)	(<u>225,948,996</u>)
	(P <u>73,373,098</u>)	(P <u>16,186,371</u>)

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

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 225,948,996	P 204,633,257
Current service cost	29,146,433	27,491,517
Interest expense	17,013,959	11,664,096
Remeasurements:		
Actuarial losses (gains) arising from changes in:		
Experience adjustments	35,034,099	36,781,004
Demographic assumptions	11,420,860	1,224,194
Financial assumptions	2,079,570	(22,317,198)
Benefits paid	(15,264,380)	(33,527,874)
Balance at end of year	<u>P 305,379,537</u>	<u>P 225,948,996</u>

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

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 209,762,625	P 205,904,139
Contributions to the plan	37,133,819	34,039,326
Interest income	16,618,510	11,751,112
Return on plan assets (excluding amounts included in net interest)	(16,244,135)	(8,404,078)
Benefits paid	(15,264,380)	(33,527,874)
Balance at end of year	<u>P 232,006,439</u>	<u>P 209,762,625</u>

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	P 14,964,415	P 27,206,212
Corporate bonds	197,182,273	169,131,605
Government bonds	-	5,453,828
Equity instruments	13,966,788	14,284,835
Accrued interest income (expense)	<u>5,892,963</u>	<u>(6,313,855)</u>
	<u>P 232,006,439</u>	<u>P 209,762,625</u>

The fair values of the above equity instruments, government and corporate bonds are determined based on quoted market prices in active markets.

The plan assets earned actual return of P0.4 million and P3.3 million in 2019 and 2018, respectively.

Plan assets include certain financial instruments of the Bank (see Note 24.3).

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Reported in profit or loss:</i>			
Current service cost	P 29,146,433	P 27,491,517	P 25,930,263
Net interest expense (income)	<u>395,449</u>	(<u>83,110</u>)	(<u>1,037,221</u>)
	<u>P 29,541,882</u>	<u>P 27,408,407</u>	<u>P 24,893,042</u>
<i>Reported in other comprehensive income:</i>			
Actuarial losses (gains) arising from changes in:			
Experience adjustments	P 11,420,860	P 36,781,004	P 20,013,938
Demographic assumptions	2,079,570	1,224,194	(4,173,390)
Financial assumptions	35,034,099	(22,317,198)	(2,976,570)
Return on plan assets (excluding amounts included in net interest expense)	16,244,135	8,404,078	7,141,612
Effect of the asset ceiling	<u>-</u>	(<u>72,441</u>)	(<u>416,256</u>)
	<u>P 64,778,664</u>	<u>P 24,019,637</u>	<u>P 19,589,334</u>

Current service cost is presented as part of Salaries and Other Employee Benefits (see Note 23.1) under the caption Other Expenses while net interest expense in 2019 and net interest income in 2018 and 2017 is presented as Interest Income and Interest Expense in the statements of profit or loss.

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Discount rates	5.25%	7.53%	5.70%
Expected rate of salary increases	8.0%	8.0%	8.0%
Employee turnover	13.15%	13.86%	14.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 32 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described as follows.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset as of December 31, 2019 and 2018:

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2019</u>			
Discount rate	+5.9%/-4.3%	P 16,328,534	(P 18,055,428)
Salary rate	+5.7%/-4.3%	(17,403,113)	16,074,255
Increase in DBO if no attrition rate	+78.7%	240,241,168	-
<u>December 31, 2018</u>			
Discount rate	+5.2%/-4.7%	P 10,647,157	(P 11,703,028)
Salary rate	+5.1%/-4.7%	(11,537,601)	10,697,461
Increase in DBO if no attrition rate	+36.5%	82,570,806	-

The foregoing sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Bank through its Retirement Plan Committee, 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. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency.

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.

As of December 31, 2019 and 2018, the plan is heavily invested in cash and cash equivalents and debt securities. The Bank believes that cash and cash equivalents and debt securities offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) *Funding Arrangements and Expected Contributions*

The plan currently is underfunded by P16.2 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the Bank is funding its plan assets to manage the cash flow risk in about 32 years' time when a significant number of employees is expected to retire.

The Bank expects to pay P37.1 million as contribution to retirement benefit plan in 2020.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years follows:

	<u>2019</u>	<u>2018</u>
Within one year	P 80,834,706	P 79,034,893
More than one year to five years	32,220,115	32,368,467
More than five years to ten years	<u>285,682,791</u>	<u>222,715,583</u>
	<u>P 398,737,612</u>	<u>P 334,118,943</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 5.0 years.

24. RELATED PARTY TRANSACTIONS

A summary of the Bank's transactions with related parties; i.e., with DOSRI, key management and retirement fund, is presented below.

Related Party Category	Note	Amount of Transaction			Outstanding Balance	
		2019	2018	2017	2019	2018
DOSRI and other related parties						
Loans	24.2	P1,522,701,948	P2,401,083,538	P2,449,232,288	P 1,108,061,790	P 1,514,286,765
Deposit liabilities	24.1	241,545,091	(2,305,623,21)	914,160,412	5,322,048,988	5,080,503,897
Interest expense	24.1	142,148,698	101,498,910	66,106,681	-	-
Interest income	24.2	71,429,038	67,754,225	54,447,099	2,467,162	3,549,938
Retirement fund:						
Contribution	24.3	37,144,819	34,039,326	37,133,819	-	-
Plan assets	24.3	22,243,814	6,858,486	163,694,753	232,006,439	209,762,625
Key management compensation	24.4	169,435,231	158,028,243	113,530,990	-	-

Details of the foregoing transactions follow:

24.1 Deposits

The total balance of deposits are inclusive of the corresponding accrued interest as of December 31, 2019 and 2018.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 16). Annual interest rates on deposit liabilities range from 0.1% to 4.7% in 2019, 0.3% to 5.5% in 2018, and from 0.3% to 2.9% in 2017.

24.2 Loans

The Bank has loan transactions with its DOSRI and other related parties. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks and are normally settled in cash. Based on management's assessment as at December 31, 2019 and 2018, no impairment is required to be recognized on the Bank's loans to DOSRI and other related parties.

Other information relating to the loans, other credit accommodations and guarantees granted to DOSRI and other related parties are presented in Note 33(f).

As of December 31, 2019 and 2018, the Bank has an approved line of credit to certain related parties totaling P187.9 million and P955.9 million, respectively, and all were used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

24.3 Transactions with Retirement Fund

The Bank's transactions with its retirement fund as of December 31, 2019 and 2018 relate only to its contributions to the plan and certain placements made by the plan to the Bank.

The following retirement plan assets are placed with the Bank comprise cash in bank, short-term placements, and equity shares of the Bank as disclosed in Note 21.2:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	P 14,964,415	P 27,206,212
Equity and debt instruments	211,149,061	188,870,268
Accrued interest income (expense)	<u>5,892,963</u>	<u>(6,313,855)</u>
	<u>P 232,006,439</u>	<u>P 209,762,625</u>

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

24.4 Key Management Personnel Compensation

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Short-term benefits	P154,170,851	P124,500,369	P104,997,794
Post-employment benefits	<u>15,264,380</u>	<u>33,527,874</u>	<u>8,533,196</u>
	<u>P169,435,231</u>	<u>P158,028,243</u>	<u>P113,530,990</u>

The composition of the Bank's short-term benefits are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salaries and wages	P 119,612,861	P 96,765,374	P 81,600,760
Bonuses	30,079,925	24,276,370	20,562,459
Social security costs	2,033,845	1,524,668	1,550,625
Other short-term benefits	<u>2,444,220</u>	<u>1,933,957</u>	<u>1,283,950</u>
	<u>P154,170,851</u>	<u>P124,500,369</u>	<u>P104,997,794</u>

25. TAXES

The components of tax expense for the years ended December 31, 2019, 2018 and 2017 are as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>Reported in profit or loss</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%			
Regular Banking Unit (RBU)	P462,729,390	P332,722,041	P303,401,295
FCDU	8,250,062	3,297,583	48,534
Final tax at 20%, 10% and 7.5%	<u>132,361,425</u>	<u>24,518,622</u>	<u>43,428,072</u>
	603,340,877	360,538,246	346,877,901
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u>(166,586,656)</u>	<u>22,884,758</u>	<u>(73,630,507)</u>
	<u>P436,754,221</u>	<u>P383,423,004</u>	<u>P273,247,394</u>
<i>Reported in other comprehensive income</i>			
Deferred tax income relating to origination and reversal of temporary differences	<u>(P 19,433,599)</u>	<u>(P 7,205,891)</u>	<u>(P 5,876,800)</u>

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss is presented below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Tax on pretax profit at 30%	P507,938,300	P372,426,376	P274,000,048
Adjustment for income subjected to lower tax rates	<u>(114,720,765)</u>	<u>(17,509,476)</u>	<u>(10,238,755)</u>
Tax effects of:			
Non-deductible expenses	96,538,290	64,590,710	98,883,937
Non-taxable income	<u>(53,001,604)</u>	<u>(36,084,606)</u>	<u>(89,397,836)</u>
Tax expense	<u>P436,754,221</u>	<u>P383,423,004</u>	<u>P273,247,394</u>

The Bank is subject to minimum corporate income tax (MCIT) computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher.

The net deferred tax assets, which included as part of the Other Resources account, (see Note 15) as of December 31, 2019 and 2018 relate to the following:

	<u>2019</u>	<u>2018</u>
Deferred tax assets:		
Allowance for impairment	P527,201,421	P338,519,460
Lease liabilities	103,094,008	-
Provision for bonus and accrued leave conversion	23,698,424	23,698,424
Accumulated depreciation of investment properties	23,523,939	24,607,433
Unamortized past service cost	12,372,735	12,528,405
Post-employment benefit liability	22,011,929	4,855,911
	<u>711,902,456</u>	<u>404,209,633</u>
Deferred tax liabilities:		
Accrued interest receivable	(92,631,131)	(95,972,874)
Right-of-use asset	(89,487,015)	-
Unamortized payments on documentary stamp tax	(12,939,110)	(20,703,799)
Gain on bargain purchase	(6,932,536)	-
	<u>(201,989,792)</u>	<u>(116,676,673)</u>
Net deferred tax assets	<u>P509,912,664</u>	<u>P287,532,960</u>

Movements in net deferred tax assets for the years ended December 31 follow:

	<u>Statements of Profit or Loss</u>			<u>Statements of Comprehensive Income</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Impairment losses	(P 157,326,373)	(P 19,821,130)	(P 70,377,418)	P -	P -	P -
Unamortized payments on documentary stamp tax	(7,764,689)	11,445,664	9,258,135	-	-	-
Accrued interest income	(3,341,742)	26,227,434	-	-	-	-
Post-employment benefit obligation	2,277,580	1,989,276	3,672,232	(19,433,599)	(7,205,891)	(5,876,800)
Depreciation expense of investment properties	2,302,402	2,695,592	(6,251,286)	-	-	-
Unamortized past service cost	155,670	347,922	(1,752,050)	-	-	-
Amortization of right-of-use asset	(2,420,783)	-	-	-	-	-
Lease liabilities	(468,721)	-	-	-	-	-
Gain on initial exchange of investment properties	-	-	(3,253,633)	-	-	-
Provision for bonus and accrued leave conversion	-	-	(4,926,487)	-	-	-
Deferred tax expense (income)	<u>(P 166,586,656)</u>	<u>P 22,884,758</u>	<u>(P 73,630,507)</u>	<u>(P 19,433,599)</u>	<u>(P 7,205,891)</u>	<u>(P 5,876,800)</u>

Following the adoption of PFRS 16 in 2019, the Bank increased the opening balance of net deferred tax assets by P10.7 million. The corresponding difference was charged to the Unappropriated Surplus [see Note 2.2(a)(iii)d]. Net deferred tax assets acquired from merger amounted to P25.6 million (see Note 31).

As of December 31, 2019 and 2018, the Bank has unrecognized deferred tax assets amounting to P16.7 million and P8.3 million, respectively, relating to certain allowance for impairment. For the years ended December 31, 2019 and 2018, the Bank opted to claim itemized deductions.

26. COMMITMENTS AND CONTINGENT LIABILITIES

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

26.1 Operating Lease Commitments (2018)

The Bank entered into several lease agreements under operating lease covering the office space of its branches. Terms of the lease agreements range from one year to 20 years with renewable options, and include escalation rates ranging from 5.0% to 10.0%. Other leases entered into include clauses to enable upward revision of the rental charged on an annual basis based on prevailing market rates. The future minimum rental payable under this operating lease as of December 31, 2018 is shown below.

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

Within one year	P 13,746,754
More than one year but not more than five years	347,606,985
More than five years	<u>141,258,571</u>
	<u>P 502,612,310</u>

Expenses related to these lease agreements amounted P148.7 million and P136.8 million in 2018 and 2017, respectively, and are presented under Occupancy costs in the statements of income.

26.2 Others

The following are the other commitment contingent liabilities of the Bank:

- (a) In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, and others, which are not reflected in the financial statements. See Note 33 for details.
- (b) There are other commitments, guarantees and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the 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 of December 31, 2019 and 2018, management is of the opinion that losses, if any, from the foregoing items will not have a material effect on the Bank's financial statements.

27. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank:

	<u>2019</u>	<u>2018</u>
Loans and other receivables	P 1,337,269,467	P 902,588,483
Due from banks	1,455,512,981	613,193,295
Investment securities	4,458,382,009	1,883,273,948
Investment property – net	<u>-</u>	<u>7,569,224</u>
	<u>P 7,251,164,457</u>	<u>P 3,406,624,950</u>

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

- (a) Government bonds owned by the Bank with face value of P80.0 million and P40.0 million as of December 31, 2019 and 2018, respectively, are deposited with the BSP (see Note 11.2); and
- (b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock (see Note 21.3). Additional reserve for trust functions amounted to P1.6 million, P1.2 million and P1.1 million in 2019, 2018 and 2017, respectively, and are presented as part of Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income in the statements of profit or loss, amounted to P16.4 million, P12.0 million and P11.2 million in 2019, 2018 and 2017, respectively (see Note 22.1).

28. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	2019	2018
Balance at beginning of year:			
Loans and other receivables	12	P 1,044,821,662	P 1,132,344,969
Investment properties	14	42,505,474	28,744,855
Investment securities			
at amortized cost	11.3	1,617,940	2,165,927
Other resources	15	<u>1,654,737</u>	<u>15,038,424</u>
		1,090,599,813	1,178,294,175
Impairment losses – net	11, 12, 14	561,174,001	290,502,451
Transfer from merger		100,534,015	-
Reallocation		71,132,548	-
Disposals		(6,774,076)	-
Write-offs	12, 15	-	(361,615,096)
Reversals	11.3	<u>-</u>	<u>(16,581,717)</u>
		<u>726,066,488</u>	<u>(87,694,362)</u>
Balance at end of year:			
Loans and other receivables	12	1,773,860,341	1,044,821,662
Investment properties	14	39,533,283	42,505,474
Investment securities			
at amortized cost	11.3	1,617,940	1,617,940
Other resources	15	<u>1,654,737</u>	<u>1,654,737</u>
		<u>P 1,816,666,301</u>	<u>P 1,090,599,813</u>

In 2018, the Bank provided impairment loss on debt securities measured as FVOCI amounting to P4.2 million. The impairment losses on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statement of comprehensive income (see Note 11.2). Moreover, in 2018, the Bank provided impairment loss on loan commitments and other contingent accounts amounting to P3.5 million which is recognized as Allowance for loan commitments under Accrued expenses and Other Liabilities in the statement of financial position (see Note 19). There were no similar transactions in 2019.

29. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net profit	P 1,256,373,443	P 857,998,254	P 640,086,100
Dividends on preferred shares	(198,000,000)	<u>-</u>	<u>-</u>
Net profit attributable to common shareholders	1,058,373,443	857,998,254	640,086,100
Divided by the weighted average number of outstanding common shares	<u>643,750,094</u>	<u>643,750,094</u>	<u>643,750,094</u>
Basic earnings per share	<u>P 1.64</u>	<u>P 1.33</u>	<u>P 0.99</u>

As of December 31, 2019, 2018 and 2017, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

30. EVENT AFTER THE REPORTING PERIOD

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

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

In March 2020, the Bank implemented its business continuity plan (BCP), in view of the rising number of confirmed COVID-19 cases in the Philippines. The BCP ensures that the Bank will be able to deliver its products and services in the event of extreme duress including medical issues and/or government control measures. The Bank is committed to uninterrupted business operations including ensuring clients' access to cash, providing sufficient liquidity in the banking system, and managing stable payments and settlements. It is sufficiently capitalized to support both short-term and long-term obligations and it is committed to taking necessary steps to avoid potential disruption of services to its clients and customers.

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

While at this time, the disruption is expected to be temporary, management is cognizant of the fact that its inability to operate the businesses normally over a prolonged period of time could have a negative impact on the Bank’s financial condition and results of operations. The severity of these consequences will depend on certain developments, including the duration and spread of the outbreak, impact on Bank’s customers, employees, and the accessibility and effectiveness of government support programs to a group of customers, all of which are uncertain and cannot be predicted as of the date of the issuance of the Bank’s financial statements. Accordingly, management is unable to reliably estimate yet the impact of the outbreak on the Bank’s financial position and results of operation for future periods.

31. BUSINESS COMBINATION

The Bank acquired the rights and obligations related to and arising from its acquisition of the outstanding capital stock of ISBI (see Note 1.2). The merger between the Bank and ISBI was made to strengthen the Bank’s consumer lending business while establishing foothold in microfinance market.

The details of the business combination are as follows:

		<u>Notes</u>
Cash consideration transferred		<u>P 575,000,000</u>
Recognized amounts of identifiable net assets		
Cash and cash equivalents		9,561,089
Due from BSP		52,518,347
Due from other banks		303,685,720
Trading and investment securities		128,921,072
Loans and other receivables – net	12	1,831,259,584
Bank premises, furniture, fixtures and equipment – net	13	42,002,556
Investment properties – net	14	17,331,000
Deferred tax assets – net	25	25,641,960
Other resources – net		26,069,156
Deposit liabilities and other liabilities		<u>(1,760,886,031)</u>
		<u>676,104,453</u>
Gain on bargain purchase recognized from merger		<u>P 101,104,453</u>

Due to a good business relationship with ISBI, the Bank was able to negotiate an advantageous purchase price that was also beneficial to the former owners of ISBI.

ISBI has contributed P167.4 million and P109.1 million to the Bank's revenues and profit, respectively, from the acquisition date to December 31, 2019. Had the acquisition occurred on January 1, 2019, the Bank's revenue for the period to December 31, 2019 would have been P7,223.9 million and the Bank's profit for the period would have been P1,228.9 million.

The gross contractual amount of the trade and other receivables acquired as part of the business combination amounted to P1,932.0 million. As of the acquisition date, the Bank's best estimate of the contractual cash flow not expected to be collected amounted to P48.1 million.

There were no specific acquisition-related costs incurred or contingent consideration arrangements and indemnification assets arising from the business combination.

32. NOTES TO STATEMENTS OF CASH FLOWS

Significant non-cash transaction of the Bank in 2019 includes the impact of PFRS 16 adoption as discussed in Notes 2, 13 and 19; impact of acquisition of identifiable assets and assumption of liabilities from merger as discussed in Notes 15 and 31; and, additions of real properties and chattel properties through foreclosures, dacion in payment and repossessions as discussed in Notes 14 and 15.5.

The other non-cash transaction include the Bank's reclassification of investment securities amounting to P2.43 billion from AFS to investment securities at FVPL, FVOCI, and amortized cost in 2018 (see Note 11) and the Bank declaration and distribution of stock dividend amounting to P1,072.9 million in 2017.

Presented below is the reconciliation of the Bank's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Bills Payable (see Note 17)	Corporate Notes Payable (see Note 18)	Lease liabilities (see Note 19)	Total Financing Activities
Balance at January 1, 2019	P 3,696,505,696	P -	P 342,084,290	P 4,038,589,986
Cash flow from financing activities:				
Availments	10,620,098,991	2,977,500,000	-	13,597,598,991
Payments / redemption	(13,704,081,337)	-	(107,720,219)	(13,811,801,556)
Non-cash financing activities:				
Amortization of discount	-	2,923,657	-	2,923,657
Additions to lease liabilities*	-	-	109,282,623	109,282,623
Balance at December 31, 2019	<u>P 612,523,250</u>	<u>P 2,980,423,657</u>	<u>P 343,646,694</u>	<u>P 3,936,593,701</u>
Balance at January 1, 2018	P 1,933,724,724	P -	P -	P 1,933,724,724
Cash flow from financing activities:				
Availments	16,646,397,805	-	-	16,646,397,805
Payments / redemption	(14,883,616,833)	-	-	(14,883,616,833)
Balance at December 31, 2018	<u>P 3,696,505,696</u>	<u>P -</u>	<u>P -</u>	<u>P 3,696,505,696</u>

	Bills Payable (see Note 17)	Corporate Notes Payable (see Note 18)	Lease liabilities (see Note 19)	Total Financing Activities
Balance at January 1, 2017	P -	P -	P -	P -
Cash flow from financing activities:				
Availments	6,424,212,200	-	-	6,424,212,200
Payments / redemption	(4,490,487,476)	-	-	(4,490,487,476)
Balance at December 31, 2017	<u>P 1,933,724,724</u>	<u>P -</u>	<u>P -</u>	<u>P 1,933,724,724</u>

*Includes those assumed from merger

33. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) Selected Financial Performance Indicators

The following are some indicators of the Bank's financial performance.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Return on average capital			
<u>Net profit</u>	10.4%	7.9%	6.5%
Average total capital accounts			
Return on average resources			
<u>Net profit</u>	1.2%	1.0%	1.0%
Average total resources			
Net interest margin			
<u>Net interest income</u>	4.5%	4.3%	4.3%
Average interest earning resources			

(b) Capital Instruments Issued

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

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL follows (amounts in thousands):

	2019		2018	
	Amount	Percentage	Amount	Percentage
Wholesale and retail trade	P 32,301,851	37.7%	P 26,402,438	35.5%
Real estate activities	14,806,015	17.3%	15,724,361	21.1%
Manufacturing	9,752,198	11.4%	8,093,324	10.9%
Transportation and storage	7,677,588	9.0%	7,107,820	9.5%
Electricity, gas, steam and air-conditioning supply	4,206,239	4.9%	5,210,786	7.0%
Construction	4,131,806	4.8%	2,522,954	3.4%
Financial and insurance activities	2,648,402	3.1%	2,696,089	3.6%
Accommodation and food service activities	2,495,182	2.9%	1,196,942	1.6%
Water supply, sewerage, waste management and remediation activities	2,248,908	2.6%	426,940	0.6%
Agriculture, forestry and fishing	1,546,344	1.8%	1,803,213	2.4%
Administrative and support services	862,664	1.0%	1,084,207	1.5%
Information and communication	584,358	0.7%	513,377	0.7%
Consumption	481,286	0.6%	47,788	0.1%
Mining and quarrying	384,278	0.4%	369,397	0.5%
Professional, scientific, and technical activities	151,815	0.2%	137,617	0.2%
Education	137,792	0.2%	144,548	0.2%
Human health and social service activities	44,469	0.1%	193,504	0.3%
Arts, entertainment and recreation	10,300	0.0%	149,170	0.2%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	3,343	0.0%	3,443	0.0%
Other service activities	1,144,873	1.3%	613,151	0.8%
	<u>P 85,619,711</u>	<u>100%</u>	<u>P 74,441,069</u>	<u>100%</u>

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

(d) *Credit Status of Loans*

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

	2019		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Corporate	P 77,571,817	P 1,676,597	P 79,248,414
Consumer	<u>6,056,137</u>	<u>315,160</u>	<u>6,371,297</u>
	83,627,954	1,991,757	85,619,711
Allowance for ECL	(979,742)	(716,224)	(1,695,966)
Net carrying amount	<u>P 82,648,212</u>	<u>P 1,275,533</u>	<u>P 83,923,745</u>

	2018		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Corporate	P 69,049,603	P 1,115,044	P 70,164,647
Consumer	<u>4,085,168</u>	<u>191,254</u>	<u>4,276,422</u>
	73,134,771	1,306,298	74,441,069
Allowance for ECL	(<u>249,511</u>)	(<u>640,537</u>)	(<u>890,048</u>)
Net carrying amount	<u>P 72,885,260</u>	<u>P 665,761</u>	<u>P 73,551,021</u>

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

	2019	2018
Gross NPLs	P 1,991,757,262	P 1,306,298,643
NPLs fully covered by allowance for impairment	(<u>716,224,067</u>)	(<u>640,537,131</u>)
	<u>P 1,275,533,195</u>	<u>P 665,761,512</u>

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off.

Restructured loans amount to P1,594.4 million and P195.3 million as of December 31, 2019 and 2018, respectively. The related allowance for credit loss and accrued interest receivable of such loans amounted to P298.5 million and P13.3 million as of December 31, 2019 and 2018, respectively.

Interest income recognized on impaired loans and receivables amounted to P41.5 million P63.8 million in 2019 and 2018, respectively.

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

The breakdown of receivable from customers, gross of allowance and unearned interests or discounts, as to security are disclosed in Note 12.

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with each other, their other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines (amounts in thousands):

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
	2019	2018	2019	2018
Total outstanding loans	P 1,012,228	P 927,637	P 1,108,062	P 1,514,287
% of loans to total loan portfolio	1.2%	1.2%	1.3%	2.0%
% of unsecured loans to total DOSRI/related party loans	3.7%	3.7%	3.9%	35.6%
% of past due loans to total DOSRI/related party loans	0.0%	0.0%	5.1%	0.7%
% of non-performing loans to total DOSRI/related party loans	0.0%	0.0%	5.1%	0.1%

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

(g) *Secured Liabilities and Assets Pledged as Security*

Assets pledged by the Bank as security for liabilities are shown below (see Notes 12 and 17).

	2019	2018
Aggregate amount of secured liabilities	<u>P 106,250,000</u>	<u>P1,191,604,686</u>
Aggregate amount of resources pledged as security	<u>P 980,000,000</u>	<u>P1,815,443,358</u>

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

The summary of the Bank's commitments and contingent accounts arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Investment management accounts	P 5,877,437,798	P 2,565,027,140
Trust and other fiduciary accounts	1,365,210,790	825,233,891
Outstanding letters of credit	1,006,844,837	3,134,027,226
Unit investment trust fund	59,865,121	29,090,261
Outward bills for collection	7,536,554	2,631,626
Late payment/deposits received	2,289,419	3,432,354
Items held for safekeeping	220,453	106,563
Items held as collateral	12,188	11,487
Other contingent accounts	655,609,976	635,759,087

34. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

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

(a) *Gross Receipts Tax*

In lieu of the value-added tax, the Bank is subject to the Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

In 2019, the Bank reported total GRT amounting to P297,731,378 shown as part of Taxes and licenses in the 2019 statement of profit or loss [see Note 34 (c)].

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 5% or 1% of the related income.

(b) *Documentary Stamp Tax*

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2019, DST remittance thru e-DST amounted to P724,434,395, while DST on deposits for remittance amounted to P215,538,465. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2019 amounting to P508,895,930 were charged to borrowers and these were properly remitted by the Bank.

DST accruing to the Bank amounted to P316,745,386 and is presented as part of the Taxes and licenses in the 2019 statement of profit or loss [see Note 34 (c)].

(c) *Taxes and Licenses*

Details of taxes and licenses for the year ended December 31, 2019 follow:

	<u>Note</u>	
DST	34 (b)	P 316,745,386
Gross receipts tax	34 (a)	297,731,378
Business tax		13,998,892
Real property tax		1,464,305
Miscellaneous		<u>6,948,426</u>
		<u>P 636,888,387</u>

Taxes and licenses allocated to tax exempt income and FCDU totaling P25,928,689 were excluded from the itemized deductions for purposes of income tax computation (see Note 23). DST includes unamortized amount of P25.9 million recognized as deductible in full for income tax purposes (see Note 23).

(d) *Withholding Taxes*

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

Final	P 458,518,140
Compensation and benefits	69,938,434
Expanded	<u>42,497,871</u>
	<u>P 570,954,445</u>

(e) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2019, the Bank does not have any outstanding final deficiency tax assessments from the BIR nor does it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in any open taxable year.

(f) *Other Required Tax Information*

The Bank did not have any transactions in 2019 which are subject to excise tax, customs duties and tariff fees.

**Report of Independent Auditors
to Accompany Supplementary
Information Required by the
Securities and Exchange Commission
Filed Separately from the
Basic Financial Statements**

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The Board of Directors and the Stockholders
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Philippine Business Bank, Inc., A Savings Bank (the Bank) for the year ended December 31, 2019, on which we have rendered our report dated March 31, 2020. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of Revised Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Bank's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: Christopher M. Ferarez
Partner

CPA Reg. No. 0097462
TIN 184-595-975
PTR No. 8116545, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 1185-AR-2 (until May 9, 2021)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-34-2017 (until Jun. 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 31, 2020

Philippine Business Bank, Inc. A Savings Bank
List of Supplementary Information
December 31, 2019

Schedule	Content	Page No.
Schedules Required under Annex 68-J of the Revised Securities Regulation Code Rule 68		
A	Financial Assets	2
	Financial assets at fair value through other comprehensive income	
	Financial assets at fair value through profit or loss	
	Financial assets at held to collect	
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	3
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	*
D	Long-term Debt	4
E	Indebtedness to Related Parties	*
F	Guarantees of Securities of Other Issuers	*
G	Capital Stock	5
Others Required Information		
	Reconciliation of Retained Earnings Available for Dividend Declaration	6
	Map Showing the Relationship Between the Company and its Related Entities	*

** These schedules and supplementary information are not included as these are not applicable to the Bank.*

PHILIPPINE BUSINESS BANK, INC. (A SAVINGS BANK)
SEC Released Amended SRC Rule 68
Schedule A - Financial Assets
December 31, 2019
(Amounts in Philippine Pesos)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount	Amount Shown in the Statement Financial Position	Value Based on Market Quotation at Statement of Condition Date	Income Received and Accrued
1. FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)				
Bureau of the Treasury	P 7,198,707,264	P 7,198,707,264	P 7,198,707,264	P 62,331,707
A. Debt Securities				
Ayala Land Inc.	39,695,596	39,695,596	39,695,596	1,038,667
First Pacific Co. Ltd.	263,555,175	263,555,175	263,555,175	1,253,568
Republic of the Philippines	1,721,144,412	1,721,144,412	1,721,144,412	18,734,950
	2,024,395,183	2,024,395,183	2,024,395,183	21,027,185
	9,223,102,447	9,223,102,447	9,223,102,447	63,370,373
2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVPL)				
A. Equity Securities				
Club Shares	-	-	-	-
B. Debt Securities				
Bureau of the Treasury	3,626,801,988	3,626,801,988	3,626,801,988	77,621,250
Republic of the Philippines	622,084,394	622,084,394	622,084,394	9,162,122
Filinvest Development Corporation	177,612,390	177,612,390	177,612,390	1,862,067
Rizal Commercial Banking Corp.	249,621,334	249,621,334	249,621,334	4,213,723
	4,676,120,106	4,676,120,106	4,676,120,106	92,859,162
C. Freestanding Derivatives				
	1,110,213	1,110,213	1,110,213	-
	4,677,230,319	4,677,230,319	4,677,230,319	92,859,162
3. HELD TO COLLECT (HTC)				
Bureau of the Treasury	459,913,782	459,913,782	495,283,966	4,697,134
A. Debt Securities				
8990 Holdings, Inc.	100,000,000	99,660,824	101,687,520	1,034,667
Petron Corporation	190,000,000	188,721,236	187,681,563	1,081,754
Land Bank of the Philippines	105,168,178	105,168,178	105,168,178	1,147,833
	395,168,178	393,550,238	394,537,261	3,264,254
	855,081,960	853,464,020	889,821,227	7,961,388
GRAND TOTAL	P 14,754,304,513	P 14,753,796,786	P 14,789,043,780	P 164,190,923

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
Schedule B - Amounts Receivable from Directors, Officers Employees, Related Parties and Principal Stockholders (Other than Related Parties)

December 31, 2019

Name and Designation of debtor	Balance at beginning of the period	Additions	Deductions		Current	Non Current	Balance at end of period
			Amounts collected	Amounts written off			
<u>RECEIVABLES FROM CUSTOMER</u>							
Health Aproz Pharmaceutical, Inc.	P 3,088,856	P -	(P 456,098)	P -	P 2,632,758	P -	P 2,632,758
Marquez, Eleonor T.	-	-	-	-	-	-	-
Pharma-Rex, Inc.	12,414,999	-	(12,074,219)	-	340,780	-	340,780
Sps. Amor M. Salud Jr. and Dulce Gidget Salud	562,375	-	(562,375)	-	-	-	-
SMI Development Corporation	200,000,000	-	-	-	200,000,000	-	200,000,000
Amchem Marketing Corporation	-	100,000,000	-	-	100,000,000	-	100,000,000
Advances to Officers and Employees	39,570,694	21,123,334	(15,839,699)	-	44,854,329	-	44,854,329
Alfredo M. Yao	650,000,000	-	-	-	650,000,000	-	650,000,000
Subtotal	905,636,924	121,123,334	(28,932,391)	-	997,827,867	-	997,827,867
<u>CONTINGENT ACCOUNTS</u>							
United Doctors Medical Center, Inc. (UDMC)	9,400,000	-	-	-	9,400,000	-	9,400,000
Zest-O Corporation	5,000,000	-	-	-	5,000,000	-	5,000,000
ARC Refreshment	17,000,000	17,000,000	(34,000,000)	-	-	-	-
	-	-	-	-	-	-	-
Subtotal	31,400,000	-	(34,000,000)	-	14,400,000	-	14,400,000
TOTAL	P 937,036,924	P 121,123,334	(P 62,932,391)	P -	P 1,012,227,867	P -	P 1,012,227,867

Philippine Business Bank, Inc., A Savings Bank
Schedule D - Long-Term Debt
December 31, 2019
(Amounts in Philippine Pesos)

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Amount Shown Under Caption "Current Portion of Long-term Debt" in Related Statement of Financial Position	Amount Shown Under Caption "Long-Term Debt" in Related Statement of Financial Position
Bills payable	P 612,523,350	P 500,000,000	P 112,523,350
Corporate note payable	2,980,423,657	-	2,980,423,657

Philippine Business Bank, Inc., A Savings Bank
Schedule G - Capital Stock
December 31, 2019

Title of Issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of Shares Held by		
				Related parties	Directors, officers and employees	Others
Common Stock	870,000,000	643,750,094	-	401,891,231	13,983,778	227,875,084
Preferred Stock	130,000,000	62,000,000	-	62,000,000	-	-
Total	1,000,000,000	705,750,094	-	463,891,231	13,983,778	227,875,084

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
AS OF DECEMBER 31, 2019**

**Philippine Business Bank, Inc., A Savings Bank
350 Rizal Ave. Ext., 8th Avenue Grace Park, Caloocan City**

Unappropriated Retained Earnings at Beginning of Year, as restated	P	1,720,465,479
Prior Years' Outstanding Reconciling Items, net of tax		
Deferred tax income	(	<u>402,970,469</u>)
Unappropriated Retained Earnings Available for Dividend declaration at beginning of Year, as Adjusted		1,317,495,010
Net Profit Realized during the Year		1,256,373,443
Non-actual/unrealized income, net of tax		
Deferred tax income	(	307,692,823)
Amortization of discount of investment securities	(	28,394,227)
Unrealized trading gains on investment securities	(	15,366,425)
Reversal of allowance for impairment	(	<u>6,774,075</u>)
		898,145,893
Other Transactions During the Year		
Cash dividend	(	198,000,000)
Reversal of appropriation for general loan loss reserve		193,551,904
Appropriation for trust reserves	(	<u>1,642,763</u>) (<u>6,090,859</u>)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	P	<u>2,209,550,044</u>

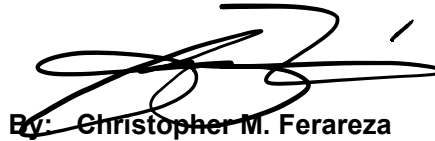
Report of Independent Auditors on Components of Financial Soundness Indicators

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The Board of Directors and the Stockholders
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Philippine Business Bank, Inc., A Savings Bank (the Bank) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, on which we have rendered our report dated March 31, 2020. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Bank's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Bank's financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

PUNONGBAYAN & ARAULLO



By: **Christopher M. Ferarez**
Partner

CPA Reg. No. 0097462
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 31, 2020

Certified Public Accountants

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd (GTIL).

grantthornton.com.ph

Offices in Cavite, Cebu, Davao
BOA/ PRC Cert of Reg. No. 0002
SEC Accreditation No. 0002-FR-5

PHILIPPINE BUSINESS BANK, INC.
Supplemental Schedule of Financial Soundness Indicators
December 31, 2019 and 2018

Ratio	Formula	Ratio	
		2019	2018
Current ratio	Total Current Resources	P 63,034,224,516	P 92,079,437,939
	Total Current Liabilities	92,679,503,785	77,251,083,251
		0.68	1.19
Acid test ratio	Cash and cash equivalents + Financial assets at Fair Value through Profit or Loss	13,889,913,299	13,498,310,709
	Total Current Liabilities	92,679,503,785	77,251,083,251
		14.99	17.47
Solvency ratio	Total Liabilities	101,224,284,859	83,370,434,934
	Total Resources	114,091,966,872	94,729,491,971
		88.72	88.01
Debt-to-equity ratio	Total Liabilities	101,224,284,859	83,370,434,934
	Total Equity	12,867,682,013	11,359,057,037
		7.87	7.34
Assets-to-equity ratio	Total Resources	114,091,966,872	94,729,491,971
	Total Equity	12,867,682,013	11,359,057,037
		8.87	8.34
Interest rate coverage ratio	Earnings before Interest and Taxes	4,797,522,238	4,625,753,578
	Interest Expense	2,543,220,573	1,732,261,448
		1.89	2.67
Return on equity	Net Profit	1,256,373,443	857,998,254
	Average Total Equity	12,113,369,525	10,792,642,524
		10.37	7.95
Return on assets	Net Profit	1,256,373,443	857,998,254
	Average Total Resources	104,410,729,422	90,996,668,446
		1.20	0.94
Net profit margin	Net Profit	1,256,373,443	857,998,254
	Interest Income	7,094,201,314	5,509,559,450
		0.18	0.16
Other Ratios:			
Net Interest Margin	Net Interest Income	4,550,980,741	3,777,298,002
	Average interest earning resources	100,604,797,853	87,335,174,271
		0.45	0.43
Capital to risk assets ratio	Total capital	12,867,682,013	11,359,057,037
	Risk resources	93,727,822,132	79,290,035,062
		0.14	0.14